



****Coronavirus Covid-19 Update****

The risks associated with doing business are likely to be negatively impacted by the global coronavirus pandemic. Severe disruption to supply chains caused by lockdown procedures in many countries will affect country risk ratings. Demand will also be lower than initially anticipated as export earnings will be reduced amid a global economic slowdown and falls in both business and consumer confidence, as well as lower investment due to decreasing corporate earnings. We advise clients to monitor the containment efforts, as the adverse economic and supply chain effects will persist until the outbreak is controlled.

Country Insight Snapshot

India

March 2020





OVERVIEW

OVERALL COUNTRY RISK RATING: DB5c

High risk: Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high return transactions only.



Rating Outlook: Deteriorating

CORE OUTLOOK

- + India will ultimately benefit from a multi-year expansion in e-commerce, mobile internet use and financial technology.
- + The 15-to-25-year-old population sector will reach 300m and provide a powerful demographic dividend in the next decade if they find jobs.
- Investment has stalled, inhibited by policy shocks, implementation gaps, over-capacity, financial frauds, bad debts and barriers to land reform.
- Two-thirds of Indians depend on farm income, making India vulnerable to monsoonal disruption from climate change and El Nino episodes.
- Labour-intensive industries are failing to grow and absorb new workers quickly, and radical labour reforms remain a politically-distant prospect.

KEY DEVELOPMENT

Dun & Bradstreet downgrades India's country risk rating by three quartiles, to DB5c, due to the unprecedented three-week lockdown implemented as part of its Covid-19 control efforts.

CREDIT ENVIRONMENT OUTLOOK



Trend: Deteriorating rapidly

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK



Trend: Deteriorating

Key Development has had a negative impact on the outlook.

MARKET ENVIRONMENT OUTLOOK



Trend: Deteriorating

Key Development has had a negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK



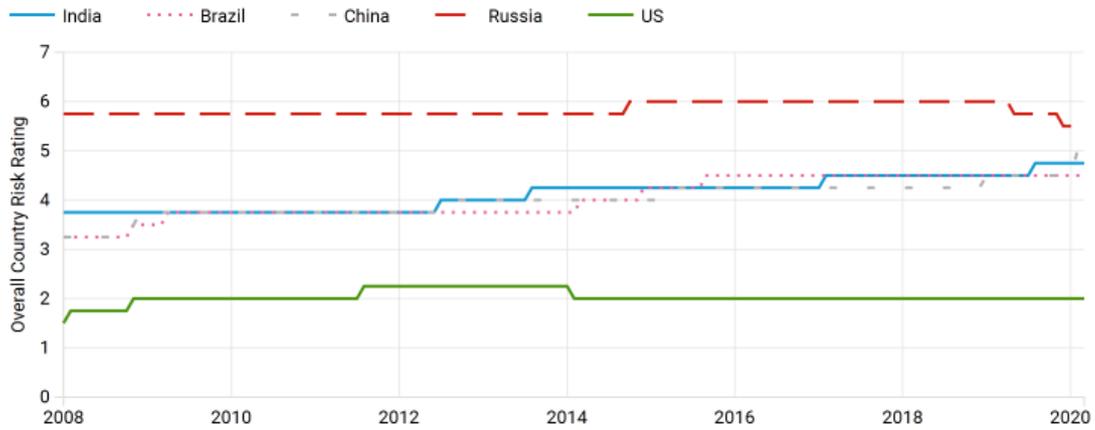
Trend: Deteriorating

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

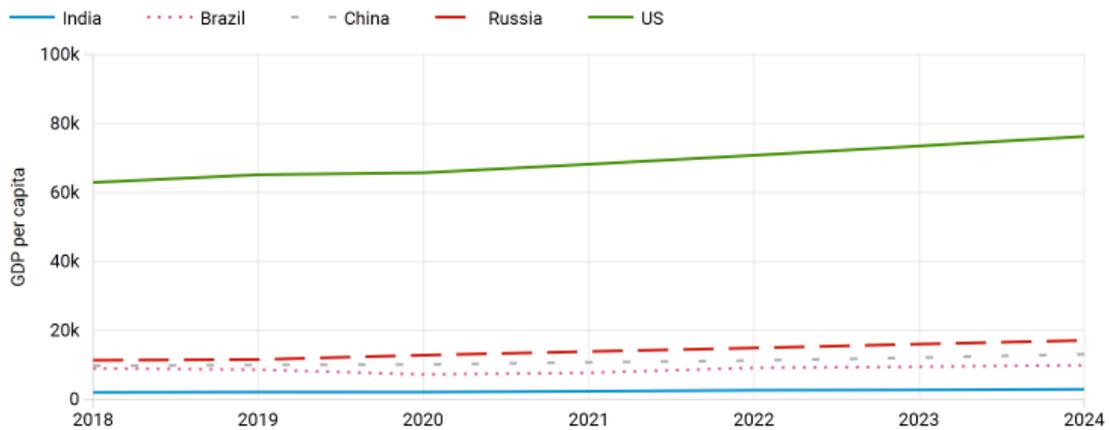
Rating History and Comparison



Source: Dun & Bradstreet

Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source: Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2017	2018	2019e	2020f	2021f	2022f	2023f	2024f
C/A balance % GDP	-1.8	-2.1	-1.7	-1.6	-1.5	-1.6	-1.3	-1.6
Debt Service Ratio, %	7.5	6.4	7.2	7.5	8.0	8.0	8.5	9.0
Govt balance, % GDP	-3.5	-3.5	-4.0	-5.3	-3.7	-4.0	-4.0	-4.0
Inflation, annual avge %	3.6	3.4	5.1	5.5	4.9	4.5	4.5	4.5
Real GDP Growth, %	7.0	6.1	3.6	3.2	6.3	7.0	6.9	6.9

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

India has fewer than 100,000 intensive care beds and 20,000 ventilators, in any case concentrated in major cities, and would struggle even more than European countries with an uncontained Covid-19 outbreak. Modelling from a US-based research institution and the Indian Council for Medical Research indicates that the lockdown could reduce the requirement for hospital beds to 1m from 5-6m, without action, and the total number of infections at a forecast peak in May by 70-80% from the peak that would occur without emergency movement controls.

In March, as part of its Covid-19 package, the Reserve Bank of India allowed all lending institutions to grant moratoriums on term loans for the three months from 1 March to 31 May, e.g. for all business, mortgage and automotive loans. It also allowed for the deferral of interest payments on working capital loans in this period, and for no asset reclassifications to arise as a result. India's central bank also deferred Basel III capital and liquidity standards until end-Q3. These steps are absolutely necessary to prevent a regulatory shutdown of the banking system in the context of millions of loan defaults expected during and after the national lockdown (scheduled to last until mid-April). We advise against attempting to initiate or to conclude any trade with India during the lockdown, given the operational issues facing the nation.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: SD

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: LC

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 30-90 days

Normal period of credit associated with transactions with companies in the stated country.

Local Delays: 0-2 months

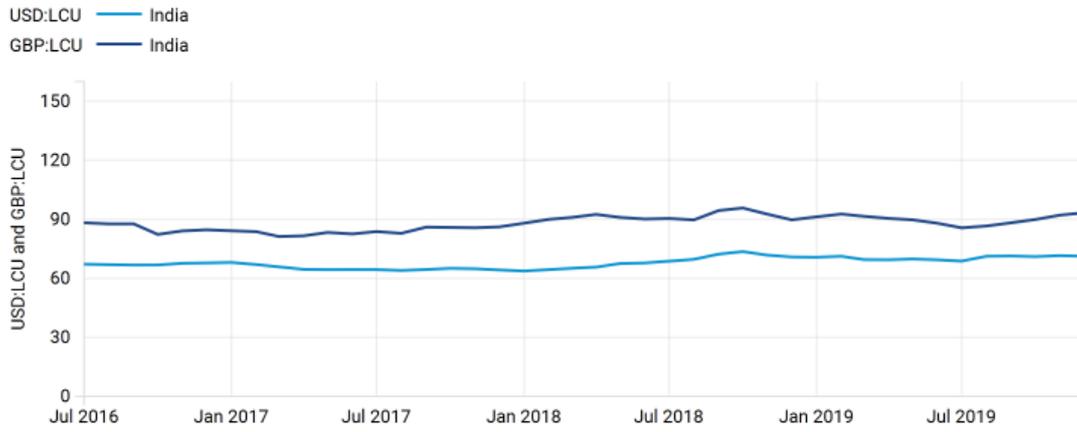
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-1 month

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.



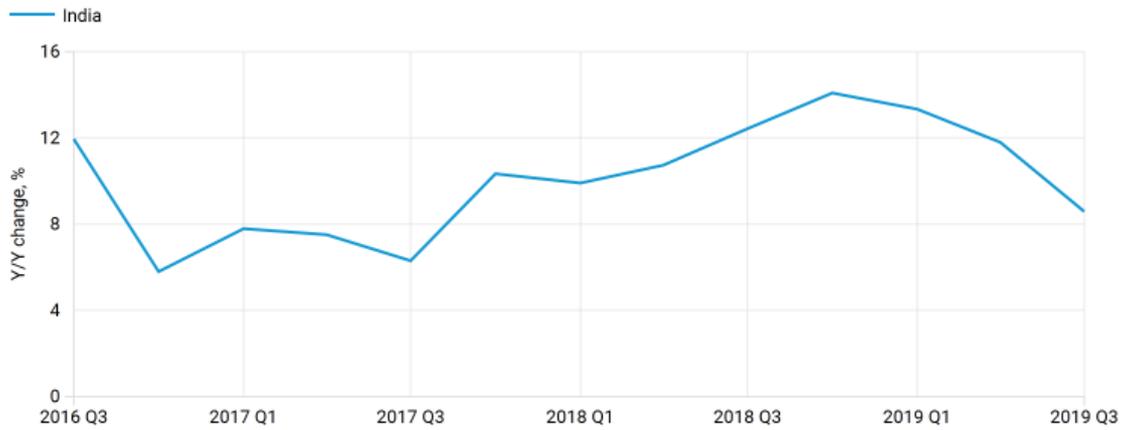
Exchange Rate



Source: International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Indian rupee

Bank Lending to the Private Sector



Source: IMF, Central Banks, Haver Analytics



RISKS AND OPPORTUNITIES

Business Continuity

Risk rating downgraded

The national lockdown until 14 April ordered by Prime Minister Narendra Modi aims to stop India's registered cases of Covid-19 accelerating far beyond the 1,000 level, and might still have come in time to prevent a spiralling domestic outbreak from killing millions of citizens. The unprecedented measure followed moves to lock down 80 of India's 720 districts. In light of the situation, in March we downgraded India's overall risk rating from DB4d to DB5c, three quartiles into the 'high risk' category; we also downgraded India's Supply Environment Outlook to 'red', with a deteriorating outlook. The suddenness of the lockdown has left firms and households unprepared, and even the provision of essential goods to households and between states is not guaranteed.

Several ports had declared *force majeure* by the first day of the lockdown, but this does not solve the challenges for the stakeholders involved in the delivery of major dry bulk, energy, and container cargoes. In theory, the government is holding that ports remain essential services and are not closed, but in practice, ports lack their workforces, while modal connections, yards and bank processing of documents for payments remain at a standstill. Likewise, oil and gas imports are covered by the same 1968 Essential Services Maintenance Act as ports, but India's liquefied natural gas importers are deferring cargoes or pursuing *force majeure* declarations. Ports were already coping with a 14-day quarantine on all incoming vessels, when the lockdown began, and even if the lockdown ends as planned in April the situation will complicate all trade with India for weeks.

On the ground, the lockdown brought uncertainty regarding the permissions for e-commerce in groceries and cross-state shipments, with police reported to be impeding traffic in March pending clarification from the authorities. The closing of public transportation caused tens of millions of migrant workers working in urban areas (including in retail and construction) to begin to walk home on journeys of dozens of miles, to avoid eviction or immiseration, before and after the lockdown was announced, frustrating its purpose. As close to 85% of the national workforce is informal, it is unclear how industry and commerce will resume in the second half of April. Similar challenges in China took many weeks to resolve and were reduced by the lunar new year holiday, as migrant workers at least started China's emergency in their home areas.

The challenges for business continuity are already extreme, and far exceed the dimensions of the challenge in February, when lack of automotive parts and industrial chemicals from China seemed the immediate problem. Few of India's companies are geared for tele-working and internet conditions will be unpredictable, vary from locality to locality and see congestion in the evenings when over 1bn citizens will seek bandwidth for online entertainment. With even the essential power sectors facing heavily reduced demand (electricity use had fallen by 21% on the first full day of the lockdown), all sectors are facing highly suppressed demand and activity conditions. One comfort is that Food Corporation of India official stocks of grain, at 585.0m tonnes at end-March, are well up on the two previous years.

Short-Term Economic Outlook

Lockdown foreshadows deceleration even in best-case outcome

Our real GDP growth forecasts for 2020/21 have been tentatively revised down to 3.2% (from 6.0%) in light of the likely near-halving of activity in India in the first two weeks of the year due to the lockdown. Even if deferred demand recovers quickly in a 'V-shape', the complications for supply chains arising from a lack of workers, orders and inventories will be enough to offset it in the first half of Q2, and so our forecast represents an optimistic scenario. Meanwhile, consumer demand will focus on the essentials for the lockdown, and a host of sectors face radically reduced activity in Q2 as a whole and zero activity during the lockdown, including the cement, automotive, construction, real estate and steel-making sectors, and even tea production. In March, the Reserve Bank of India cut its policy rates, the repo rate by 75 basis points (bp) to 4.4%, the reverse repo rate by 90bp to 4.0%, and the marginal standing facility rate by 75bp to 4.65%; alongside short-, long- and FX-boosting liquidity measures.



COUNTRY PROFILE AND STATISTICS

Overview

With over 1.3bn citizens, India is the world's most populous democracy and second-largest country. It became a sovereign republic in 1947 and joined the Commonwealth of former British colonies in 1950. India borders Pakistan to the northwest; China, Bhutan and Nepal to the northeast; and Bangladesh and Myanmar to the east. India's economy encompasses village farming, modern agriculture, handicrafts, modern industries, and services (worth half of GDP).

Until the 1990s, the economy was held back by stringent state controls, but these were liberalised considerably in a first generation of reforms, and in the 2000s the economy grew, on average, by over 7% a year. However, realising India's potential in the 2020s will require the addressing of major challenges, including infrastructure gaps, political, legal and practical restrictions on land use, ineffective poverty alleviation, and a legacy of corruption. Other factors still to overcome include inefficient national tax structures, insurgencies in the northeast, the fragile *detente* with Pakistan, dependence on erratic monsoons, and communal and sectarian tensions. Moves towards bringing transactions and employment into the formal economy and the digitisation of business and government are advancing from their early stages.

Key Facts

Key Fact	Detail
Head of state	President Ram Nath KOVIND
Capital	New Delhi
Timezone	GMT +05-30
Official languages	Hindi, English
Population (millions)	1,349.2
GDP (USD billions)	2,885.3
GDP per capita (USD)	2,139
Life expectancy (years)	69.0
Literacy (% of adult pop.)	74.4
Surface area (sq km)	3,287,260

Source: Various sources/Dun & Bradstreet

Historical Data

Metric	2015	2016	2017	2018	2019e
Real GDP growth (%)	8.0	8.3	7.0	6.1	3.6
Nominal GDP in USDbn	2,104	2,295	2,653	2,713	2,885
Nominal GDP in local currency (bn)	137,719	153,917	170,983	189,712	203,848
GDP per Capita in USD	1,640	1,767	2,016	2,037	2,139
Population (year-end, m)	1,283.0	1,299.0	1,316.0	1,332.0	1,349.2
Exchange rate (yr avge, USD-LCU)	65.5	67.1	64.5	69.9	70.7
Current Account in USDbn	-22.1	-15.2	-48.7	-57.2	-50.0
Current Account (% of GDP)	-1.1	-0.7	-1.8	-2.1	-1.7
FX reserves (year-end, USDbn)	333.1	340.3	388.7	373.9	432.0
Import Cover (months)	8.3	8.4	8.0	7.0	8.5
Inflation (annual avge, %)	4.9	4.5	3.6	3.4	5.1
Govt Balance (% GDP)	-3.9	-3.7	-3.5	-3.5	-4.0

Source: Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2020f	2021f	2022f	2023f	2024f
Real GDP growth (%)	3.2	6.3	7.0	6.9	6.9
Nominal GDP in USDbn	2,908	3,284	3,724	3,880	4,200
Nominal GDP in local currency (bn)	220,000	243,000	270,000	291,000	315,000
GDP per Capita in USD	2,128	2,372	2,656	2,732	2,920
Population (year-end, m)	1,366.6	1,384.2	1,402.1	1,420.2	1,438.5
Exchange rate (yr avge, USD-LCU)	75.7	74.0	72.5	75.0	75.0
Current Account in USDbn	-46.5	-47.8	-60.0	-51.0	-66.0
Current Account (% of GDP)	-1.6	-1.5	-1.6	-1.3	-1.6
FX reserves (year-end, USDbn)	395.0	400.0	415.0	398.0	398.0
Import Cover (months)	8.6	8.0	8.0	7.4	7.2
Inflation (annual avge, %)	5.5	4.9	4.5	4.5	4.5
Govt Balance (% GDP)	-5.3	-3.7	-4.0	-4.0	-4.0

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	India	Brazil	China	Russia	US
Income per Capita (USD)	2,128	7,247	10,112	12,830	65,733
Country Population (m)	1,366.6	211.4	1,439.3	145.9	331.0
Internet users (% of population)	29.5	59.7	53.2	76.4	76.2
Real GDP Growth (% p.a., 2020 - 2029)	6.0 - 8.0	1.0 - 2.0	4.5 - 6.5	1.5 - 3.0	1.8 - 2.5

Source: Various sources/Dun & Bradstreet



LINKS

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Please click [here](#) to visit our online user guide.

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Additional information relevant to country risk can be found in the online *International Risk & Payment Review*, which provides timely and concise economic, political and commercial information and analysis on 132 countries. This subscription-based service (www.dnbcountryrisk.com) carries essential information on payment terms and delays. It also includes the unique Dun & Bradstreet Country Risk Indicator to help monitor changing market conditions.

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