

Reduced macroeconomic imbalances

General Information



GDP	USD2066.9bn (World ranking 9, World Bank 2014)
Population	1267.4bn (World ranking 2, World Bank 2014)
Form of state	Federal Republic
Head of government	Narendra Modi (Prime Minister)
Next elections	2017, Presidential



Strengths

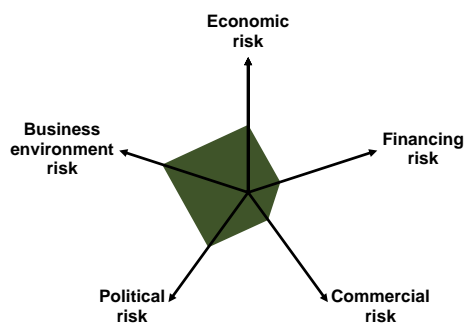
- Stable democracy, with peaceful changes of government
- Large internal market, providing some insulation from global business cycle
- Successful diversification into manufacturing (motor vehicles) and services (including call centres, IT and biotechnology)
- High annual GDP growth
- External debt is low relative to earnings and repayment capacity
- Strong foreign exchange reserves

Weaknesses

- Vulnerable to natural disasters (including tsunamis, droughts, floods and earthquakes)
- The Kashmir region remains volatile and a source of potential conflict
- The political system tends to engender coalition governments that lack the ability to push through economic reforms
- Poverty remains pervasive and income distribution uneven
- Structural weaknesses include inadequate infrastructure, current and fiscal account deficits and state involvement crowds out private sector initiatives in some sectors
- Weak structural business environment

Country Rating

B1



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports	
United states	15.3%	1	15.8%		China
United Arab Emirates	11.5%	2	5.5%		Saudi Arabia
Hong Kong, China	4.6%	3	5.4%		Switzerland
China	3.6%	4	5.2%		United States
United Kingdom	3.4%	5	5.2%		United Arab Emirates

By product (% of total)

Exports		Rank		Imports	
Precious stones, metals	14.7%	1	26.8%		Mineral fuels, oils
Mineral fuels, oils	11.7%	2	15.3%		Precious stones, metals
Vehicles	5.3%	3	9.2%		Electric, electron. Equip
Machinery	5.0%	4	8.2%		Machinery
Pharmaceutical products	4.7%	5	4.1%		Organic chemicals

Source: ITC

Increasing momentum

After a slowdown over 2011 and 2012, economic activity accelerated gradually and went above +7% in FY2014-15. Private consumption has been the main growth driver so far, expanding above +6% over the past three years. Gradual improvement is underpinned by lower inflationary pressures and increasing wages. Investment started to pick up speed since FY2014-15 supported by a more accommodative monetary policy. Exports have been the main drag with lower performance. In FY2015-16, these trends have been reinforced with stronger domestic demand and declining exports. GDP growth is estimated at +7.5%. Going forward, economic growth will likely remain firm. While external demand will remain sluggish, domestic demand is expected to remain strong. Higher purchasing power, due to low commodity prices and increasing wages, will sustain private consumption growth. Investment will benefit from a more accommodative monetary policy and more FDI inflows.

Macro-imbalances have been reduced

First, public debt has decreased markedly over the past ten years (see Figure 1) but its elevated level still calls for caution. In that respect, fiscal discipline is set to be maintained in the medium term. The central government met its reduction target in FY2015-16 (-3.9% of GDP from -4.2%), and it plans a further reduction in FY2016-17 (to -3.5% of GDP). Second, the current account balance has shown strong improvement benefiting from lower commodity prices and pro-active macro-policies (for example, regulations on gold imports and tight monetary policy in 2013-2014). The external financing composition has improved with higher FDI inflows thanks to perceptions of improved credibility of domestic authorities. Third, currency risk has been reduced with a more credible monetary policy framework (inflation targeting).

Resolving micro-risks and improving the business environment are the main challenges

In the short run, micro risks still stem from state-owned banks and sectors with high leverage (including metals and machinery and equipment). In the longer term, the main challenge will remain the business environment. The country still ranks poorly in terms of Doing Business, ranked 130th out of 189 countries in the World Bank's survey, with a poor regulatory framework for insolvency resolution (ranked 136th).

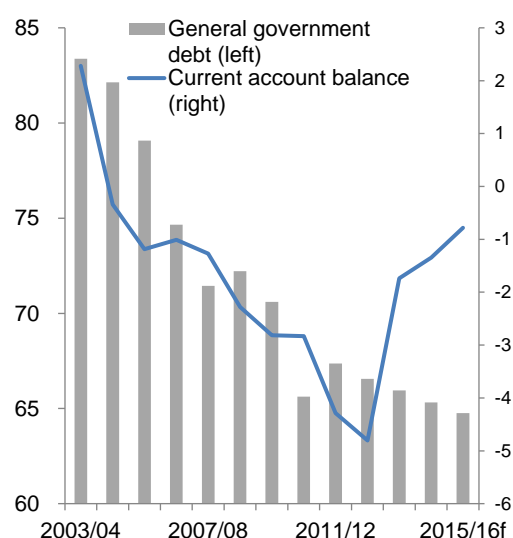
Key economic forecasts (fiscal year)

	2014	2015f	2016f	2017f
GDP growth (% change)	7.2	7.5	7.6	7.8
Inflation (% average)	5.9	4.9	4.5	4.0
Fiscal balance (% of GDP)*	-4.2	-3.9	-3.5	-3.0
Public debt (% of GDP)**	65.3	64.8	64.5	64.5
Current account (% of GDP)	-1.3	-0.8	-0.8	-1.0
External debt (% of GDP)	23.0	23.4	22.4	22

* Perimeter includes the Central Government. ** Public debt refers to general government debt. N.B: 2014 refers to FY2014-15

Sources: IIF, Euler Hermes

Figure 1 - Government debt and current account balance (% GDP)



Sources: IIF, Euler Hermes

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