



POPULATION
1 299,8 BILLION

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GDP PER CAPITA
1742 US\$

COUNTRY RISK
ASSESSMENT

BUSINESS
CLIMATE

SYNTHESIS

MAJOR MACRO ECONOMIC INDICATORS

	2015/16	2016/17	2017/18	2018/19(f)
GDP growth* (%)	7.6	6.9	7.1	7.3
Inflation (yearly average, %)	4.9	5.5	4.0	5.3
Budget balance*** (% GDP)	-3.5	-3.7	-3.5	-3.7
Current account balance (% GDP)	-1.1	-0.5	-1.7	-2.0
Public debt** (% GDP)	69.6	69.5	67.8	66.5

(f): forecast

*Changes to the GDP calculation methodology in February 2015

** Includes central and local government debt

Fiscal year: April to March

STRENGTHS

- Diversified growth drivers
- High levels of savings and investment
- Efficient private services sector
- Moderate level of external debt and comfortable foreign exchange reserves

WEAKNESSES

- Lack of infrastructure; shortcomings in the education system
- Bureaucratic red tape and persistent political tensions
- Net importer of energy resources
- Rising level of private firm indebtedness
- Weak public finances
- Persistent uncertainties over the Kashmir issue

RISK ASSESSMENT

Growth is expected to rebound from a low base

Real GDP is expected to rebound in FY 2018/19, with activity being supported by strong performance in domestic consumption, after a slowdown the previous year due to the demonetisation drive (withdrawal of the 500 and 1000 rupee

notes) and the introduction of a goods and services tax (GST). Household consumption was negatively affected by these measures, and its impact on the informal sector – although difficult to quantify – has been significant. However, improved financial integration of the poorest households should support demand in the long term. Inflation has picked up on higher energy prices in 2018, and is expected to reach 5.3% by the end of FY 2018/19. Higher inflation and a weaker currency have prompted the bank to hike rates. Compounded with higher debt repayment costs, this could drag on consumption going forward.

The private sector should continue to benefit from Modi government's reforms, aimed at boosting India's manufacturing sector, attracting FDI, and reducing the constraints burdening the economy. However, non-performing loans (NPLs) in the banking system are at an all-time high of almost 10%, which in turn has impacted the monetary policy transmission mechanism and kept borrowing costs high. This has hindered domestic companies' willingness to borrow money and invest. Reforms aimed at cleaning up the banking system have been put in place, but reckoning with NPLs will take time.

Willingness to improve public finances but little progress

Fiscal deficit and public debt levels remain high, but the country has initiated plans to reduce them. The most notable of these is the introduction of the GST, which aims to boost fiscal revenues and make the economy more competitive in the long term, despite some disruption in the short term (higher prices). In addition, measures to demonetise a portion of outstanding bank notes should improve budget revenue by reducing the impact of the informal economy. However, fiscal consolidation efforts will be hindered by higher energy prices, as India remains a net importer of oil.

The current account deficit is expected to increase. The increase in imports is partly due to the rising demand for gold after demonetisation, as well as higher commodity prices. Deficits in the trade and income balances are likely to worsen, and the services surplus could reduce.

The rupee is expected to continue to face depreciatory pressure in 2018, while remaining vulnerable to a rise in global risk aversion and a faster-than-expected rate of monetary policy tightening in the United States. In contrast, foreign exchange (FX) reserves are set to remain at comfortable levels (nearly ten months of imports in 2017), and FDI and portfolio investments are on an upward trend.

National Democratic Alliance faces some challenges

India's ruling coalition, the National Democratic Alliance (NDA), is an alliance of several parties, of which the Bharatiya Janata Party (BJP) – Modi's Party – is the largest. The BJP has suffered setbacks recently, such as losing its simple majority in the lower house of Indian parliament in the May 2018 by-elections. In the recent Karnataka state elections, the opposition forged a post-poll alliance to prevent BJP from storming to power. BJP still rules 21 out of 29 Indian states, but has a tough battle ahead in the three state elections slated for 2018.

Kashmir remains a source of tensions between India, Pakistan, and the separatists of the region. Diplomatic talks were suspended after an attack on an Indian base in Punjab on January 2016, and relations between the two countries have deteriorated in recent months. New tensions emerged after the Indian army shot the leader of the main insurgent movement, Sabzar Ahled Bhat, in Kashmir on May 2017. However, an escalation of violence is unlikely as Pakistan and India both have an interest in maintaining the status quo.

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