28 Sep 2018

Country Economic Forecast
India

Economist

Priyanka Kishore

Head of India and South East Asia Economics

+65 6850 0124

Renewed financial sector stress poses risks to the ongoing investment recovery

- **We expect growth to have peaked in Q2 and have raised our 2018 forecast only modestly to 7.6% (from 7.5% previously) despite GDP growth having topped 8% in the last quarter. Recent developments in the domestic financial sector are adding to the list of headwinds facing the economy. Against this backdrop and amid muted inflationary pressures, we expect the RBI to 'pause' in October. But acknowledge that exchange rate and oil price movements have raised the probability of additional tightening this year.**
- Indian markets have come under renewed stress in recent days following debt default by a large infrastructure finance company (IL&FS) that has raised concerns about the wider health of the non-banking financial sector (NBFCs). So far, the authorities have acted proactively to contain the risks. A joint statement from the RBI and SEBI to assuage investors' concerns has been followed by a cut in the cash reserve ratio (CRR) to ease the liquidity situation.
- As such, concerns of systemic fallout appear overdone. But we do think that with the banking sector still grappling with non-performing asset (NPA) and governance issues, this could impinge on the recovery in credit and private investment growth that has been gaining traction over the last few quarters.
- More positively, the effects of a weak currency and higher oil prices are yet to filter through to CPI inflation, which fell below the RBI's 4% medium-term target last month. However, the outlook is marred by risks of future inflationary pressures. With the current account deficit expected to widen towards 3% of GDP in Q4, the INR is likely to remain on a weak footing heading into the 2019 general election.

We continue to forecast a slowdown in growth momentum in the coming quarters

Forecast for India *

(Annual percentage changes unless specified)

	2016	2017	2018	2019	2020	2021
Domestic demand	7.6	7.3	8.0	6.8	6.7	6.7
Private Consumption	8.3	5.9	7.5	7.3	7.4	6.9
Fixed Investment	10.5	5.4	10.7	5.3	7.8	8.0
Stock building & discrep (% of GDP)	3.7	4.6	3.7	3.9	3.0	2.4
Government Consumption	9.0	11.7	11.0	7.5	8.7	7.6
Exports of Goods and Services	2.5	6.5	8.2	6.6	6.0	6.1
Imports of Goods and Services	1.3	11.4	9.6	5.2	5.1	5.4
GDP	7.9	6.2	7.6	7.2	7.0	6.8
Industrial Production	5.2	3.5	5.1	5.6	6.0	6.5
Consumer Prices, average	4.9	3.3	4.8	5.1	5.4	5.4
Current Balance (%of GDP)	-0.5	-1.6	-2.4	-2.6	-2.0	-1.8
Government Budget (%of GDP)	-3.7	-4.0	-3.1	-3.4	-3.2	-2.8
Gross Government Debt (% of GDP)	47.0	46.1	46.4	45.3	43.6	42.5
Current Account ($bn)	-12.1	-39.0	-64.0	-78.4	-72.0	-70.8
Trade Balance ($bn)	-107.5	-148.1	-183.9	-211.9	-227.8	-240.5
Short-Term Interest rate (%)	7.17	6.47	7.27	7.64	7.43	7.09
Exchange Rate (Rupee per US$), average	67.2	65.1	68.2	69.9	66.9	67.8

* Refers to Calendar year

Contact: Priyanka Kishore | pkishore@oxfordeconomics.com

Forecast overview

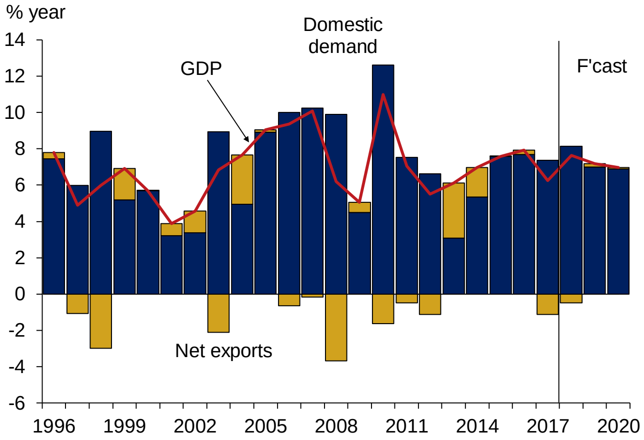
Rising growth headwinds

Real GDP growth accelerated to 8.2% y/y in Q2 2018, significantly above our and consensus expectations. This was partly due to a favourable base effect but sequential momentum also surprised on the upside. Still, we remain cautious in our expectations. Renewed stress in the financial sector poses downside risks to our growth forecast for 2019, which is already cautious in the wake of rebounding oil prices and escalating global trade tensions. The key drivers of the forecast are:

- **Investment recovery at risk**: industrial production growth eased to 6.6% y/y in July from a downwardly revised 6.9% in June. While 3-month moving average sequential momentum held up, it remained firmly below the cycle peak (5.8% versus 7.8%). The Nikkei manufacturing PMI remained in expansionary territory but moderated for the second consecutive month (51.7 in August versus 52.3 in July). We continue to expect manufacturing's contribution to growth to improve this year (relative to 2017) but the renewed uptick in input and output price inflation, as well as risks of a credit slump, could dent the sector's momentum going forward and impinge on business investment plans. Accordingly, we expect investment growth to slip back to single digits in the coming quarters from 14.4% in Q1. We maintain that a return to the robust double-digit investment growth experienced in the mid-2000s is unlikely until there is meaningful progress on key reform areas.

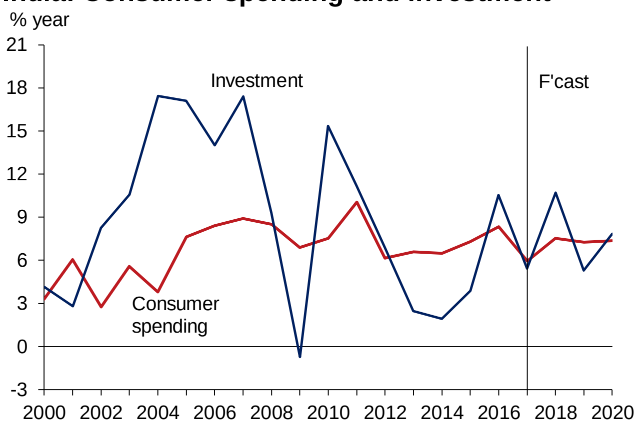
- **Slowdown in infrastructure spending**: as expected, the FY19 budget continued to emphasize infrastructure spending – budgeted to rise to ~INR 6trn in FY19 from ~INR 5trn in FY18. In general, we expect an expanding tax base to generate more revenues to facilitate government investment over the medium term. However, short-term risks of populist spending 'crowding out' capital spending remain on the horizon, with the general election approaching in 2019. Latest data show that the deficit has already reached 94.7% of the budgeted target as of August. As such, we find the central government's budget maths optimistic and expect the fiscal deficit's share of GDP to remain unchanged from the last financial year at 3.5% (versus the government's projection of 3.3%).

India: Contributions to GDP



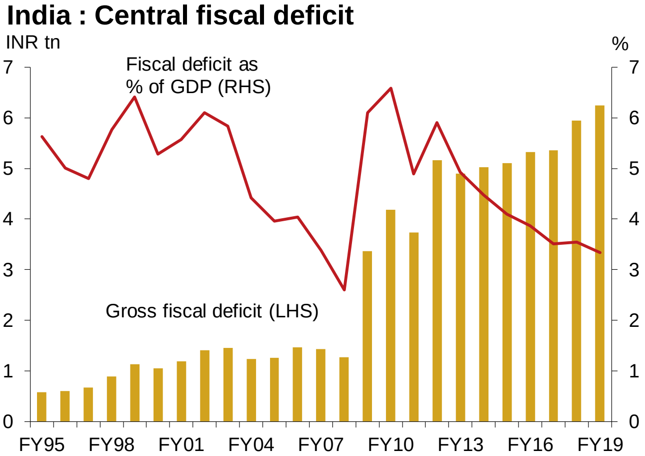
Source: Oxford Economics

India: Consumer spending and investment



Source: Oxford Economics

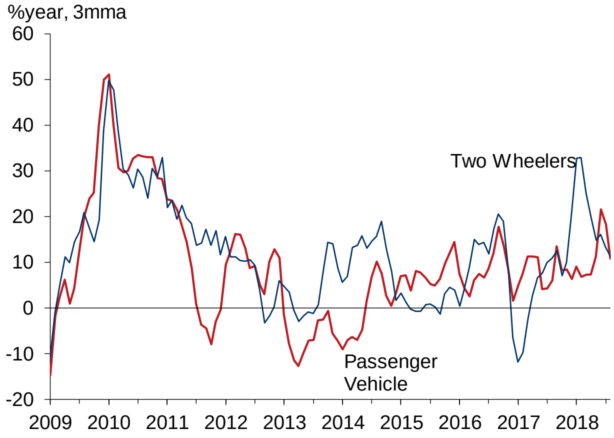
India : Central fiscal deficit



Source : Oxford Economics/CEIC

- **Consumption growth steadying**: consumption indicators continue to paint a mixed picture. The Nikkei services PMI remained in the expansion zone, albeit moderating to 51.5 in August from 54.2 in July. On the other hand, auto sales continued to slow down. This was largely due to a drop in passenger vehicle sales (-2.5%). Two-wheeler sales (a proxy measure of India's rural demand) slowed to 2.9% from 8.2% in July and 16% in Q2, while car sales contracted 1% after increasing 18% in the previous quarter. The slowdown partly reflects comparison with volatile auto sales around the time when the goods and services tax was implemented in 2017. However, the underlying momentum, as shown by the three-month moving average, also appears to have peaked. With the recent policy rate hikes slowly transmitting into higher lending interest rates, we expect consumer spending growth to plateau going forward.

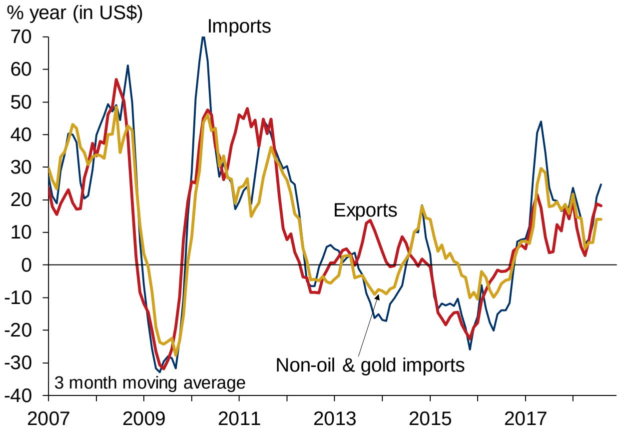
India : Auto sales



Source : Oxford Economics/CEIC

- **Smaller drag from net exports in 2018**: export volumes were affected by domestic issues (demonetisation and GST) last year, so we expect their growth to improve in 2018, leading to a lower drag from net exports on headline GDP growth. However, in nominal USD terms, the surge in the oil import bill in the last three quarters has led to a sharp widening in the trade deficit (a five-year high in July). Moreover, this has coincided with a period of weak portfolio inflows. In our baseline, we expect the current account deficit to remain within 3% of GDP (a level deemed sustainable for the country by the IMF). But a sustained rise in oil prices towards US$100pb would threaten this threshold.

India: Exports & imports



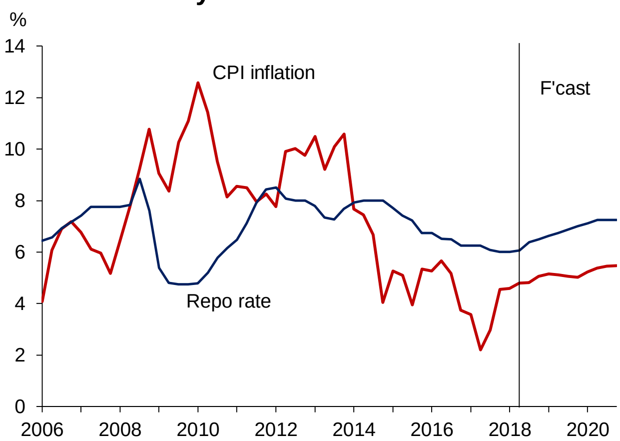
Source: Oxford Economics/Haver Analytics

Easing inflation to allow RBI to pause in H2

Headline CPI inflation slumped to 3.7% y/y in August from 4.2% in July, as food inflation dipped below 1% from around 3% in June. Core-core inflation (CPI excluding food, fuel and motor fuels) also moderated, but remained elevated at 5.7% (versus 5.8% in July). Meanwhile, fuel inflation continued to trend higher, to 8.5% from 8% previously.

Overall, recent inflation prints indicate an easing in price pressures. However, the pass-through from the increase in minimum support prices of some agricultural products, rising oil prices and the weak INR to headline inflation still needs to be monitored closely. Indeed, risks that the RBI tightens again this year have risen in the wake of persistent downward pressure on the currency and rebounding oil prices.

India: Monetary conditions



Source: Oxford Economics

Economic Risk Evaluation

Overall risk for India: 5.2/10*

India's overall economic risk score of 5.2 is moderate, leaving it ranked 65 out of 164 countries and better than the Asia Pacific average.

The recent GDP prints and bottom-up indicators confirm our view that a cyclical recovery is underway and growth is now likely to average 7.6% in 2018. Structural headwinds are still expected to constrain growth further out, leading to a gradual slowdown. Nonetheless, India remains one of the fastest growing economies in our baseline global forecast over the next five years.

Market demand: 6.0/10

The demand risk score is moderate to high at 6.0, above the APAC average reflecting the lingering concerns around the impact of demonetisation and GST on Indian growth, as well as the continuity of structural reforms.

The economy appears to be past the worst and growth should benefit from normalising cash conditions and pent-up demand, particularly going forward, with GST-related concerns also fading from Q1 2018. But reform momentum is likely to slow ahead of the 2019 general election, as the government shifts focus to capturing votes. Less contentious administrative reforms are more likely to be pushed in 2018, with more visibility on the state of crucial reforms, such as on land, labour, power and education, only likely after PM Modi is re-elected (which is assumed in our baseline forecast).

Market cost: 5.0/10

The market cost risk score is at 5.0, below the regional average. Though CPI inflation is now higher than in mid-2017, it is expected to stay within the central bank's 2-6% target range. We forecast proactive monetary policy actions to successfully curb inflationary pressures, such that inflation remains within the target range; albeit we do not expect the CPI to stabilise around the 4% mid-point in the next five years.

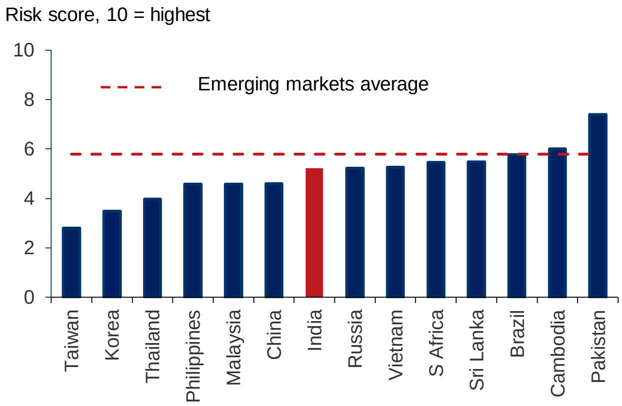
The central bank's move to an inflation-targeting regime is also expected to help anchor price expectations over the medium term.

India: Economic risk index
(Scores from 1 to 10 with 10 = highest risk)

	Sep 2018	Rank out of 164†	Score change from March
Overall	5.2	65	0.1
Market demand	6.0	96	0.0
Market cost	5.0	58	0.0
Exchange rate	5.0	83	1.0
Sovereign credit*	4.0	59	-0.3
Trade credit	6.0	57	0.0

† (1 indicates lowest risk ranking)
*As of November 2017, the sovereign credit risk score is based on our new data-driven methodology. The change from six months ago also refers to the respective score under the new methodology.

Economic risk: India vs Emerging markets average



Source : Oxford Economics

Exchange rate: 5.0/10

Exchange rate risk is moderate at 5.0, lower than the regional average, reflecting the significant improvement in the country's external balances since 2012. While the current account deficit has widened in response to higher oil prices, we do not see it rising to unsustainable levels.

The currency should benefit from the current account deficit being limited to around 2% of GDP in the medium term and India's stronger medium to long-term growth outlook relative to other emerging markets. But the rupee is expected to depreciate against the dollar over the medium to long term given the inflation differential between the two economies.

Sovereign credit: 4.0/10

The sovereign credit risk score of 4.0, based on our new methodology, is lower than the Emerging Markets average.

In our system, the country's sovereign risk score is dragged back by a low level of GDP per capita, some banking sector problems, and a substantial fiscal deficit. On the plus side, the country's external debt is low, reserves are high and the current account deficit has been covered by FDI inflows.

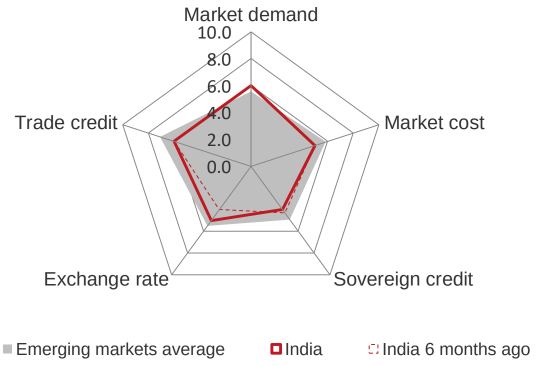
In a surprise move, Moody's upgraded India's credit rating in 2017. And we expect S&P and Fitch to follow suit with a lag. The outlook is positive and the country's rating should gradually improve, as growth recovers and stays close to 7% in the medium term and the budget deficit continues to come in below 4% of GDP.

Trade credit: 6.0/10

Trade credit risk – a measure of private sector repayment risk – at 6.0 is lower than the regional average. However, it is significantly higher than that of its more prosperous Asian neighbours.

The Indian corporate sector has become more indebted in recent years, leading to a rise in trade credit risks. But, similar to the sovereign credit rating, the situation should start to improve as growth accelerates and businesses' financial situations become more secure.

Economic risk: India vs Emerging markets average



Source : Oxford Economics

Risk warnings

GDP growth	●	H2-2018 outlook subject to several headwinds
CPI inflation	●	Inflation to rise back towards 5% after temporary relief
Current account balance	●	Elevated oil prices to lead to wider deficit
Government balance	●	Fiscal slippage risks persist in FY19
Government debt	●	Steady nominal growth to contain debt ratios
External debt	●	External debt at manageable level

* Risk scores are from 1 to 10, with 10 representing the highest risk. For our full country risk service, see www.risk-evaluator.com. Sovereign credit risk comes from our sovereign risk tool. Find out more.

What to watch out for

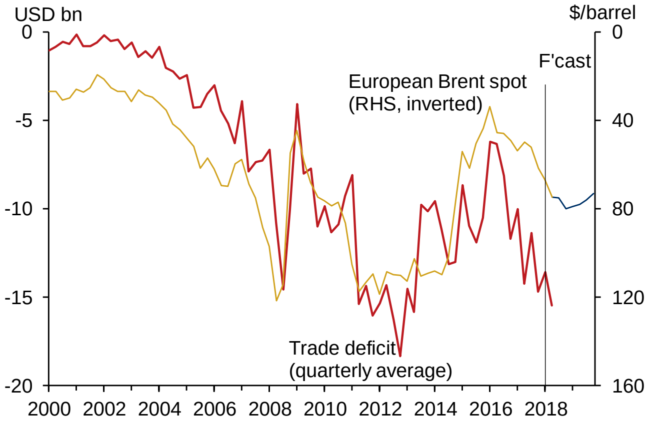
Oil prices: balance of payments funding risks have risen, following rising oil prices and a cautious outlook for portfolio flows. While fundamentals remain in much better shape compared to 2012-13 and we do not look for protracted INR depreciation, the further rise in oil prices towards US$100pb would make us less optimistic.

Financial sector stresses: credit growth has staged an impressive recovery. But recent reports of banking frauds have led to renewed concerns about corporate governance, banking regulation and the true scale of India's non-performing assets. At the same time concerns about the health of NBFCs (non-bank financial companies) have risen. Unless addressed adequately, such problems have the potential to erode the faith in the financial system and derail the ongoing growth recovery.

Improving tax base: with India's 'remonetisation' largely over, we have shifted our focus to monitoring tax revenues, which we expect to improve over the next few years due to a wider tax base, partly because of demonetisation. Indeed, this already seems to be happening, with data from the government's economic survey showing that 4 million additional taxpayers have registered since demonetisation.

Pace of economic reforms: there is renewed optimism about PM Modi's reform plans, following the introduction of the insolvency code, demonetisation and implementation of GST. However, we are cautious in our expectations. The push for reforms is likely to slow ahead of the 2019 general election, and even after that the hurdles to 'big bang' reforms on land and labour could prove to be much bigger than GST (where there was a broad political agreement that it would be beneficial for the economy).

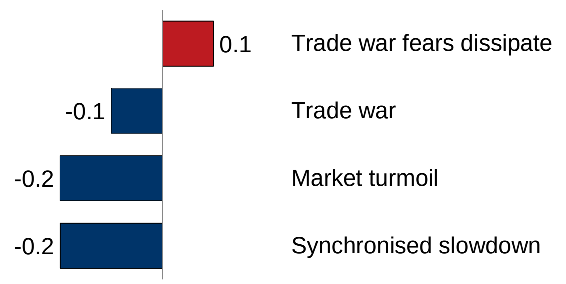
India: Trade deficit and oil prices



Source : Oxford Economics/Haver Analytics

Impact of scenarios on GDP growth

Average annual impact over the next 5 years (% points)

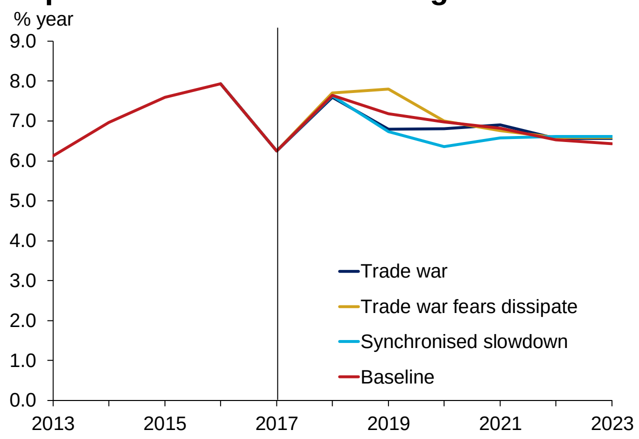


Exposure to key global risks

Trade war: if President Trump were to push through highly protectionist measures, initiating a trade war with Asia, global demand would be severely dented. In this scenario, Indian GDP growth might get stuck in the 6-7% range.

Synchronised slowdown: under this scenario, weaker activity in the eurozone in H1 is followed by a broader global slowdown amid trade policy uncertainty, tighter monetary conditions and a further surge in oil prices. India would be hit hard, with growth slumping to around 6.5% in 2019 and 2020, as it would not only be held back by the direct impact of higher oil prices, but also the indirect effects of slowdown in China and weaker global trade.

Impact of scenarios on GDP growth



Source : Oxford Economics

Long-term prospects

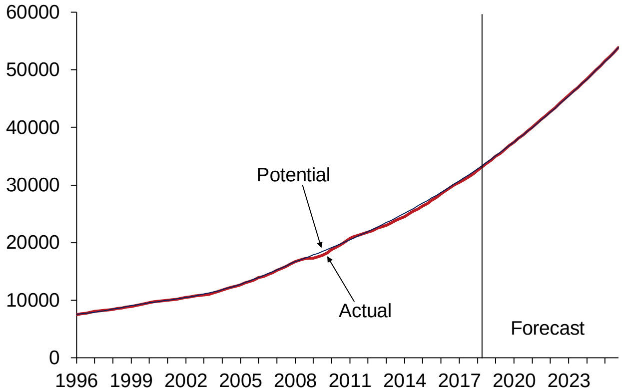
Long-term growth limited to 6-7%

GDP growth in India is expected to average 6.6% a year in 2017-26, slightly slower than the 7.3% growth experienced between 2007-16. The growth outlook is driven by:

- **Leading position in several service sectors**: the middle class is on course to expand. Indeed, the number of households with an income greater than US$30,000 is likely to more than double over the next decade.
- **Competitiveness**: India is competitive in international markets, with unit labour costs among the lowest of the BRIC economies.
- **Slow improvement in infrastructure**: inadequate infrastructure has prevented supply from increasing in line with demand. The outlook has improved following the government's thrust on infrastructure spending and measures to raise future tax revenues. But more progress is needed to plug the infrastructure gap.
- **Demographics**: India's working age population is expected to grow strongly over the next two decades. But low labour force participation rates and poor access to education have limited the contribution of labour supply to growth.

India: Actual & potential output

Rupee billion, 2011/2012 prices



Source: Oxford Economics

Potential GDP and Its Components Average Percentage Growth	2007-2016	2017-2026
Potential GDP*	7.3	6.6
Employment at NAIRU	1.2	1.8
Capital Stock	8.9	7.6
Total Factor Productivity	2.2	1.9

*ln(Potential GDP)=0.50*ln(Employment at NAIRU) +0.50*ln(Capital Stock)+ln(Total Factor Productivity)

Long-Term Forecast for India

(Average annual percentage change unless otherwise stated)

	2007-2011	2012-2016	2017-2021	2022-2026
GDP	7.8	6.8	7.0	6.3
Consumption	8.4	7.0	7.0	6.4
Investment	10.3	5.1	7.4	7.2
Government Consumption	8.9	5.0	9.3	6.1
Exports of Goods and Services	9.9	3.2	6.7	5.7
Imports of Goods and Services	12.7	-0.1	7.3	5.6
Unemployment (%)	1.9	2.7	3.5	4.0
Consumer Prices, average	8.6	7.1	4.8	4.5
Current Balance (% of GDP)	-2.4	-2.1	-2.1	-1.5
Exchange Rate (vs US$), average	45.1	60.9	67.6	71.7
General Government Balance (% of GDP)	-5.1	-4.5	-3.3	-2.5
Short-term Interest Rates (%)	8.09	8.60	7.18	6.47
Working Population	1.9	1.7	1.4	1.2
Labour Supply	0.4	2.0	1.9	1.7
Participation Ratio	61.7	59.5	60.7	62.3
Labour Productivity	7.3	5.1	5.0	4.6

Background

Economic development

The 1991 economic reforms unshackled India from the slow “Hindu” growth rate, with the economy steadily picking up over the following two decades. Average GDP growth clocked 9.5% between 2005 and 2007, supported by strong domestic demand, before falling to 5% in the wake of the global financial crisis. But the new national accounts data, introduced in early 2015, pushed India’s growth up to 7% from 5% overnight, and propelled the country into the economic “fast lane” alongside China. Such a large change was met with scepticism and has been a bone of contention ever since. Meanwhile, the trickle-down effect from high headline growth has been low. This is because services – the fastest growing sector since the 1990s – account for only around a 30% share of total employment. Agriculture accounts for more than 50% of employment, despite growing at an average rate of 3% per year since 1990. Hence, India’s real GDP per capita was just US$1,671 (in US$ 2010 prices) in 2015, as opposed to US$4,655 for emerging Asia as a whole.

Structure of the economy

India is often considered as the ‘poster child’ of a developing country, based on its success in achieving high growth rates, despite almost skipping the industrialisation phase. The share of agriculture in India’s real GDP has fallen from around 52% in 1950 to 14% in 2015. This has been matched by a steady rise in the share of services, while manufacturing’s share has stagnated between 14-16% since the 1970s.

Balance of payments

The current account has been in deficit since the 1990s, with the gap widening to 5% of GDP in 2012, leading to a sharp sell-off in the Indian rupee. However, the situation has improved since then. The deficit narrowed to just 1% of GDP in 2015, because of falling commodity prices and a gradually rising services trade surplus. In addition, the mix of capital inflows has improved, with FDI’s contribution increasing. These factors have lowered India’s vulnerability to external risks substantially. Geographically, the US and UAE are India’s largest trading partners. But efforts at boosting ‘South-South’ trade have resulted in Asia’s share of India’s total trade rising over the years.

Policy

Macro policy has been largely supportive of growth in recent years, barring the monetary tightening required in 2013 to curb inflation. Indeed, the fiscal deficit was more than 5% of GDP between 2011 and 2013, fuelling economic instability on the back of ‘twin’ deficit concerns.

Rating downgrade risks have forced the government to gradually rein in the fiscal deficit, but it remains fairly accommodative at 3.7% of GDP in 2016. And the medium-term fiscal consolidation roadmap is under review. The government has been more proactive on the monetary policy framework, agreeing to adopt a formal inflation targeting regime, as suggested by the previous RBI Governor, Dr. Rajan. Also, monetary policy is now decided by the Monetary Policy Committee (MPC), instead of just the Governor.

Politics

India has a multi-party political system, with more than a thousand registered political parties. However, not all of them are functional. The main national political parties are the Indian National Congress (INC) and the Bharatiya Janata Party (BJP). The National Democratic Alliance (NDA), which is a coalition of BJP and other parties, has been in power since 2014, after delivering a crushing defeat to the United Progressive Alliance (coalition of Congress and other parties) in the last general elections. The NDA inherited an economy battered by high inflation, poor economic conditions and rampant corruption, and have made impressive progress in reinstating investors’ faith in India. The government’s economic reform agenda is ambitious but, while there have been some successes, progress has not been as rapid as might have been hoped.

Data & Forecasts

Key Indicators: India

Percentage changes on a year earlier unless otherwise stated

	Industrial production	Bank Credit	CPI Industrial	CPI Combined rural+urban	PPI	Exports (US$)	Imports (US$)	Trade balance $ bn
Aug	4.8	6.0	2.5	3.3	3.2	8.1	23.1	-12.7
Sep	4.1	6.5	2.9	3.3	3.1	25.5	19.2	-9.4
Oct	1.8	6.8	3.2	3.6	3.7	-2.0	8.7	-14.6
Nov	8.5	9.3	4.0	4.9	4.0	31.0	23.7	-15.1
Dec	7.3	10.3	4.0	5.2	3.6	15.7	21.5	-14.2
2018								
Jan	7.5	10.2	5.1	5.1	3.0	13.6	26.2	-15.3
Feb	6.9	10.2	4.7	4.4	2.7	5.3	10.6	-11.8
Mar	5.3	14.4	4.4	4.3	2.7	-0.5	7.1	-13.6
Apr	4.5	12.3	4.0	4.6	3.6	4.3	2.0	-14.0
May	3.9	13.0	4.0	4.9	4.8	21.1	14.6	-14.9
Jun	6.9	12.8	3.9	4.9	5.7	18.7	20.9	-17.5
Jul	6.6	12.4	5.6	4.2	5.1	16.4	28.0	-17.8
Aug	-	14.4	-	3.7	4.5	19.3	25.4	-17.4

Financial Indicators: India

Percentage changes on a year earlier unless otherwise stated

	Repo rate %	Money Supply M3 % p.a	Exchange rate Rup/€ avg.	Exchange rate Rup/$ avg.	Exchange rate index Trade based	Share price End per.	Reserves $bn	Reserves cover months
Aug	6.00	6.7	75.6	64.0	77.5	31730	370.8	10.3
Sep	6.00	5.6	76.8	64.4	76.5	31284	375.2	9.9
Oct	6.00	6.1	76.5	65.1	76.3	33213	373.8	10.0
Nov	6.00	8.4	76.1	64.9	76.8	33149	376.3	9.1
Dec	6.00	10.0	76.0	64.2	77.2	34057	385.1	9.2
2018								
Jan	6.00	10.4	77.4	63.6	76.8	35965	393.7	9.7
Feb	6.00	9.9	79.6	64.4	75.6	34184	395.5	10.4
Mar	6.00	9.2	80.2	65.0	74.9	32969	399.1	9.3
Apr	6.00	10.2	80.7	65.6	74.6	35160	395.3	10.0
May	6.00	10.4	79.8	67.5	73.7	35322	387.6	8.8
Jun	6.25	9.8	79.2	67.8	74.1	35423	380.7	8.5
Jul	6.25	9.9	80.3	68.7	73.9	37607	379.0	8.7
Aug	6.50	10.8	80.4	69.5	73.4	38645	376.0	8.3

INDIA — **TABLE 1 SUMMARY ITEMS**
Annual Percentage Changes, Unless Otherwise Specified

	CONSUMERS EXPENDITURE (C)	TOTAL FINAL EXPENDITURE (TFE)	TOTAL FIXED INVESTENT (IF)	REAL GDP (GDP)	INDUSTRIAL PRODUCTION (IP)	PRIVATE SECTOR BANK CREDIT (BPRIV)	GOVERNMENT BANK BORROWING (BGOV)	WHOLE ECONOMY PRODUCT-IVITY (GDP/ET)	COMPETIT-IVENESS (2008=100) (WCR)	PRODUCER PRICES (PPI)	CONSUMER PRICES (CPI)
YEARS BEGINNING Q1											
2016	8.34	6.70	10.54	7.93	5.21	9.84	13.39	5.90	95.58	-0.05	4.95
2017	5.93	7.15	5.44	6.25	3.54	7.36	9.51	6.16	103.12	3.44	3.33
2018	7.53	8.00	10.70	7.64	5.10	12.12	11.75	6.50	101.51	4.40	4.82
2019	7.26	6.80	5.28	7.18	5.57	9.28	10.21	6.84	102.13	6.38	5.09
2020	7.37	6.63	7.83	6.98	6.04	7.77	9.75	7.19	108.63	5.06	5.39
2021	6.85	6.56	7.99	6.82	6.46	10.58	9.23	7.54	110.80	5.53	5.45
2016											
Q1	8.22	6.75	7.24	9.27	5.44	11.44	5.4	7.38	92.91	-2.27	5.26
Q2	8.27	6.62	15.91	8.10	7.13	10.21	6.1	6.22	93.71	-0.69	5.67
Q3	7.47	6.08	10.52	7.62	4.49	11.38	7.9	5.73	96.65	1.03	5.16
Q4	9.31	7.35	8.71	6.76	3.83	6.52	33.2	4.88	99.06	1.73	3.75
2017											
Q1	4.22	6.18	5.95	6.09	3.07	6.76	15.4	4.20	100.72	4.96	3.57
Q2	6.94	7.84	0.82	5.59	1.89	6.20	17.6	3.70	104.31	2.33	2.20
Q3	6.82	6.98	6.05	6.32	3.33	6.36	16.4	4.42	103.56	2.75	2.98
Q4	5.86	7.62	9.06	6.97	5.87	10.11	-6.6	5.05	103.89	3.76	4.55
2018											
Q1	6.69	8.27	14.42	7.74	6.52	10.70	9.4	5.80	103.65	2.83	4.59
Q2	8.60	9.03	10.03	8.20	5.23	12.17	14.1	6.23	102.04	4.72	4.79
Q3	7.25	7.38	9.99	7.43	4.54	13.39	11.7	5.47	101.67	5.12	4.81
Q4	7.61	7.36	8.46	7.20	4.09	12.18	11.7	5.24	98.69	4.90	5.06
2019											
Q1	7.66	7.19	3.99	7.17	4.34	9.13	9.8	5.21	98.93	3.49	5.15
Q2	6.40	5.33	6.45	6.78	6.11	8.64	10.8	4.82	101.26	5.31	5.12
Q3	7.37	7.62	5.90	7.35	6.52	9.18	10.3	5.38	103.44	7.72	5.06
Q4	7.56	7.06	4.86	7.39	5.38	10.14	9.9	5.42	104.90	8.83	5.02
2020											
Q1	8.12	6.58	7.86	6.97	5.37	7.71	10.0	5.02	106.27	7.66	5.22
Q2	7.28	6.62	7.84	7.00	5.89	6.23	9.6	5.05	108.68	5.11	5.39
Q3	7.10	6.64	7.82	6.95	6.40	7.57	9.9	5.02	109.61	3.64	5.46
Q4	7.01	6.67	7.81	6.99	6.49	9.46	9.6	5.07	109.97	4.05	5.48
2021											
Q1	6.95	6.54	7.89	6.80	6.48	10.28	9.3	4.90	109.91	4.66	5.49
Q2	6.89	6.58	7.96	6.86	6.47	10.08	9.5	4.98	110.70	5.53	5.48
Q3	6.82	6.56	8.02	6.83	6.46	10.63	9.2	4.95	111.20	5.64	5.44
Q4	6.75	6.56	8.07	6.80	6.45	11.25	8.9	4.95	111.40	6.23	5.38

INDIA — **TABLE 2 SUMMARY ITEMS**

	TRADE BALANCE (US$ BN) (BVI$/1000)	CURRENT ACCOUNT (US$ BN) (BCU$/1000)	CURRENT ACCOUNT (% OF GDP) (BCU%)	GOVERNMENT FINANCIAL BALANCE (RUPEES BN) (GB)	GOVERNMENT FINANCIAL BALANCE (% OF GDP) (GB*100 /GDP!)	SHORT-TERM INTEREST RATE (RSH)	SPREAD OVER US SHORT_TERM RATE (RSH-RSH US)	REAL SHORT-TERM INTEREST RATE (Note 1)	EQUILIBRIUM EXCHANGE RATE PER US DOLLAR (RXEQUIL)	EXCHANGE RATE PER US DOLLAR (RXD)
2016	-107.5	-12.1	-0.5	-5454.2	-3.7	7.2	6.4	2.2	64.0	67.2
2017	-148.1	-39.0	-1.6	-6547.7	-4.0	6.5	5.2	3.1	66.2	65.1
2018	-183.9	-64.0	-2.4	-5642.2	-3.1	7.3	4.9	2.4	67.7	68.2
2019	-211.9	-78.4	-2.6	-7215.5	-3.4	7.6	4.6	2.5	68.7	69.9
2020	-227.8	-72.0	-2.0	-7570.7	-3.2	7.4	4.1	2.0	69.5	66.9
2021	-240.5	-70.8	-1.8	-7503.4	-2.8	7.1	3.7	1.6	70.2	67.8
2016										
Q1	-24.8	-0.3	-0.1	-441.7	-1.2	8.0	7.3	2.7	63.1	67.5
Q2	-23.8	-0.4	-0.1	-3263.2	-9.1	7.2	6.6	1.6	63.7	66.9
Q3	-25.6	-3.4	-0.6	-1216.7	-3.3	6.9	6.2	1.8	64.3	67.0
Q4	-33.3	-8.0	-1.4	-532.6	-1.4	6.5	5.6	2.8	64.9	67.5
2017										
Q1	-29.7	-3.4	-0.6	-338.2	-0.8	6.6	5.5	3.0	65.4	67.0
Q2	-41.9	-15.0	-2.5	-4416.9	-11.3	6.5	5.3	4.3	66.0	64.5
Q3	-32.5	-6.9	-1.1	-572.5	-1.4	6.4	5.0	3.4	66.5	64.3
Q4	-44.0	-13.7	-2.1	-1220.1	-2.9	6.4	4.9	1.8	67.0	64.7
2018										
Q1	-41.6	-13.0	-1.9	292.9	0.6	7.1	5.1	2.5	67.3	64.3
Q2	-45.7	-15.8	-2.4	-4290.3	-9.7	7.2	4.9	2.5	67.5	67.0
Q3	-43.8	-13.9	-2.1	-306.8	-0.7	7.3	4.8	2.5	67.8	69.4
Q4	-52.7	-21.2	-3.2	-1337.9	-2.8	7.4	4.7	2.4	68.1	72.0
2019										
Q1	-42.2	-11.4	-1.6	325.2	0.6	7.5	4.7	2.4	68.3	71.5
Q2	-56.1	-23.4	-3.3	-5771.3	-11.6	7.7	4.6	2.5	68.6	70.5
Q3	-55.9	-22.2	-2.9	-253.6	-0.5	7.7	4.6	2.7	68.8	69.3
Q4	-57.7	-21.4	-2.6	-1515.8	-2.7	7.7	4.5	2.6	69.0	68.4
2020										
Q1	-43.7	-7.5	-0.9	283.5	0.5	7.6	4.4	2.4	69.2	67.4
Q2	-59.1	-20.6	-2.4	-6056.9	-10.8	7.5	4.2	2.1	69.4	66.6
Q3	-60.5	-21.2	-2.4	-443.6	-0.8	7.4	4.0	1.9	69.6	66.7
Q4	-64.4	-22.7	-2.4	-1353.7	-2.2	7.3	3.9	1.8	69.8	66.9
2021										
Q1	-47.5	-7.3	-0.8	619.0	0.9	7.2	3.8	1.7	69.9	67.3
Q2	-62.8	-20.9	-2.2	-6703.8	-10.6	7.1	3.8	1.6	70.1	67.6
Q3	-63.6	-21.0	-2.2	-187.8	-0.3	7.1	3.7	1.6	70.3	68.0
Q4	-66.6	-21.6	-2.1	-1230.8	-1.7	7.0	3.6	1.6	70.5	68.3

Note 1 : REAL INTEREST RATES = Nominal interest rate (RSH or RLG) - % change in CPI

Long-Term Forecast for India

Annual percentage changes unless otherwise specified

	2007-2016	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-2026
GDP	7.3	6.1	7.0	7.6	7.9	6.2	7.6	7.2	7.0	6.8	6.5	6.4	6.3	6.2	6.1	6.7
Consumption	7.7	6.6	6.5	7.3	8.3	5.9	7.5	7.3	7.4	6.9	6.6	6.5	6.4	6.3	6.2	6.7
Investment	7.7	2.5	1.9	3.9	10.5	5.4	10.7	5.3	7.8	8.0	7.8	7.4	7.2	6.9	6.6	7.3
Government Consumption	6.9	2.6	5.3	3.7	9.0	11.7	11.0	7.5	8.7	7.6	6.8	6.1	5.9	5.8	5.8	7.7
Exports of Goods and Services	6.5	4.2	6.6	-6.2	2.5	6.5	8.2	6.6	6.0	6.1	6.1	5.8	5.6	5.4	5.4	6.2
Imports of Goods and Services	6.1	-6.3	0.0	-5.9	1.3	11.4	9.6	5.2	5.1	5.4	5.6	5.8	5.6	5.5	5.5	6.4
Unemployment (%)	2.3	2.4	2.8	3.0	3.3	3.4	3.5	3.5	3.6	3.7	3.8	3.9	4.0	4.0	4.1	3.7
Consumer Prices, average	7.9	10.1	6.4	4.9	4.9	3.3	4.8	5.1	5.4	5.4	5.2	4.8	4.4	4.0	3.8	4.6
Consumer Prices, EOP	7.7	10.6	4.1	5.3	3.7	4.6	5.1	5.0	5.5	5.4	5.0	4.7	4.3	3.9	3.8	4.7
Current Balance (% of GDP)	-2.3	-2.6	-1.4	-1.1	-0.5	-1.6	-2.4	-2.6	-2.0	-1.8	-1.6	-1.5	-1.4	-1.5	-1.5	-1.8
Exchange Rate (vs US$), average	53.0	58.6	61.0	64.1	67.2	65.1	68.2	69.9	66.9	67.8	69.2	70.6	71.8	72.9	73.9	69.6
Exchange Rate (vs US$), EOP	54.7	61.9	63.3	66.3	68.0	63.9	72.0	68.2	67.1	68.5	69.9	71.2	72.3	73.4	74.4	70.1
General Government Balance (% of GDP)	-4.8	-5.5	-4.2	-3.4	-3.7	-4.0	-3.1	-3.4	-3.2	-2.8	-2.7	-2.5	-2.4	-2.3	-2.3	-2.9
Short Term Interest rate	8.34	9.32	9.06	8.00	7.17	6.47	7.27	7.64	7.43	7.09	6.85	6.62	6.43	6.27	6.16	6.82
Working Population	1.8	1.8	1.7	1.6	1.6	1.5	1.5	1.4	1.4	1.3	1.3	1.2	1.2	1.1	1.0	1.3
Labour Supply	1.2	2.0	2.0	2.0	2.0	2.0	1.9	1.9	1.9	1.9	1.9	1.8	1.7	1.7	1.6	1.8
Participation Ratio (%)	60.6	59.3	59.5	59.6	59.8	60.1	60.4	60.7	61.0	61.3	61.6	62.0	62.3	62.7	63.0	61.5
Labour productivity	6.2	4.5	5.2	5.8	6.0	4.3	5.7	5.2	5.0	4.9	4.7	4.7	4.6	4.5	4.5	4.8
Employment	1.1	1.6	1.6	1.7	1.8	1.8	1.9	1.9	1.8	1.8	1.7	1.7	1.6	1.6	1.6	1.7
Output gap (% of potential GDP)	-1.2	-2.0	-2.2	-1.7	-0.6	-1.0	-0.6	-0.2	0.1	0.2	0.2	0.2	0.1	0.1	0.0	-0.1

Country Economic Forecast | India

Key Facts

Politics

Chief of state: President Ram Nath KOVIND
Head of government: Prime Minister Narendra MODI
Political system: Federal republic
Date of next presidential election: 2022
Date of next legislative election: 2019
Currency: Indian rupee (INR)

Source : CIA Factbook

Location : Southern Asia, bordering the Arabian Sea and the Bay of Bengal, between Burma and Pakistan (CIA Factbook)

Long-term economic & social development

	1980	1990	2000	2016*
GDP per capita (US$)	264	364	439	1717
Inflation (%)	11.4	9.0	4.0	4.9
Population (mn)	697	870	1055	1326
Urban population (% of total)	23.1	25.6	27.7	33.2
Life expectancy (years)	53.8	57.9	62.6	68.6

Source : Oxford Economics & World Bank

Structure of GDP by output

	2016
Agriculture	16.3%
Industry	26.6%
Services	57.1%

Source : World Bank

* 2016 or latest available year

Long-term sovereign credit ratings & outlook

	Foreign currency	Local currency
Fitch	BBB- (Stable)	BBB- (Stable)
Moody's	Baa2 (Stable)	Baa2 (Stable)
S&P	BBB- (Stable)	BBB- (Stable)

Corruption perceptions index 2017

	Score
Developed economies (average)	75.0
Emerging economies (average)	38.1
India	40.0
Emerging Asia	38.3

Source: Transparency International

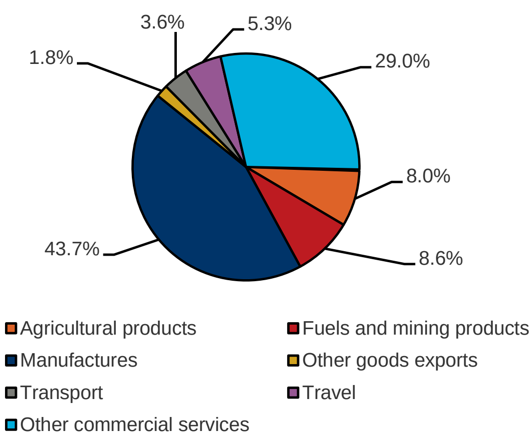
Scoring system 100 = highly clean, 0 = highly corrupt

Structural economic indicators

	1990	1995	2000	2016*
Current account (US$ billion)	-7.4	-5.9	-4.9	-12.1
Trade balance (US$ billion)	-7.7	-10.7	-16.6	-107.5
FDI (US$ billion)	0.2	2.0	3.1	39.4
Debt service (US$ billion)	7.7	13.1	10.7	77.1
Debt service (% of exports)	33.0	33.3	17.1	17.9
External debt (% of GDP)	26.4	26.4	21.9	21.6
Oil production (000 bpd)	682	727	668	734
Oil consumption (000 bpd)	1169	1574	2126	4142

Source : Oxford Economics / World Bank / EIA

Composition of goods & services exports 2016



Source : WTO

Destination of goods' exports 2017

European Union	17.3%
United States	15.6%
United Arab Emirates	10.1%
Hong Kong	5.1%
Other	51.9%

Source : IMF DOTS

OXFORD ECONOMICS

Overall risk for India: 5.2/10

Factors affecting risk scores: India

Overall risk: 5.2/10

	2016	2017	2018	2019	2020	2021	2022
Market demand rating: 6.0/10							
Domestic demand, % y/y	7.6	7.3	8.0	6.8	6.7	6.7	6.4
Government balance, % of GDP	-3.7	-4.1	-3.1	-3.5	-3.3	-2.9	-2.8
Gross government debt, % of GDP	47.0	46.1	46.4	45.3	43.6	42.5	41.0
Policy interest rate, %	6.50	6.15	6.24	6.81	7.22	7.25	7.16
Domestic credit, % of GDP	75.0	73.6	75.6	78.9	82.1	85.2	88.2
Fixed investment, % of GDP	28.6	28.2	29.3	29.2	29.4	29.7	30.1
Output gap, % of GDP	-0.6	-1.0	-0.6	-0.2	0.1	0.2	0.2
Real GDP per capita, 2010 US$	1786	1876	1997	2118	2242	2371	2500
Market cost rating: 5.0/10							
Nominal unit wage costs	135.6	143.2	151.5	162.4	174.4	186.4	198.0
Real fuel imports % total imports	-	-	-	-	-	-	-
Energy use per unit of GDPPPP	112.0	109.7	107.4	105.0	102.7	100.4	98.1
Exchange rate, average, LCU per US$	67.2	65.1	68.2	69.9	66.9	67.8	69.2
Output gap, % of GDP	-0.6	-1.0	-0.6	-0.2	0.1	0.2	0.2
Unemployment rate, %	3.3	3.4	3.5	3.5	3.6	3.7	3.8
Real GDP per capita, 2010 US$	1786	1876	1997	2118	2242	2371	2500
Exchange rate rating: 5.0/10							
Exchange rate, average, LCU per US$	67.2	65.1	68.2	69.9	66.9	67.8	69.2
Exchange rate, avg, PPP, LCU per US$	17.1	17.3	17.6	18.4	19.0	19.7	20.4
Current account of BOP, % of GDP	-0.5	-1.6	-2.4	-2.6	-2.0	-1.8	-1.6
External debt, % of GDP	21.6	19.6	20.0	19.0	17.3	16.5	16.0
Policy interest rate, %	6.50	6.15	6.24	6.81	7.22	7.25	7.16
FX reserves, months of imports	10.0	9.6	8.3	8.4	8.6	9.0	9.3
Sovereign credit rating: 4.0/10							
GDP, real, % y/y	7.9	6.2	7.6	7.2	7.0	6.8	6.5
GDP per capita, PPP, US$	5966	6266	6671	7073	7488	7918	8352
Government balance, % of GDP	-3.7	-4.1	-3.1	-3.5	-3.3	-2.9	-2.8
Gross government debt % of GDP	47.0	46.1	46.4	45.3	43.6	42.5	41.0
Trade credit rating: 6.0/10							
GDP, real, % y/y	7.9	6.2	7.6	7.2	7.0	6.8	6.5
External debt, % of GDP	21.6	19.6	20.0	19.0	17.3	16.5	16.0
GDP per capita, PPP, US$	5966	6266	6671	7073	7488	7918	8352