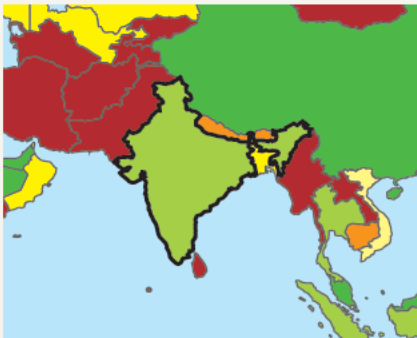


Basic facts (2021)

Population: 1 392 million

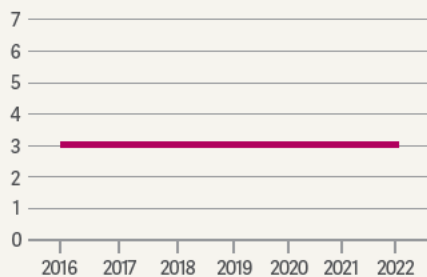
GDP, nominal: USD 3 041 billion

GDP/capita: USD 2 185



The country risk categories are arranged on a scale from 0 to 7. The lower the figure, the better the country's creditworthiness

Country classification history



Source: EKN

Strengths

- + Strong growth potential
- + Diversified economy with a large domestic market
- + Limited external debt and considerable international reserves
- + Sovereign debt is financed domestically, limiting foreign exchange and refinancing risks

Weaknesses

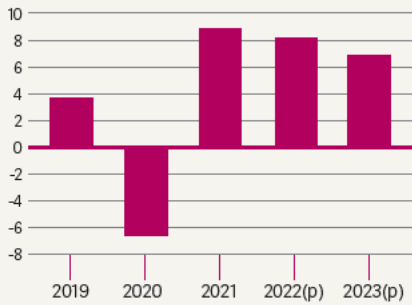
- Weak public finances, with persistently large deficits and high levels of debt
- Weaknesses in the financial sector
- Business climate deficiencies, and mixed payment experience
- Exposure to climate change and transition risks

The pandemic was preceded by slowing growth

India is the world's 6th largest economy (3rd in terms of purchasing power parity). With a growing population of some 1.4 billion inhabitants, 44% of whom are under the age of 25, India is on its way to overtaking China as the world's most populous country. The growth of the economy is primarily driven by domestic demand. Private consumption accounts for approx. 60% of GDP. Investment, which is dominated by the private sector, amounts to roughly 30% of GDP. On the production side, the service sector dominates (with about 55% of GDP) while agriculture (with about 15% of GDP) employs over 40% of the workforce. The importance of agriculture and a fossil-fuel heavy energy mix contribute to India being one of the more exposed countries to climate change and transition risks among the middle-income countries in Asia. The economy is relatively diversified, with good global market positions in fields such as information and communication technology, pharmaceuticals and steel. However, integration within global production flows is more limited. The manufacturing industry and export sectors are relatively small compared with the size of the economy (16% and 14% of GDP respectively), which, combined with limited natural resources, leads to structural trade deficits. Growing service exports and remittance inflows (about 8% and 3% of GDP respectively) contribute to cushioning the current account deficit, which is financed to a large degree by foreign direct investment (FDI). The international reserves have gradually strengthened to robust levels, covering more than 80% of the country's limited external debt (corresponding to about 20% of GDP). Increases in commodity prices and weaker external demand are expected to increase India's current account deficit in 2022-2023. The large diversified economy and robust external buffers provide resilience to external shocks.

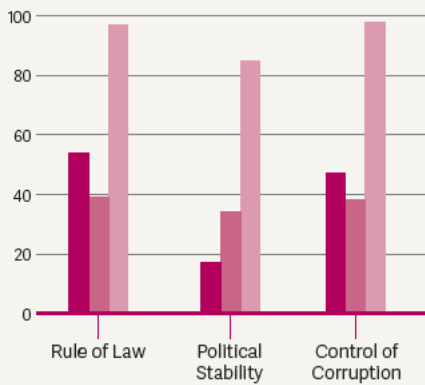
The landslide victory in the 2019 elections for Prime Minister Modi and his Bharatiya Janata Party (BJP) gave the BJP a second five-year term with its own majority in the lower house of Parliament. The victory consolidates a shift in India's political landscape, from decades of fragile coalition governments led by the secular Indian National Congress party to today's dominance of the BJP with its Hindu-nationalist but also more market-oriented agenda. With the vision to modernise India, growth-promoting reforms have been initiated since 2014. This includes a national system of taxing goods and services, which is expected to strengthen the tax base and enable investments in infrastructure. In addition, corporate taxes were reduced and inflation targets introduced as an anchor in monetary policy. Liberalisation of licensing and permitting processes, as well as liberalisation of restrictions on foreign ownership, capital inflows and the labour market are intended to attract capital to infrastructure development and manufacturing industries. Reforms have been initiated for the banking system and insolvency framework, plus a privatisation programme has commenced. These reform processes will inevitably take time, given India's history of government intervention in the form of a large public sector, regulations and subsidies, and in view of its complex political system with 35 states and territories. Despite the reform policies, the pace of economic growth started to slow even before the covid pandemic. Factors such as weaknesses in the financial sector along with weak growth in private investment, consumption and employment, may suggest that sluggish implementation is hampering the impact of the reform policies. In 2021, the IMF lowered its estimate of the

GDP growth
(fixed prices, % per annum)



Source: IMFWEQ, Macrobond

Business environment



■ India
■ South Asia
■ Sweden

Ranking from 0 (worst) to 100 (best)

Source: The World Bank, Macrobond

country's potential long-term growth rate from 7% to 6%, which nevertheless suggests that India remains one of the more rapidly growing economies in Asia.

Recovery continues, despite headwinds

After a deep GDP contraction of 6.6% in the fiscal year FY20 (ending March 2021), the growth rebound for FY21 landed at 8.7%. The recovery is fuelled by both government economic stimuluses as well as pent up consumption demand among consumers and investment needs with rising vaccination rates and dismantled pandemic lockdowns and restrictions. In FY22, growth is being bolstered by a continued expansionary fiscal policy with investments in infrastructure. However, as a net importer of energy and with limited fiscal room for manoeuvre, India is affected by commodity price-driven inflationary pressures and less favourable external factors. Current account deficits are expected to widen, which will also weaken the currency and somewhat reduce the country's substantial foreign exchange reserves. At the same time, rising inflationary pressures are accelerating the normalisation of a previously expansionary monetary policy. The combination could reduce purchasing power and raise costs for both input materials and financing, which is expected to dampen domestic demand. Thus, uncertainty surrounding the forecasts has increased, however notwithstanding potential pandemic impacts GDP growth for FY22 and FY23 is expected to around 6-7%.

The covid pandemic has amplified India's main macroeconomic weaknesses: government finances. After strong GDP growth helped stabilise the debt-to-GDP ratio for a long time, the ratio has risen sharply since 2017. Rising debt servicing costs, the need for investment in infrastructure, the often fragile finances of the country's individual states and the increased cost of subsidies for fertiliser, electricity and food in the current inflationary environment will make it more challenging to reduce public deficits. In the coming years, deficits are expected to remain higher than pre-pandemic levels and to decline only gradually. As a result, sovereign debt is expected to remain at an elevated level over the next 3-4 years, at around 85-90% of GDP. The risks associated with this are however mitigated by the fact that over 90% of the debt is domestic and relatively long-term. The State is also exposed to the weakness of the financial sector. This applies not only to the state-owned banks, which account for 60 per cent of the banking system's assets, but also to non-bank financial institutions (NBFIs), whose importance for lending and the provision of credit has grown. On the positive side, banking sector reforms continue. The non-performing loans on the books of the state-owned banks are to be partly pooled in a state-owned asset management company, followed by recapitalisations and privatisations. The challenge for India going forward is to return to a path of sustained higher economic growth driven by the private sector, which is also a prerequisite for strengthening the government finances.

Business environment

A series of reform processes with a focus on strengthening the business climate have been initiated over the past decade. The national system for taxing goods and services, the Central Goods and Services Tax (GST 2017), has the potential to facilitate intra-state trade. A reduction of corporate tax rates was

Swedish export to India

	MSEK
2021	11 517
2020	9 667
2019	12 667
2018	12 600
2017	11 432

Source: SCB

EKN:s exposure

	MSEK
Guarantees	3 105
Offers	1 277

implemented in 2019. Investments in infrastructure can contribute to reducing costs for energy, logistics, etc. Efforts to simplify the regulatory environment for SMEs and business start-ups are ongoing. The Modi Government's stance on free trade agreements has softened somewhat and negotiations on several FTAs have commenced. Regulatory relief for foreign direct investment has been introduced in sectors such as pharmaceuticals, insurance, construction and retail. The implementation may have shortcomings, but the reforms leave an imprint on indices that measure the business and investment climate. In the World Bank's Worldwide Governance Indicators (WGI), India's performance regarding financial institutions has strengthened and is now slightly above the regional average .

From EKN's credit risk perspective, significant aspects of the business environment are related to the degree of predictability, stability and quality both in regulations affecting debtors' business activities as well as the country's legal and institutional environment that affect the position of lenders and creditors. According to the WGI, the quality of the regulatory environment is close to the regional average . There are however examples of sweeping reforms that are enforced with little warning including the demonetisation of high-denomination notes in 2016, or the retroactive revaluations of tax burdens in the telecoms sector. Corruption remains another challenge. In Transparency International's 2021 Corruption Perceptions Index, India ranks 85th out of 180 countries. The legal framework follows the British model, and the judiciary is generally regarded as being independent. One significantly important reform is the modernisation of the framework for insolvency and bankruptcy proceedings. The legislation (Insolvency and Bankruptcy Code, IBC 2016) is intended to facilitate corporate restructuring/business reorganisations, manage non-performing loans, and strengthen the payment culture. A time-limited insolvency procedure, the outcome of which is reviewed in specialised courts, should lead to faster proceedings and higher levels of recovery. In practice, the process has often proved to take considerably more time than the legal deadlines stipulate. The courts are reportedly being overburdened plus a large percentage of court rulings are appealed. In addition, case law and practice is still being developed as the legislation gradually undergoes amendments. There are however indications that the timeframe has been shortened and the rate of recovery in business insolvencies and bankruptcies has started to increase. Notably, the framework appears more favourable to financial creditors than to suppliers, who, for example, are not allowed to participate in creditor committees established in insolvency proceedings. Furthermore, the rules from the Central Bank of India seem in practice to give domestic financial creditors certain advantages in the initial stages of restructuring negotiations. In sum, the IBC together with other reforms are expected to contribute to a positive trend going forward. However, EKN's experience so far is that litigation in the judicial system is a protracted process, the outcome uncertain, and the recovery rate is unlikely to be high – especially for foreign creditors or if there is no collateral in the transaction.

In the context of the covid pandemic, the central bank introduced a one-year freeze on insolvency proceedings until March 2021. In addition, a special mechanism for pandemic-related defaults was introduced, permitting a two-year extension of the remaining maturities of loans and sparing banks from recording the loans as non-performing. These regulatory relaxations may help to mitigate the impact of the pandemic on companies and banks. , At the same time the measures may entail that lingering residual effects may surface later

on. A relatively complex and changing regulatory framework surrounding foreign capital flows and currency is another challenge, despite liberalisations that have taken place in recent years. In an attempt to stimulate domestic manufacturing, there is also evidence of increasing protectionism in the form of local standards, overly complex import regulations and customs tariffs, which may hamper the possibilities for exports and integration into international supply chains.

EKN:s policy

EKN has placed India in country risk category 3 (out of 0 to 7) for more than a decade. Normal risk assessment applies to all debtor categories. This means that there are no predetermined limitations in the issuance of guarantees and that the transactions are assessed on their own merits without any specific requirements or preconditions.

EKN:s commitment and experience

EKN's exposure amount to SEK 4.4 billion, of which SEK 3.1 billion consists of guarantees. During the period 2017-2021, EKN issued guarantees corresponding to a total value of SEK 3 billion in 190 export transactions for approx. 30 export companies. The largest sectors in terms of amounts in the flow were telecoms, motor vehicles, construction, and mining equipment. Approximately 100 transactions with SME exporters accounted for about 15 per cent of the issuance of guarantees. Payment delays are relatively common. It can be advisable to include late interest provisions in the contract, considering that EKN's experience has been that the payment of credits provided by suppliers that have had no or a low late interest rate on past due amounts tends to be deprioritised. Of the guarantees issued during the period 2017-2021, almost 25 per cent of the transactions were late in payment. The payment delays lasted 75–85 days on average. Nevertheless, the claims rate in this cohort is low, only four cases of delay in payments has led to actual indemnifications (as per May 2022). Historically, EKN's payment experience has been mixed. In guarantees issued prior to 2016, EKN has settled claims during the period 2016–2021 in an amount totalling approximately SEK 360 million, relating to a handful of transactions. In these transactions, the recovery rate has been very low.