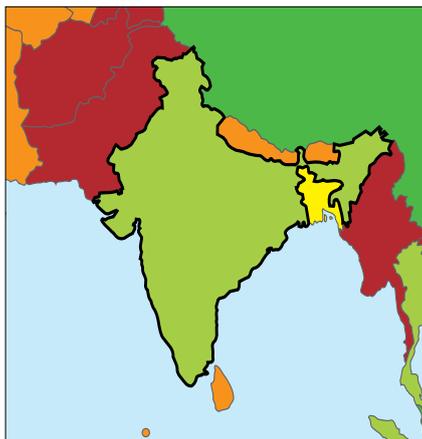


The country risk classifications are on a scale of 0 to 7.

The lower the number, the better the credit rating.



CONTACT

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BASIC FACTS

Population	1 309 million (2016)
Nominal GDP	USD 2 256 billion (2016)
GDP/capita	USD 1 723 (2016)

COUNTRY CLASSIFICATION HISTORY



Source: EKN

Extensive reform agenda

India balances strong growth outlooks and a major influx of investments with weak public finances and a complicated business environment. The effects of the liquidity crisis brought about by the banknote demonetisation in late 2016 seem to have largely subsided. The GDP growth is estimated to reach just over seven per cent for 2017 and the prognosis for 2018 is also just over seven per cent. India needs to create a lot of job opportunities, and in order to retain its high level of growth, the government has launched several major reforms. Improving the labour market and infrastructure is important in order to ensure a high level of growth in the long term.

India is one of EKN's largest countries for guarantees and payment experience is good overall. EKN has normal risk assessment for all types of buyer, which means that there are no predefined restrictions in the issuance of guarantees.

THE COUNTRY'S STRENGTHS AND WEAKNESSES

STRENGTHS

- + Political stability and established democracy
- + Ongoing reforms and retained strong political support
- + Diversified economy with a large domestic market and growing purchasing power

WEAKNESSES

- Vulnerable public finances and a high level of public indebtedness
- Large informal economy and low tax base
- Unpredictability in regulatory environments and a deficient business climate

SWEDISH EXPORT TO INDIA, MSEK

India	MSEK
2016	8 921
2015	10 941
2014	10 378
2013	9 958
2012	11 314

Source: Statistics Sweden

EKN'S EXPOSURE

	MSEK
Guarantees	13 912
Offers	1 072

EKN'S POLICY

EKN has given India a country risk category 3 since 1999; an assessment which was made in collaboration with other OECD countries. This country risk category applies for both short and long-term guarantees. Normal risk assessment applies to all types of purchasers, which means that there are no predetermined restrictions in the issuance of guarantees.

EKN'S COMMITMENT AND EXPERIENCE

India is EKN's third largest guarantee country. The guarantee commitment largely concerns guarantees for export transactions in the telecommunications and power sectors. Thus far this year (Jan-April 2017), six transactions have been guaranteed to a value of SEK 54 million. This represents a decrease in the number of transactions but an increase in amount compared with the same period in 2016 (ten transactions to a value of SEK 24 million).

During the period 2011-2016, EKN has issued guarantees in 130 transactions, around 20 per year, to a value of SEK 19 billion. Overall, payment experience is good. There are arrears of SEK 8 million in four transactions, where the maximum guarantee commitment amounts to less than SEK 50 million. Outstanding claims amount to SEK 96 million and are attributable to commercial indemnifications in eight transactions between 1994 and 2011.

WHAT MIGHT CAUSE A CHANGE IN THE COUNTRY POLICY

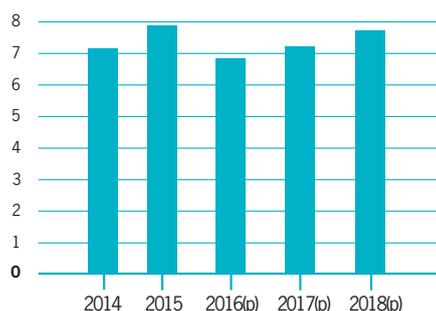
EASING

- Continuous improvement of e.g., infrastructure, energy supply and business climate which strengthen the country's long-term growth potential
- Bolstering of public finances

TIGHTENING

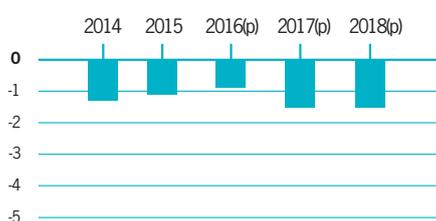
- Return to major deficits in both current account and balance of payments, increased indebtedness
- Additional weakening of the banking sector or a lack of government subsidies to banks in need

GDP-GROWTH (% PER ANNUM)



Source: IMF WEO 2017

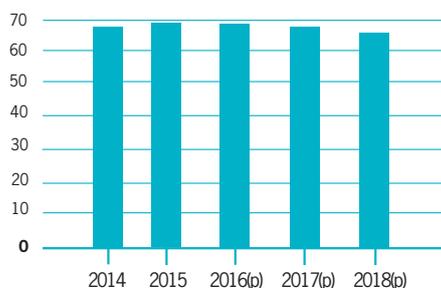
CURRENT ACCOUNT (% OF GDP)



The deficit in India's current account is covered by foreign direct investments.

Source: IMF WEO 2017

PUBLIC DEBT (% OF GDP)



Source: IMF WEO 2017

COUNTRY ANALYSIS

BACKGROUND

India's limited integration into the global trade flows and into the capital markets protected the country to a certain extent during the financial crisis of 2008 and the weaker global economy thereafter. At the same time, the country has benefited from the low commodity prices. Domestic factors which have further strengthened the country are the support for political reforms and a more transparent monetary policy. India is balancing strong growth prospects and a high influx of investments with weak public finances and a complicated business environment. Overall, India is in a better position than many other developing countries, with fewer macroeconomic imbalances than before.

THE LATEST DEVELOPMENT

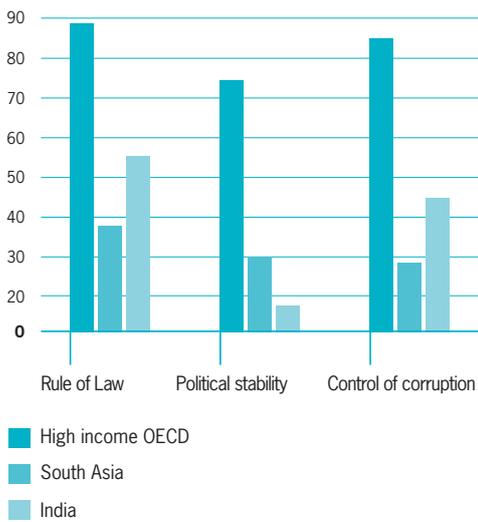
The decision made in November 2016 to demonetise some very common banknotes initially led to a liquidity crisis in India. However, the effects seem to have largely subsided. GDP growth for the year as a whole (April 2016-March 2017) has been written down somewhat from previous forecasts due to the decrease in purchasing power entailed by the monetary reform. The Asian Development Bank's assessment is that the fall in growth rate in 2016 (from eight per cent to seven) was temporary and the forecast for 2017 is growth exceeding seven per cent. The international reserves corresponds to around eight months' import, which is an adequate level.

Despite fears of the opposite, local elections in March 2017 show that the governing Bharatiya Janata Party (BJP) have strong support for their forceful economic measures. The government has launched a number of major reforms. In addition to the monetary reform, a decision has been made concerning new bankruptcy legislation which, among other things, will have a positive effect on the banking sector through a clearer framework and larger mandate for banks to bring legal action against borrowers who do not keep up with their payments. Progress has been made in establishing a new nationwide VAT legislation (Goods and service tax). The plan is to launch it in the summer of 2017.

LONG-TERM DEVELOPMENT

Under the "Make in India" campaign, India has marketed itself as a destination for the manufacturing industry. India needs to create job opportunities for a large and unqualified labour force. As other markets lose their competitive edge due to factors such as increased payroll expenses, India hopes to attract these investors. The influx of foreign direct investments in 2016 has increased by 36 per cent when compared with 2015. By demonstrating the economic advantages of the Make in India initiative, there is also pressure from a political level to improve the business environment. Over time, the development will benefit companies doing business with or in India. The Indian public finances, which are showing a chronic deficit, will continue to constitute a restriction for expansive measures aimed at promoting growth. The public debt is high in relation to the GDP – around 70 per cent – but the positive downward trend of the past decade is expected to continue.

BUSINESS ENVIRONMENT



Ranking from 0 (worst) to 100 (best)

Source: World Bank

Untying knots in important area such as the labour market and infrastructure is central to creating a higher rate of growth in India in the long-term. BJP strengthened its position in the state elections in March, which gives the government greater power for manoeuvre when it comes to increasing the pace of reform in the long term. Overall, EKN has a positive view on the developments in India.

BUSINESS ENVIRONMENT

The term “business environment” refers to the regulatory environment, the legal environment, and transparency and accounting. Transparency and accounting are deemed to be less problematic in India. Access to financial information has improved in recent years, partly through the introduction of the Indian version of IFRS, India Accounting Standards. Both the legal environment and the regulatory environment in India are deemed as weaknesses. This is manifested in a lack of predictability in the legal system, among other things.

High on the reform agenda is the need to improve the business climate in the country. India ranks 130 (of 190) in the World Bank’s “Doing Business Index”, on a level with Brazil (123), but far below China (78), South Africa (74) and Russia (40). The financial sector is changing in favour of newly established private micro-finance institutions. The national banks, several of which are already in a vulnerable situation, risk losing market shares. Considering the state-owned banks’ evident and protracted problems with profitability, efficiency and maintaining a sufficient capitalisation, it is likely that these banks are faced with a period of consolidation. In the long term, this should reinforce the banking system and reduce the risk of the state’s resources needing to be used to save banks. Changes in legislation and the financial sector are small but important steps in improving the business climate and thereby realising the country’s potential. The changes are deemed favourable for exporting companies, EKN and our guarantee commitments. Overall, the business environment in India is assessed to be relatively difficult.

DISCLAIMER: The country analysis is based on a selection of sources and reflects information that is relevant to EKN at the time of publication. The responsibility for how the information is used or interpreted rests solely with the user, and EKN cannot be held responsible for any loss or damage.