India

Outlook

								Forecasts	
	Average 10-14	2015	2016	2017	2018	2019	2020	2021	2022
GDP growth (%)	7.2	8.0	8.3	7.0	6.1	4.2	-8.9(e)	9.5	7.3
CPI inflation (%)*	9.0	4.9	4.9	3.3	3.9	3.7	6.6	9.7	4.7
Fiscal balance (% of GDP)	-7.7	-7.2	-7.1	-6.4	-6.3	-8.2	-13.1(e)	-10.9	-10.0
Public debt (% of GDP)	67.2	68.8	68.7	69.4	69.6	72.3	89.3(e)	89.9	89.5
Reference rate (%)*	7.4	7.2	6.5	6.2	6.3	5.7	4.0	3.7	4.0
Exchange rate (INR/USD)*	53.1	64.1	67.2	65.1	68.4	70.4	74.1	74.0	75.0
Current account balance (% of GDP)	-3.0	-1.1	-0.6	-1.8	-2.1	-0.9	0.3(e)	-0.9	-1.6
External debt (% of GDP)	20.5	22.7	19.8	19.2	19.5	19.4	20.1(e)	17.8	16.7

Notes: * Annual average. (e) estimation.
Source: BPI Research, based on data from national statistical agencies and IMF.

- **India is one of the economies hardest hit by the pandemic, with a GDP that fell by 9.0% in 2020, with modest fiscal and monetary stimuli and a slow recovery in 2021.** Still, in the long term, the opportunities are huge, with a young, relatively educated population, fluent in English and a gigantic market size (it is the third largest economy on the planet in purchasing power parity, the sixth in current dollars and the second most populated). This high long-term potential has as its main obstacle to development the situation of inequality of women (women's employment rate barely exceeds 30%). Likewise, investment is hampered by a financial system with chronic high NPLs and by state-owned conglomerates. The changing regulatory environment does not help either. Another obstacle is the difficulties in implementing agricultural reforms and the job market.

- **Real shock of COVID-19.** The size of the population and the socioeconomic conditions contributed to the fact that, in 2020, India was the second country in the world in number of infections and the third in deaths, in absolute terms. In relative terms (deaths per million), the figures are below those of Europe, Latin America and the US, although they are worse than the average for East Asia. The response to the pandemic was not suitable for the country's circumstances. The strict lockdown in Spring 2020 did not work due to the existence of very high population density urban areas and houses with shared toilet services. Likewise, the costs of the lockdown were severe: a record fall in GDP, abandonment of cities, displaced workers and a disruption in the agricultural sector that came close to causing a human tragedy. The momentum of improvement in the second half of 2020 and vaccines will lead to a much more positive situation in 2021.

- **Macro-financial and real vulnerabilities**
  - **NPLs.** The Indian banking system, dominated by state banks (2/3 of total assets), had been suffering from a high NPL ratio before the pandemic (8.5% in the system as a whole, 10.0% in state banks) and could reach 15% in 2021.
  - **Insufficient access to financing.** India is one of the emerging economies that benefited the least from a weak dollar in 2020. Capital inflows are dominated by well-established players. Also of note is the very low incidence of IPO (barely 2 billion, the minimum since 2015).
  - **Inflationary pressures.** In 2020, India was one of the few countries that experienced an increase in inflation. Although lower inflation is expected in 2021, prices will continue to be a chronic problem, largely due to the inefficiency of the agricultural sector, which accounts for half of employment. The difficulty of implementing

Outlook (continued)

a reform that liberalises prices and improves productivity, but at the same time does not worsen the precariousness of agricultural workers (already suffering from the reduction in food prices in recent years and the 2016 demonetisation against tax evasion resulting in payment delays for farmers), will continue to determine internal policy. It should be remembered that a first reform proposal by the Modi Government resulted in protests in 2020 and its rejection by the Supreme Court.

- **Economic policy response**
  - **Health policy.** Faced with an increase in cases in the Spring, India imposed a strict lockdown that failed. The need to quickly vaccinate a population of 1.4 billion led to the adoption of a mixed public-private vaccination system. The Oxford University-AstraZeneca public vaccine is complemented by the local private Bharat Biotech vaccine, the efficacy of which has been questioned.
  - **Fiscal policy.** Fiscal policy was insufficient in 2020 to alleviate the economic *shock*. The discretionary stimulus of 1.8% of GDP in 2020 was below average, around 4% of the rest of Emerging Asia (excluding China, where it was around 5%), which suffered a less severe impact than India.
  - **Monetary policy.** The BRI lowered the reference rate by 115 bp to 4% in 2020. Further decreases in 2021 will be determined by inflation (see previous comment). The perennial need to defend the rupee and inflation above the high zone of the inflation target (it is in the range of 2% to 6%) determined the actions of the central bank (BRI). As a result, the expansion of the BRI balance sheet was equivalent to 24% of GDP, not only far from the increases of the central banks of advanced countries but also that of other leading emerging countries.

- **Evolution of the exchange rate.** In 2020, the rupee depreciated 2.5% against the dollar. In 2021, the recovery in domestic demand and the return to the current deficit will put downward pressure on the exchange rate, but BRI monitoring and expectations of a certain moderation of inflation should control the depreciation in 2021-2022.

Main risks

- **Political risks.** The People's Party of India (Bharatiya Janata) will maintain without any problems its strong position in the Lok Sabha (lower house) of President Narendra Modi until 2024. Discontent from farmers is the main internal risk. Abroad, the main risk lies in controlling China, which is strengthening alliances with India's neighbours. The escalation of the Ladakh border conflict in 2020 with the Chinese army, an echo of the 1962 war, is in no one's interest, but the risk exists.

- **Sovereign risk.** Public debt continues to be an active front with a worrying development: public debt is expected to have risen from 72.3% to 89.3% of GDP in 2020 and will continue to rise, with less intensity, in 2021 and 2022. In this context, a credible and ambitious fiscal consolidation strategy is lacking.

	Rating	Last changed	Outlook	Last changed
STANDARD & POOR'S	BBB-	26/09/14	Stable	26/09/14
Moody's	Baa3	01/06/20	Negative	01/06/20
FitchRatings	BBB-	18/06/20	Negative	18/06/20

■ Indicates that the country has "investment grade".
□ Indicates that the country does not have "investment grade".