

India: Brief Profile

September 2022

Domestic Economy

- ❖ The Indian economy grew by 8.8% in 2021, after undergoing a contraction of 6.7% in 2020 on account of the COVID-19 pandemic.
- ❖ In absolute terms, GDP of India stood at US\$ 3.2 trillion in 2021, with a per capita GDP of US\$ 2254.3.
- ❖ The average consumer price inflation decelerated to an average of 5.1% in 2021, from 6.6% in 2020 as a result of lower food prices due to a good harvest.
- ❖ Services sector dominated the economy, accounting for 53.6% of India's GDP in 2020 (est), followed by industry (28.3% of GDP) and agriculture sector (18.1%).

BASIC FACTS

Land area: 3,287,263 sq km

Population: 1.4 bn (2021)

Language: Hindi, English and various other regional languages

Currency: Indian rupee

GDP: US\$ 3.2 tn (2021)

Exports: US\$ 402.4 bn (2021)

Imports: US\$ 579.1 bn (2021)

Sovereign Rating: BBB- (S&P's)

Trade and Current Account Balance

- ❖ India's exports picked up by 42.9% to US\$ 402.4 billion in 2021, as compared to US\$ 281.5 billion recorded in the preceding year, owing to a pickup in global demand.
- ❖ India's imports also picked up by 53.6% to US\$ 579.1 billion in 2021, compared to US\$ 377 billion recorded in 2020, largely caused by the increasing prices of crude oil.
- ❖ Accordingly, India's trade deficit is expected to widen to an estimated US\$ 176.7 billion in 2021, as compared to US\$ 95.4 billion recorded a year ago.
- ❖ Mineral fuels, oils and distillation products were India's principal exports, accounting for 14.3% of total exports in 2021. Other major items of exports in the same year included pearls, precious stones and metals (9.7%), machinery and mechanical appliances (6.1%), iron and steel (5.4%), organic chemicals (5.4%), pharmaceutical products (4.9%), and vehicles other than railway, tramway (4.8%).

- ❖ India's major import item was also mineral fuels, oils and distillation products, which accounted for 29.9% of total imports in 2021. Other important items of imports in the same year were pearls precious stones and metals (15.5%), electrical and electronic equipment (9.9%), machinery and mechanical appliance (8.5%), and organic chemicals (4.8%).
- ❖ USA was the major export destination for India in 2021, accounting for 18.1% of India's total exports, followed by the UAE (6.4%), China (5.8%), Bangladesh (3.6%), Hong Kong (2.9%), and Singapore (2.7%).
- ❖ China was the leading source of India's imports, accounting for 15.3% of total Indian imports in 2021, followed by UAE with a share of 7.6%. Other important sources of India's imports in the same year were USA (7.3%), Switzerland (5.2%), and Saudi Arabia (4.9%).
- ❖ India's current-account deficit widened to 1.1% of GDP in 2021, from a positive trade surplus of 1.2% of GDP in 2020, driven by a larger merchandise trade deficit resulting from higher import prices and the strengthening of import demand.

Foreign Direct Investment, Foreign Exchange Reserves and Exchange Rate

- ❖ According to the World Investment Report 2022 of the UNCTAD, FDI inflows to India were seen at US\$ 44.7 billion in 2021, compared with US\$ 64.1 billion in 2020.
- ❖ According to the same source, FDI outflows from India increased to US\$ 15.5 billion in 2021 from US\$ 11.1 billion in 2020.
- ❖ The currency of India is Indian rupee (₹). The rupee appreciated to ₹ 73.9: US\$ 1 in 2021 from ₹ 74.1: US\$ 1 in 2020.
- ❖ India's foreign exchange reserves increased in 2021 to US\$ 633.6 billion in 2021, as compared to US\$ 585.8 billion in 2020. Reserves reflected an import cover of over 13 months.

Country Rating

- ❖ Standard & Poor's Sovereign Ratings as on September 2022 rated India as BBB- (adverse economic conditions or changing circumstances are likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.) with a 'stable' outlook in the same period.
- ❖ Dun and Bradstreet's (DB) Country Risk Indicator¹, September 2022 rated India was rated DB4c (moderate risk, significant uncertainty over expected returns), in the same rating, with an 'stable' trend.
- ❖ As of July 29, 2022, Moody's investor services² has rated India as Baa3 (rated as medium grade, with some speculative elements and moderate credit risk) with a stable outlook.
- ❖ According to Organization for Economic Co-operation and Development (OECD)³ country risk classifications of June 2022, India was placed at category '3'.

Macroeconomic Outlook

- ❖ The real GDP is expected to grow by 6.9% in 2022, decelerating from 8.8% in 2021. Growth is expected to benefit from the release of pent-up demand for contact-based services, especially in the context of recovered mobility. This has improved business confidence, while strong corporate earnings over the past few quarters will spur investment in sectors such as transport, information technology and pharmaceuticals.

¹ The DB risk indicator is divided into seven bands (DB1 to DB7, in the increasing order of risk). Each band is further divided into quartiles (a-d, ranging low to high), except the DB7 band.

² Moody's Investor services ranks countries in nine categories Aaa, Aa, A, Bbb, Bb, B, Ccc, Cc and C, according to increasing order of risk. Numerical modifiers 1, 2, and 3 are appended to each generic rating classification. The modifiers 1, 2 and 3, respectively indicate that the obligation ranks in the higher end, mid-range, and lower end of its generic rating category.

³ The OECD Country Risk Classification measures country credit risk, i.e. the likelihood that a country will service its external debt, on a scale of 0 -7 (where 0 is the lowest risk category and 7 is the highest).

- ❖ The consumer prices inflation is expected to increase by an average of 7% in 2022. Higher commodity prices in the wake of the Ukraine crisis will continue to be passed on to consumers as the recovery in demand becomes more broad-based. Increased demand for discretionary services such as travel and recreation is likely to create price pressures as well.
- ❖ Overall, the rupee is expected to depreciate in nominal terms against the US dollar by 6.5% on average in 2022, with the currency standing at ₹ 79.1:US\$1 in 2022.
- ❖ The deficit on the goods trade account is likely to have widened in 2022 on the back of high import prices, as well as an increase in volumes. The services and secondary income accounts will remain in surplus, as India continues to remain a leading exporter of IT services and continues to receive robust financial inflows from overseas Indians. However, this will not be enough to counter the large deficit on merchandise trade. As a result, the current account will remain in deficit in 2022, averaging the equivalent of 1.5% of GDP.

India: Economic Structure

| Economic Indicators | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 ^f | 2023 ^f |
|--|-------|-------|-------|-------|-------|-------------------|-------------------|
| GDP (US\$ tn) | 2.7 | 2.7 | 2.8 | 2.7 | 3.2 | 3.3 | 3.5 |
| Real GDP growth (%) | 6.7 | 6.5 | 3.8 | -6.7 | 8.8 | 6.9 | 5.1 |
| Consumer price inflation (%) | 3.3 | 3.9 | 3.7 | 6.6 | 5.1 | 7 | 5.2 |
| Population (bn) | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 |
| Merchandise exports fob (US\$ bn) | 304.1 | 332.1 | 331.3 | 281.5 | 402.4 | 500.0 | 582.3 |
| Merchandise imports fob (US\$ bn) | 452.2 | 518.8 | 488.9 | 377.0 | 579.1 | 696.3 | 776.5 |
| Current-account balance (US\$ bn) | -38.2 | -65.6 | -29.8 | 32.7 | -33.4 | -49.7 | -48.9 |
| Total International Reserves (US\$ bn) | 409.1 | 395.6 | 459.9 | 585.8 | 633.6 | 543.2 | 588.8 |
| Total external debt (US\$ bn) | 511.5 | 521.0 | 560.9 | 564.2 | 611.6 | 630.3 | 646.9 |
| Average exchange rate (Rs: US\$) | 65.12 | 68.39 | 70.42 | 74.1 | 73.92 | 79.05 | 82.4 |

Note: ^f Forecasts;

Source: EIU