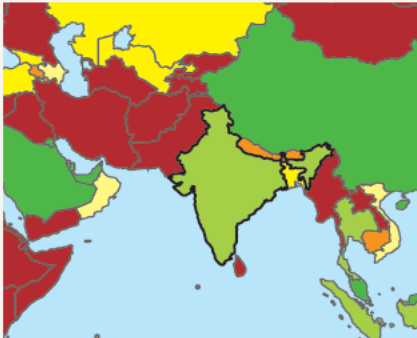


Basic facts (2023)

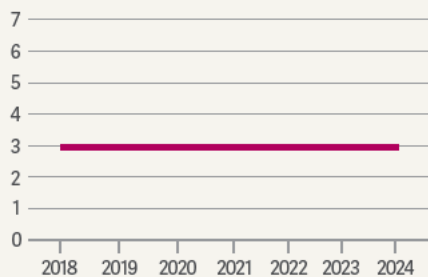
Population: 1 429 million

GDP, nominal: USD 357 billion

GDP/capita: USD 2 500



The country risk categories are arranged on a scale from 0 to 7. The lower the figure, the better the country's creditworthiness

Country classification history

Source: EKN

A large, diversified economy and external buffers provide resilience

India is now the world's most populous nation with 1.43 billion inhabitants, 43 per cent of whom are under 25 years of age. In the decade before the pandemic, the Indian economy grew on average 6.6 per cent annually. With every prospect of maintaining similar growth, Indian is expected to become the world's third largest economy within two to three years (it is currently the fifth largest). Growth is primarily driven by domestic demand. Private consumption accounts for approximately 60 per cent of GDP and investment for approximately 30 per cent. On the production side, the service sector dominates, at just over 50 per cent of GDP. The informal sector accounts for a large percentage of jobs. Agriculture alone (approximately 16% of GDP) employs over 40 per cent of the workforce. With widening income inequality and a young, growing workforce, one key challenge is to create more formal jobs. The reliance on agriculture, the challenges of population pressures – including access to water – and a fossil-heavy energy mix help to make India one of the more vulnerable middle-income countries in Asia to climate change and transition risks.

The economy is relatively diversified, with a strong global position in ICT, pharmaceuticals, steel and petrochemicals. However, the scale of the manufacturing industry and goods export sector remains limited, with each accounting for around 13 per cent of GDP, as is integration into global value chains, although there has been an upswing in electronics exports in recent years. In combination with limited natural resources, this contributes to a structural trade deficit. That said, India has an expanding and increasingly advanced service export sector (approximately 10% of GDP) with a growing global market share, not least in digital IT, consulting and R&D services. Service exports and remittances help to keep the current account deficit at a manageable level, which can largely be financed by growing foreign portfolio and direct investments. The country's external position therefore remains strong. Robust international reserves cover almost 85 per cent of the country's modest external debt, which is currently below 20 per cent of GDP. Although persistent budget and current account deficits present some vulnerability, a large, diversified economy and external buffers provide resilience to external shocks.

Strengths

- + Strong growth potential and growth-oriented policies
- + Diversified economy with a large domestic market
- + Limited external debt and considerable international reserves
- + Government debt is predominantly domestic.

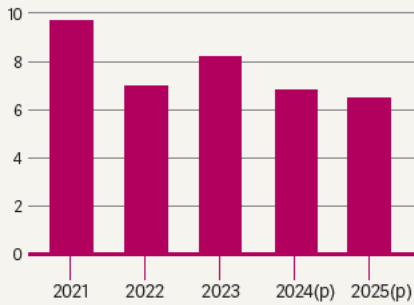
Weaknesses

- Weak government finances with a high debt-to-GDP ratio
- Unpredictable regulatory environment, mixed payment experience
- Exposure to climate and transition risks
- Geopolitical tensions.

Reforms lay the groundwork for growth

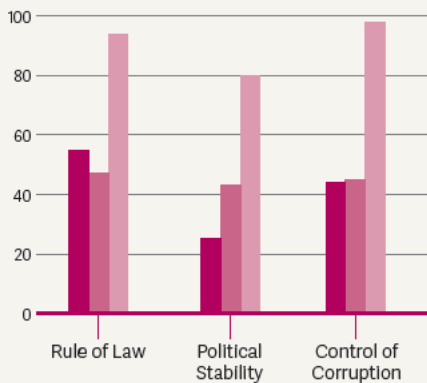
The government of Prime Minister Modi, led by his Bharatiya Janata Party (BJP), managed to secure a third five-year term. However, in elections, the BJP lost its own majority for the first time, leaving it reliant on the coalition partners it has ruled with over the last decade. Nevertheless, the outcome is expected to imply continuity in the country's economic policies, even if the pace of reform and the consolidation of government finances may slow. The policy emphasis is on the modernisation of India through growth-oriented reforms focused on streamlining the supply-side of the economy. The macroeconomic framework has been strengthened to promote stability, with inflation targets and greater independence on the central bank, the Reserve Bank of India, alongside a flexible exchange rate and (albeit flexible) fiscal deficit ceilings at federal and state level. A national taxation system for goods and services will strengthen the tax base and promote

**Real GDP growth
(constant prices, % per annum)**



Source: IMFWEQ, Macrobond

Business environment



■ India
■ Asia developing countries
■ Sweden

Ranking from 0 (worst) to 100 (best)

Source: The World Bank, Macrobond

**Swedish export to
India**

	MSEK
2023	18 877
2022	17 238
2021	11 522
2020	9 667
2019	12 787

Source: SCB

EKN:s exposure

	MSEK
Guarantees	29 399
Offers	2 265

interstate trade. In the long term, a privatisation programme may help to increase efficiency, if slowly. Reforms of the banking system (not least state-owned banks), stricter supervision of the shadow banking system and a new insolvency framework have helped to reduce the number of non-performing loans in the banking sector to its lowest level in a decade. The liberalisation of foreign direct investment (FDI) and the inflow of capital has started to lure investors. One policy cornerstone is the prioritisation of infrastructure investments which should bolster the growth potential. Investments in renewable energy and green technology are also on the agenda. The rapid expansion of digital infrastructure over recent years is driving digitalisation, which is essential to modernising and formalising the Indian economy. However, the reforms have yet to reverse the structural trend of weak job creation. This may indicate that the reform agenda needs to be broadened to include more sectors, something probably made more challenging by the outcome of the general election. Also, the size of the public sector and the complexity of the federal political system, make it difficult for reforms to gain traction at a nation-wide level.

A stronger Indian economy emerged from the pandemic, an economy which over recent years has proved to be resilient to inflationary shocks, soaring interest rates and a global economic downturn. By the end of the 2023/24 financial year on 31 March 2024, GDP had achieved growth of 8.2 per cent, the third consecutive year in which growth reached 7 per cent or more. The reforms of the last decade, favourable demographics and healthier balance sheets in the banking and corporate sectors have laid the foundations for strong growth driven by infrastructure investments, housing construction and a dynamic service sector. The IMF's forecast of annual growth of 6.5 per cent during the period 2024–2028 is based on an easing of inflationary pressures and geopolitical tailwinds, which have increased interest in FDI as international corporations establish global capability centres or seek to diversify from China.

Public finances may strengthen over time

Macroeconomically, government finances are India's greatest weakness. The debt-to-GDP ratio increased during the period 2018–2020 and is expected to, remain high in the coming years, at around 80 per cent of GDP. High interest costs and the often precarious finances of India's states, as well as major infrastructure investments, mean that the budget deficit remains higher than before the pandemic. That said, India's vulnerability is mitigated by the fact that over 90 per cent of the national debt is domestic, in local currency and relatively long term. The government's efforts to gradually reduce the deficit have been eased by high economic growth, as well as by a more robust fiscal policy that safeguards the prioritisation of infrastructure and reduces subsidies, while tax reforms and digitalisation broaden the tax base. Furthermore, India's inclusion this year in the Government Bond Index-Emerging Market (GBI-EM) may help to limit the crowding-out effect of deficit financing on private investment.

Business environment

A number of reform processes have been initiated over the last decade to

India

strengthen competitiveness and the business environment. The Production Linked Incentive (PLI) Scheme is intended to attract FDI into more advanced manufacturing industries, such as mobile telephony, semiconductors, electric vehicles, etc. The establishment of Samsung and Foxconn in the country are among the scheme's successes. In 2019, the corporate tax rate was reduced to a level more in line with competitor nations in Asia. Investments in infrastructure and logistics networks will connect the major Indian markets and reduce the high costs for energy and logistics. Digitalisation supports reform processes. These reforms take time, but they are starting to have an impact on the indices that measure the investment and business climate. The ranking of India's institutional settings in the World Bank's Worldwide Governance Indicators (WGIs) has improved somewhat and is now above average for emerging and developing economies in Asia. The fact that India's performance is improving also in the World Bank's Logistics Performance Index suggests that investments in infrastructure are beginning to bear fruit.

From EKN's credit risk perspective, predictability and quality are critical aspects of the business environment in both the regulatory environment that apply to debtors' businesses and the country's legal environment, which affects the position of creditors. While India's WGI ranking for regulatory quality is slightly above average for the region, the regulatory environment is considered complex, with extensive bureaucracy at many levels. Nor is there a lack of examples of reforms pushed through with little advanced warning, such as the retroactive levy imposed on the telecom sector in 2020. The business environment may vary from one region to another. Under the concept of competitive federalism, the center encourages states to improve the business environment locally in order to attract investment. Weak finances and a lack of financial transparency on the part of states and related corporations make it challenging to assess such counterparties. Corruption remains another challenge. India is ranked 93rd out of 180 countries in Transparency International's Corruption Perception Index 2023. While this is about average for the region, the country's ranking has slipped in recent years. In terms of the legal environment, India ranks somewhat above average for the region for the WGI Rule of Law. One key reform is the Insolvency and Bankruptcy Code (IBC) of 2016, which places the emphasis on corporate restructuring rather than liquidation. IBC has made it easier to restructure and manage bad debt. It also places a time limit on the corporate insolvency resolution procedure, which is tried by special tribunals. While this is intended to expedite proceedings, in practice the process has been shown to take significantly longer than the code prescribes. Case law is evolving as the legislation is gradually fine-tuned. The framework seems more favourable for financial creditors than for suppliers who, for example, may not be represented on the creditors' committees that are established in the event of insolvency. Moreover, rules issued by the central bank appear to give domestic financial creditors a certain advantage in restructuring negotiations. Another challenge is that the market for distressed assets is underdeveloped, making valuation difficult. In EKN's experience, legal proceedings are protracted, their outcome uncertain, and there is a risk that the recovery rate will be low – especially where foreign creditors are concerned or when there is no collateral. Nevertheless, evaluations indicate that recovery rates in the event of bankruptcy have increased since the IBC was introduced, and that the threat of liquidation motivates debtors to settle before the claim reaches the courts. The pandemic has set things back in the short term, with longer lead times and a lower recovery rate, which at present stands at around 35 per cent compared to 45 per

cent in 2019.

The Indian attitude to bilateral free trade agreements has softened and negotiations are underway with the EU, among others. That said, there are increasing signs of protectionism in efforts to stimulate domestic production via the imposition of local standards, complicated import regulations and tariffs, which may well inhibit both export opportunities for Swedish businesses and India's integration into international supply chains.

EKN's policy

EKN classifies India in country risk class 3 on a scale of 0 to 7. Normal risk assessment applies to all debtor categories. This means that there are no predetermined limitations on the issuance of guarantees and that the transactions are assessed on their own merits without any specific requirements or preconditions.

EKN's commitment and experience

EKN's exposure amounts to SEK 31.7 billion. This is predominantly in telecommunications, but also the energy sector, med-tech and construction equipment. In the period 2019–2023, EKN issued guarantees totalling SEK 3.5 billion for over 200 transactions involving some 30 exporters. Approximately 20 SMEs and trading houses accounted for 35 per cent of the volume of guarantees. EKN's payment experience is mixed. Delayed payments are common. In EKN's experience, the interest on late payment specified in the contract is important, as supplier credit with a low interest rate on late payments tends to be given low priority. Late payments were reported in almost 50 per cent of the transactions for which guarantees were issued from 2019 to 2023. The average delay of payment was 90 days. These statistics are affected by the pandemic. No guarantees issued during this period have resulted in a claim. Over the last 15 years, EKN has settled claims for just under SEK 800 million for guarantees issued before 2019. This is less than 2 per cent of the total volume of guarantees issued for India during these years. However, the recovery rate for transactions for which claims have been made has been very low.