

## Recovering economic momentum

### General Information

<b>GDP</b>	USD2088.8bn (World ranking 7, World Bank 2015)
<b>Population</b>	1311.1mn (World ranking 2, World Bank 2015)
<b>Form of state</b>	Federal Republic
<b>Head of government</b>	Narendra Modi (Prime Minister)
<b>Next elections</b>	July 2017, Presidential



### Strengths

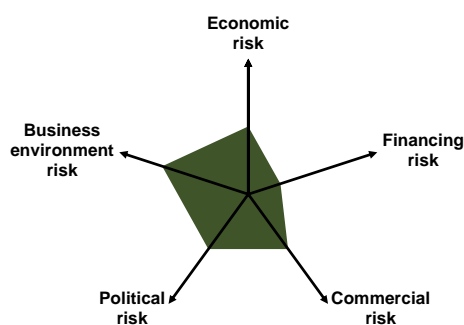
- Stable democracy, with peaceful changes of government
- Large internal market, providing some insulation from global business cycle
- Successful diversification into manufacturing (motor vehicles) and services (including call centres, IT and biotechnology)
- High annual GDP growth
- External debt is 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% 1	16% China
United Arab Emirates	11% 2	6% Switzerland
Hong Kong	5% 3	6% United States
China	4% 4	5% United Arab Emirates
United Kingdom	3% 5	4% Saudi Arabia

By product (% of total)

Exports	Rank	Imports
Petrol. and related materials	12% 1	19% Petrol. and related materials
Non metallic mineral manufactures	10% 2	9% Gold, non-monetary (excl. gold ores and concentrates)
Articles of apparel & clothing accessories	7% 3	6% Non metallic mineral manufactures
Textile yarn and related products	7% 4	5% Telecommunication and sound recording apparatus
Miscellaneous manufactured articles	5% 5	4% Electrical machinery, apparatus and appliances

Source: UNCTAD

### A turnaround in the making?

Growth slowed at the end of Fiscal Year 2016-17 as the economy felt the bite of demonetization. Domestic demand growth slowed due to a contraction of investment and slower private consumption, strong government expenditures provided some offset. Exports gained some traction.

Looking forward, there are signs that the negative effects of demonetization are abating, and that the economy would turn around in the upcoming quarters. Exports are improving in line with higher global demand; the re-monetization of the economy is set to translate to a gradual improvement in private consumption. In the longer term, improving financing conditions will be critical to boost investment and thus create a sustainable growth environment. A strong rise in deposits after the demonetization shock gives banks more leeway to cut lending rates. Progress on reforms (GST, Bankruptcy law) should be conducive to attracting foreign investment. In that context, GDP growth is set to expand by +7.2% in FY2017-18 (after +7.1% in FY2016-17).

### Macro-policies: prudence is the key

Fiscal discipline will be maintained. Despite a strong improvement over the past ten years, public debt is still elevated (see Figure 1). The government will keep fiscal consolidation on track but the pace will be slower in order to absorb the pain of demonetization. In FY2016-17, the government achieved its target to reduce its deficit to 3.5% GDP (from 3.9% GDP). The objective for FY2017-18 is 3.2% GDP; the initial 3% target has been postponed to FY2018/19.

The central bank may maintain a “wait and see” approach in the near-term due to rising uncertainties. The Central Bank is faced with a dilemma: either cut rate in order to boost economic growth; or adopt a defensive stance in the wake of (i) excessive liquidity in the banking system after the demonetization shock, (ii) upside risks to the baseline inflation outlook and (iii) a potential Fed Hike.

### A weak banking system and challenging business environment still weigh on the outlook

A weak banking system is still a matter of concern: gross non-performing loans ratios was 7.5% in FY2015-16 (from 4.3% in FY2014-15). Structurally, a difficult business environment remains the main impediment to growth. The country still ranks poorly in terms of Doing Business, ranked 130<sup>th</sup> out of 190 countries in the World Bank’s survey, with a poor tax environment and a weak regulatory environment to enforce contracts.

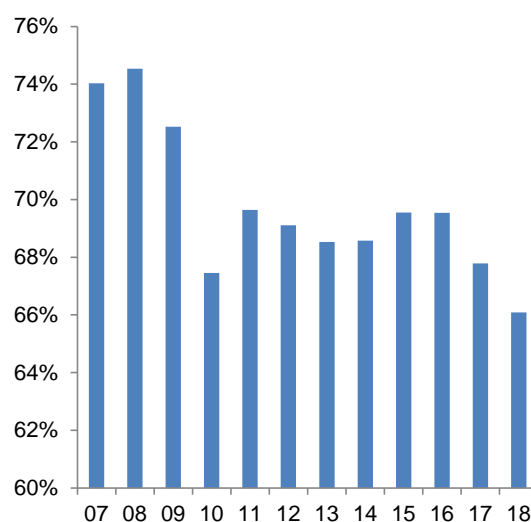
### Key economic forecasts (fiscal year)

	2015	2016	2017f	2018f
GDP growth (% change)	8.0	7.1	7.2	7.3
Inflation (% , year average)	4.9	4.5	4.3	4.5
Fiscal balance (% of GDP)*	-3.9	-3.5	-3.2	-3.0
Public debt (% of GDP)**	69.6	69.5	67.8	66.1
Current account (% of GDP)	-1.0	-1.0	-1.3	-1.9
External debt (% of GDP)	23.2	22.5	22.4	22.0

\* Perimeter includes the Central Government. \*\* Public debt refers to general government debt. N.B: 2015 refers to FY2015-16

Sources: IIF, IMF, Euler Hermes

Figure 1 - Government debt (% GDP)



N.B. data are in fiscal year terms. 2007 refers to FY2007-08

Sources: IMF, Euler Hermes

#### DISCLAIMER

These assessments are, as always, subject to the disclaimer provided below.

This material is published by Euler Hermes SA, a Company of Allianz, for information purposes only and should not be regarded as providing any specific advice. Recipients should make their own independent evaluation of this information and no action should be taken, solely relying on it. This material should not be reproduced or disclosed without our consent. It is not intended for distribution in any jurisdiction in which this would be prohibited. Whilst this information is believed to be reliable, it has not been independently verified by Euler Hermes and Euler Hermes makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates are solely those of the Euler Hermes Economics Department, as of this date and are subject to change without notice. Euler Hermes SA is authorised and regulated by the Financial Markets Authority of France.

© Copyright 2017 Euler Hermes. All rights reserved.