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INDIA
INVESTMENT HANDBOOK

September 2021

Krungsri Research

Executive Summary: The economy is exiting the pandemic-induced recession heading back to its pre-crisis growth path



India's economy is recovering from the pandemic-induced recession in 2020. Based on the latest quarterly growth figure in 2Q 2021 on a calendar basis (corresponding to 1Q of the country's fiscal year 2021-22 from April-June), the economy grows at a solid pace of 20.1% YoY from a low base last year following a small positive expansion of 1.6% YoY in 1Q 2021. On the back of accommodative macroeconomic policy mix at home, resilience of private consumption, and the global economic normalization, the economy is resuming its high growth trajectory. However, the recovery path remains uncertain due primarily to the shape of the pandemic outbreak and the progress of vaccination rollout as well as mounting inflationary pressure. Based on the IMF's projection, India's growth is expected to grow by 9.5% in FY 2022 (ending March 2022) and 8.5% in FY 2023.



Despite economic scars caused by the COVID-19 pandemic, the outlook for India's long-term growth remains favorable and the economy could expand by 5.0 – 6.0% p.a. which is slightly below the growth trajectory in the last decade (2010-19) of about 7.0 – 7.5 % p.a. The growth path will be boosted by its favorable demographic structure, foreign direct investment (FDI), structural reforms, and digitalization and modernization of the economy.

India in brief

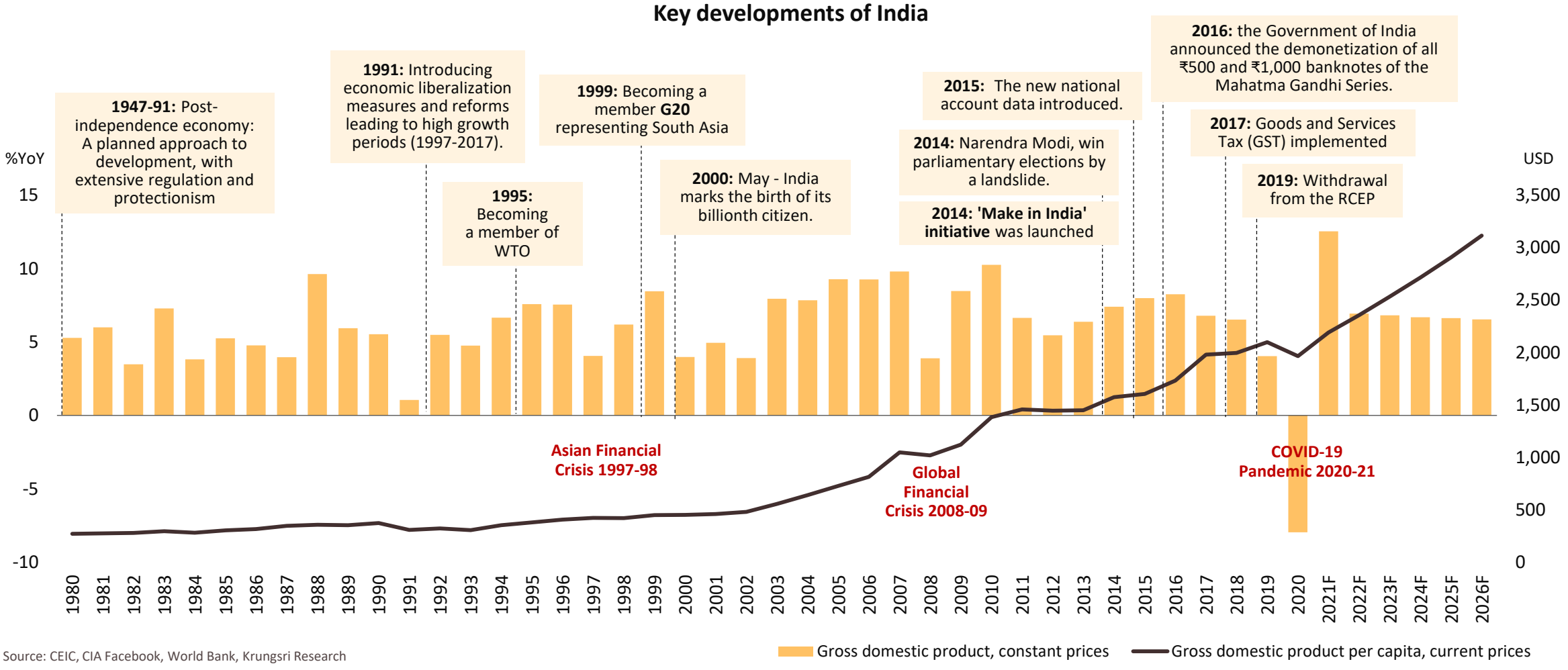


Official name	Republic of India
Form of State	Federal parliamentary republic
Economic system	Market economy
Land area (sq. km)	2,973,193 sq km
Local government	28 states and 8 union territories
Climate	Varies from tropical monsoon in south to temperate in north
Total population (person)	1,339,330,514 (July 2021 est.)
Urbanization	Urban population: 35.4% of total population (2021) Rate of urbanization: 2.33% annual rate of change (2020-25 est.)
GDP (2010 price)	USD2,706.6bn
GDP per capita (Nominal)	USD2,140.4
GDP - composition, by sector (2020)	Agriculture: 14.8% Industry: 29.6% Services: 55.6%
Agricultural products	Sugar cane, rice, wheat, buffalo milk, milk, potatoes, vegetables, bananas, maize, mangoes/guavas
Industries	Textiles, chemicals, food processing, steel, transportation equipment, cement, mining, petroleum, machinery, software, pharmaceuticals
Labor force	385,373.16 person th (2019)
Labor force - by occupation (2019)	Agriculture: % Industry & Construction: % Services: %
Major export partners	The US, the EU, China, UAE, Hong Kong, Singapore
Major import partner	China, the EU, the US, UAE, Saudi Arabia, Iraq
Main exports	Refined petroleum, diamonds, packaged medicines, jewelry, cars
Main imports	Crude petroleum, gold, coal, diamonds, natural gas
Major sources of FDI	The US, the UK, Mauritius, Singapore, Japan, the Netherlands

Source: CEIC, IMF World Economic Outlook Database (April 2021), CIA Factbook compiled by Krungsri Research

India has enjoyed periods of a sustained high growth of about 7% p.a. due to its economic liberalization towards a market-based economy started in the 1990s

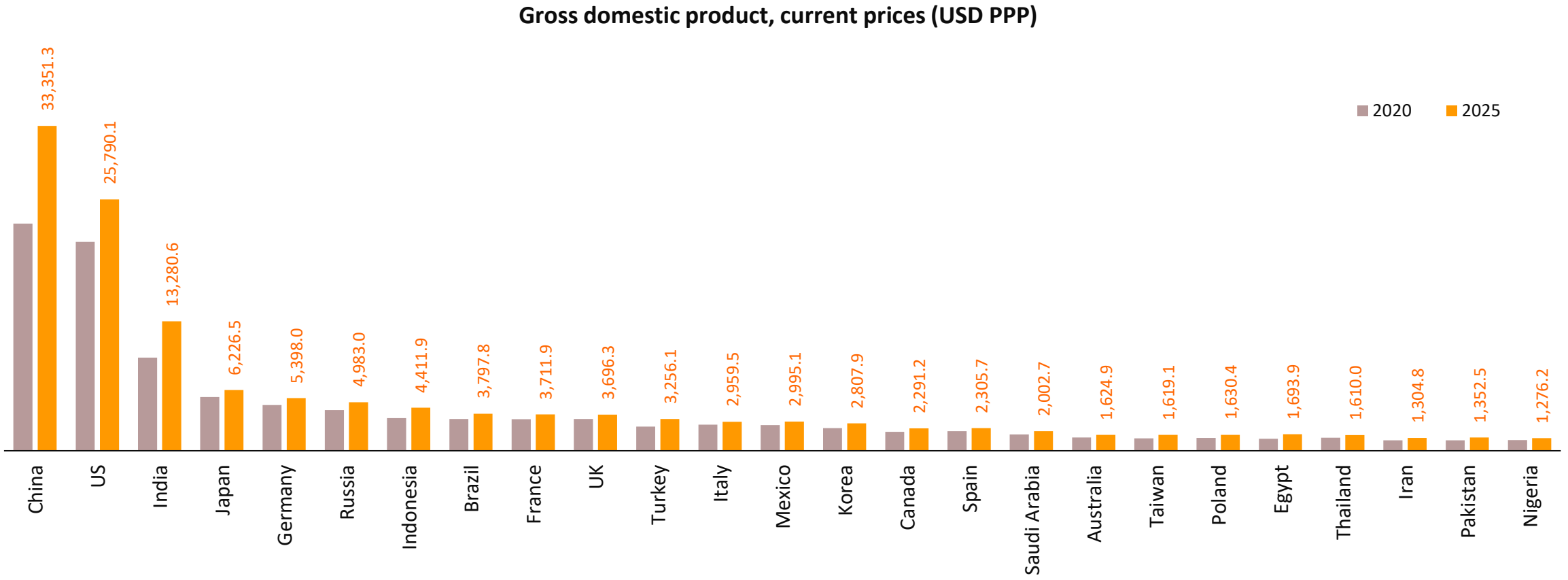
India has witnessed robust economic growth with average rate of 7% over the past three decades. So, the country has been among the fastest-growing economies in the world over the past few years. As a result, India has become the third largest economy in PPP term. Sustained high growth has been driven market-oriented reforms implemented in the 1990s. A series of structural reforms introduced under PM Modi is expected to boost India's growth over the horizon.



Source: CEIC, CIA Facebook, World Bank, Krungsri Research

By 2025, India aims to become *a USD5-trillion economy* through rapid structural reforms

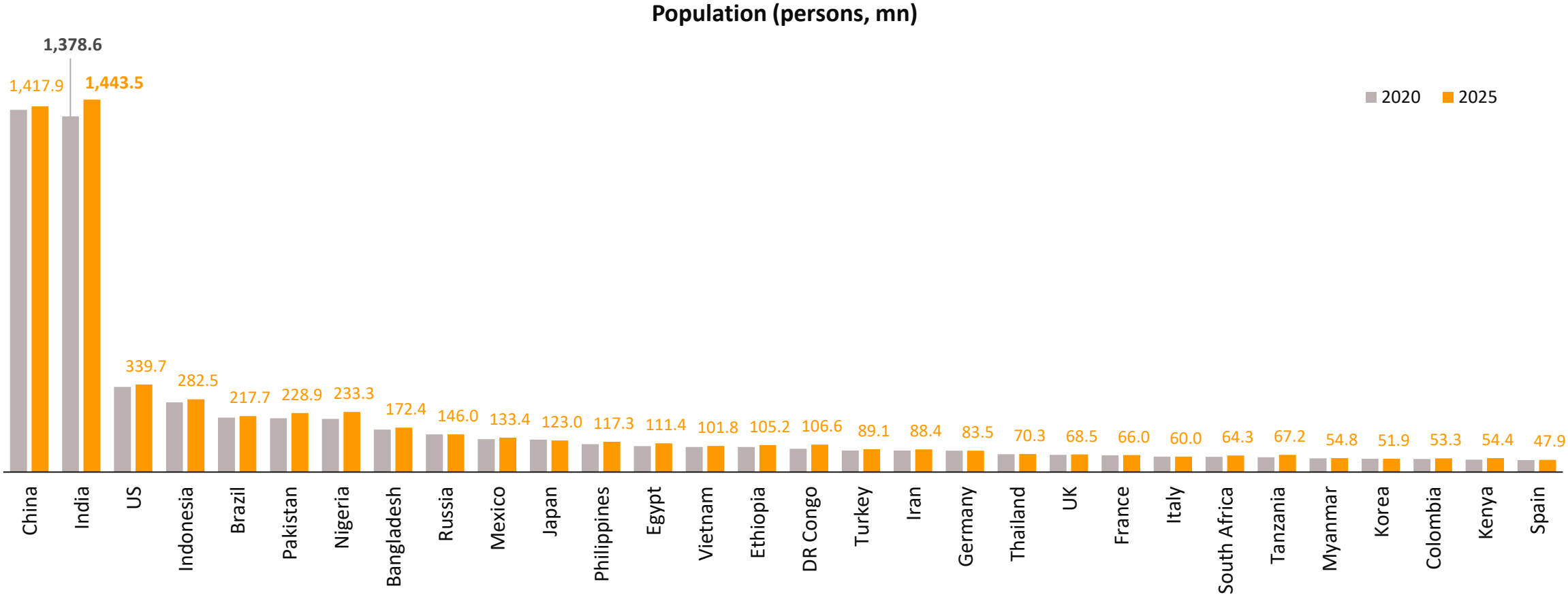
Currently, India is the world's largest democracy and the third largest economy in terms of purchasing power parity. Economic liberalization, including reduced controls on foreign trade and investment, began in the early 1990s, and long-term GDP growth has become more stable, diversified and resilient. Over the next few years, India is expected to grow strongly, with progress being buttressed by dynamic reforms in the macroeconomic, fiscal, tax and business environments such as introducing reforms on the Goods and Services Tax (GST), as well as by favorable demographics.



Source: CEIC

India is projected to be *the most populous country* with the population size of 1.44 billion by 2025

By 2025, India is expected to take over China as the most populous country with the population size of about 1.44 billion, from the size of about 1.38 billion in 2020. This comes with both opportunities and challenges. On the former, India will become a huge and dynamic market for businesses, and, on the latter, the authorities would need to generate ample job opportunities to absorb young workforce.

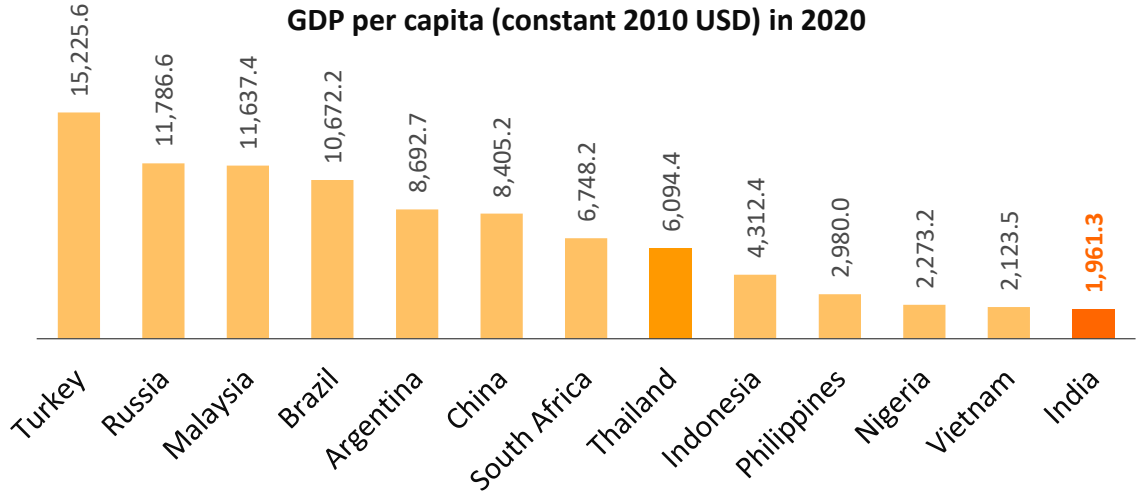


Source: CEIC, Krungsri Research

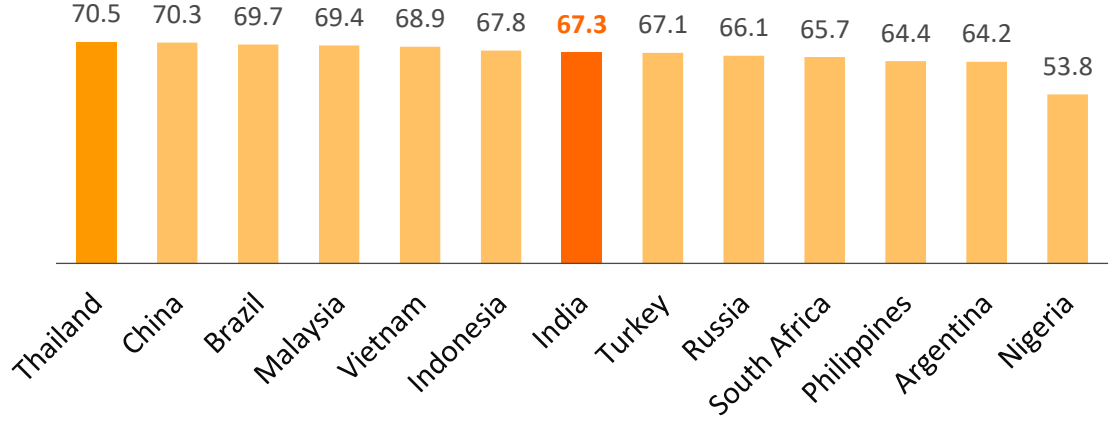
India has a *dynamic and sizeable domestic market* which largely remains untapped

On the back of sustained and high growth periods, India's GDP per capita (constant 2010) has increased to reach 1,961.3. Despite being the lowest among comparable global peers, the figure highlights a growing purchasing power of local consumers. In 2020, India has a labor force (population ages 15-64 years old) of 67.3% which is relatively high. However, the country's labor force participation rate is surprisingly low, at about 46% in 2020. In addition, India has a low level of female labor force and there is only about 20.3% of the female total labor force in 2019. Looking ahead, with different initiatives and structural reforms including promoting employment in the formal sector, labor force participation rates could rise on the horizon.

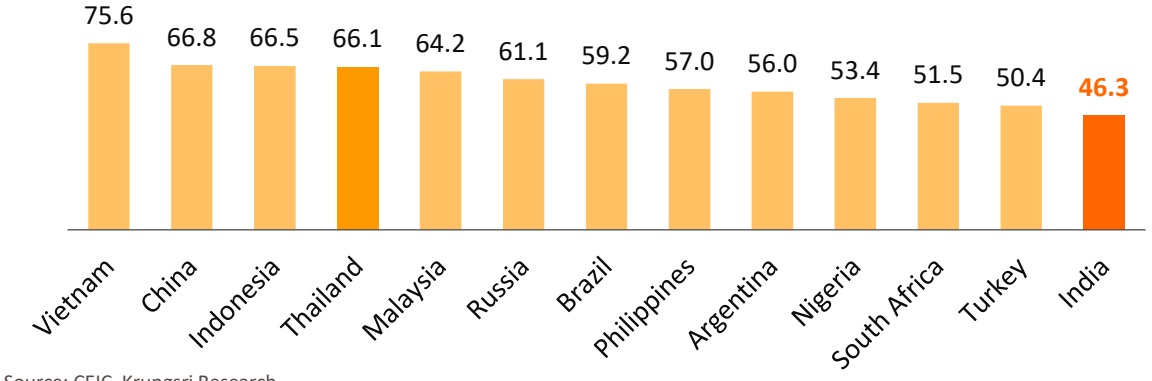
GDP per capita (constant 2010 USD) in 2020



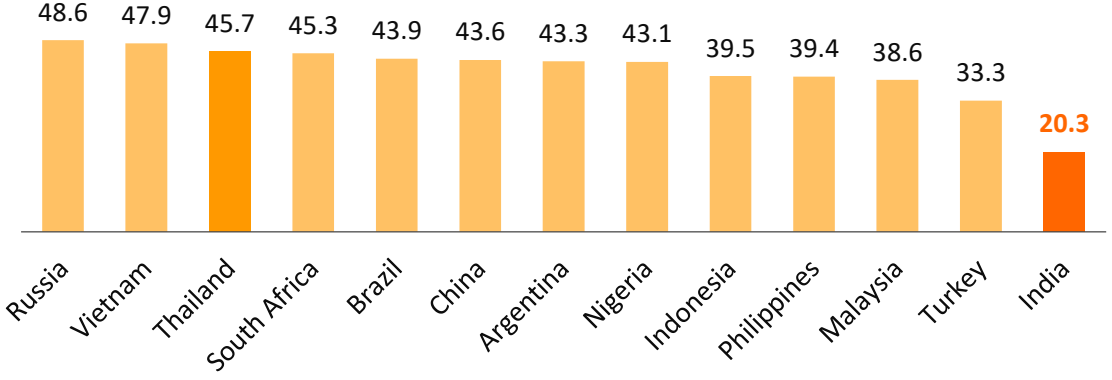
Population ages 15-64 (% of total population) in 2020



Labor force participation rate, total (% of total population ages 15+) in 2020



Labor force, female (% of total labor force) in 2019



Source: CEIC, Krungsri Research

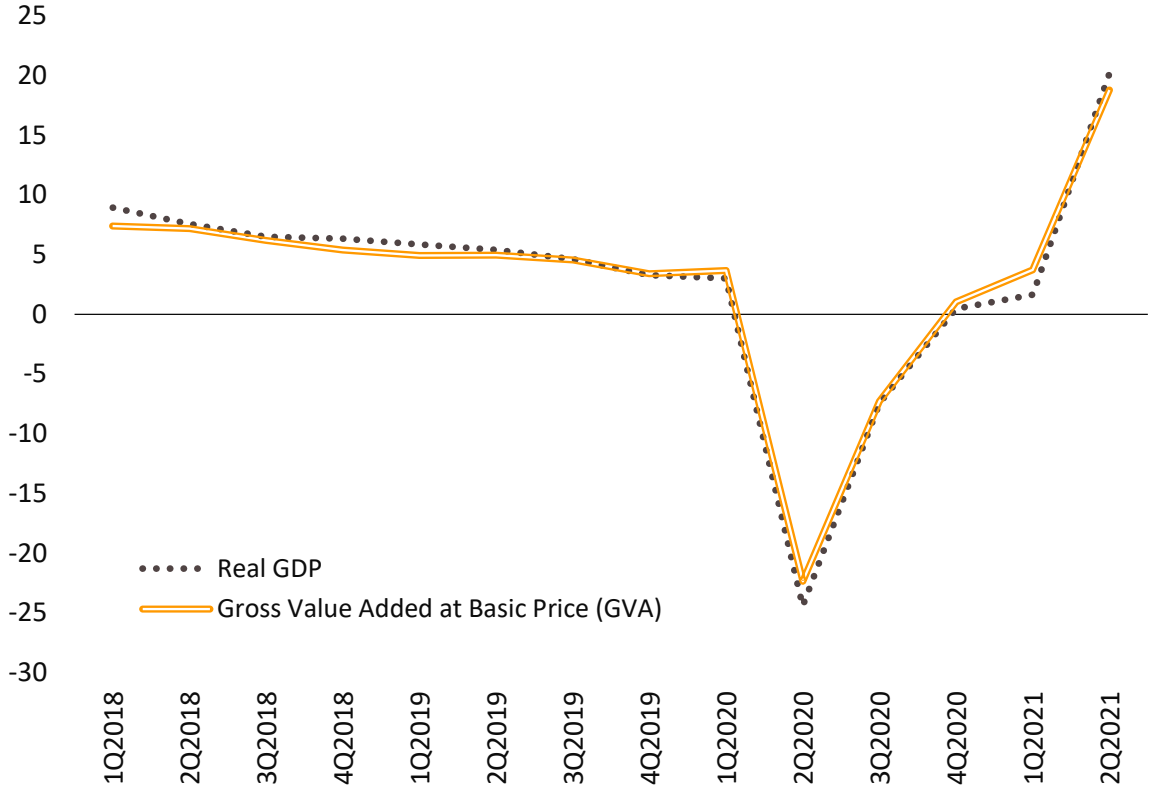
Recent Economic Developments



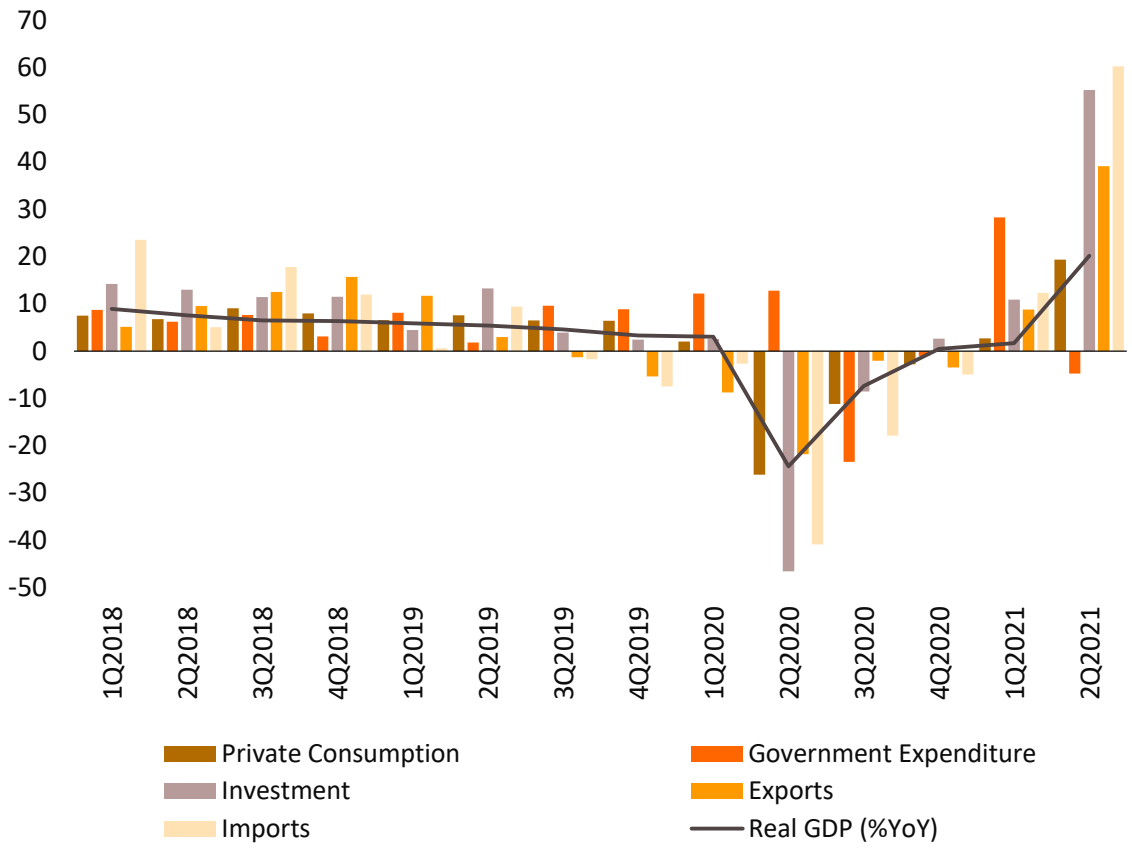
The economy hit hardest by the pandemic with the slump of -7.3% YoY in the FY2020/21 is on the recovery path

India's real GDP increased by 20.1 % YoY in 2Q2021 on a calendar basis (corresponding to 1Q of the current fiscal year 2021/22 in the April-June quarter), expanding further from 1Q 2020 growth of 1.6% YoY. For the whole fiscal year FY2021, ending in March 2021, the economy registered a contraction of 7.3% YoY. Based on the latest figure, despite of a low base in 2020, the overall economic activity has gained momentum to exit the pandemic-induced crisis in the FY2021/22. According to the IMF, India's real GDP is projected to grow by 9.5% in FY 2022 (starting in April 2021 and ending in March 2022) and 8.5% in FY 2023.

Real GDP Growth (% YoY)



Demand components of GDP (%YoY)

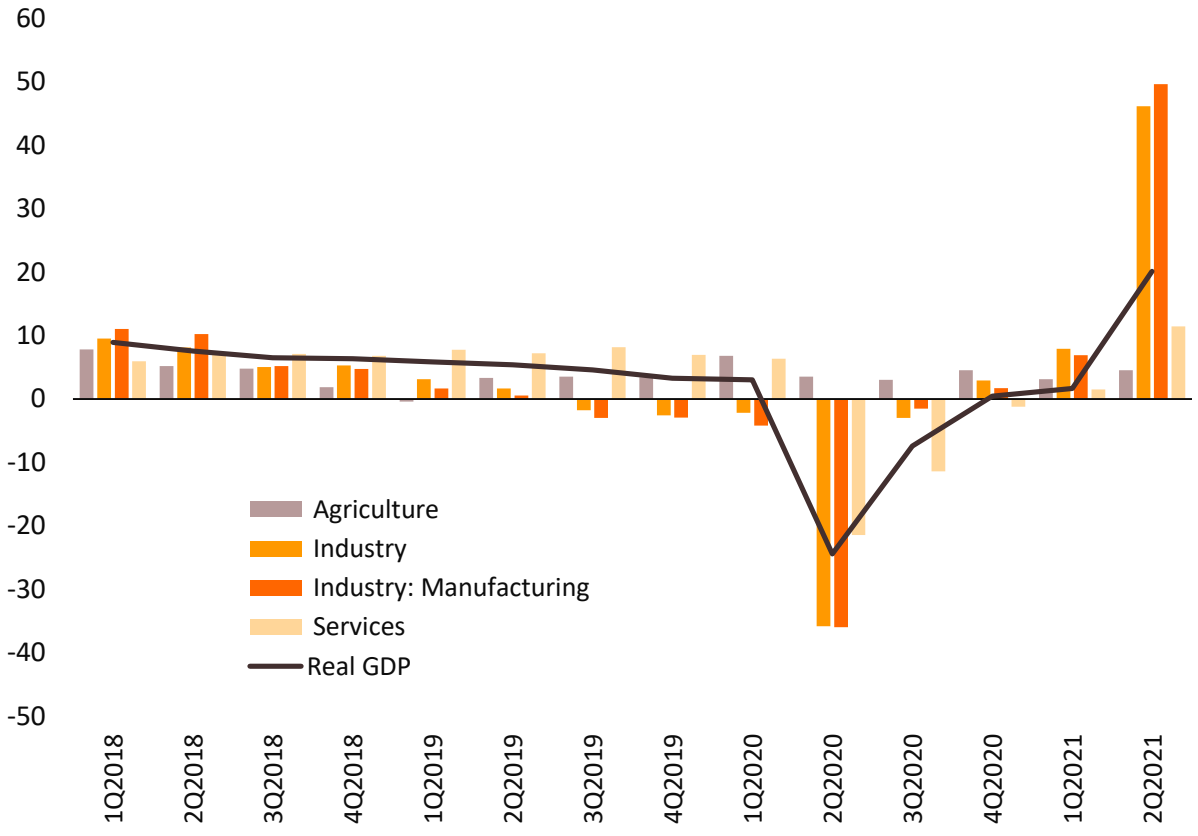


Source: CEIC

Due to the pandemic, *all economic sectors* have plunged into a negative growth territory, but recent figures released confirm the recovery

India's economy on the supply side showed a sign of strong rebound following the deep decline in 2Q2020. However, due to some restrictions on mobility and containment measures, the pickup of activities in the services sector remain fragile. On the structure of the supply side of the economy, agriculture, industry and services account for 14.8%, 29.6%, and 55.6%, respectively, in 2020.

Supply Components of GDP (%YoY



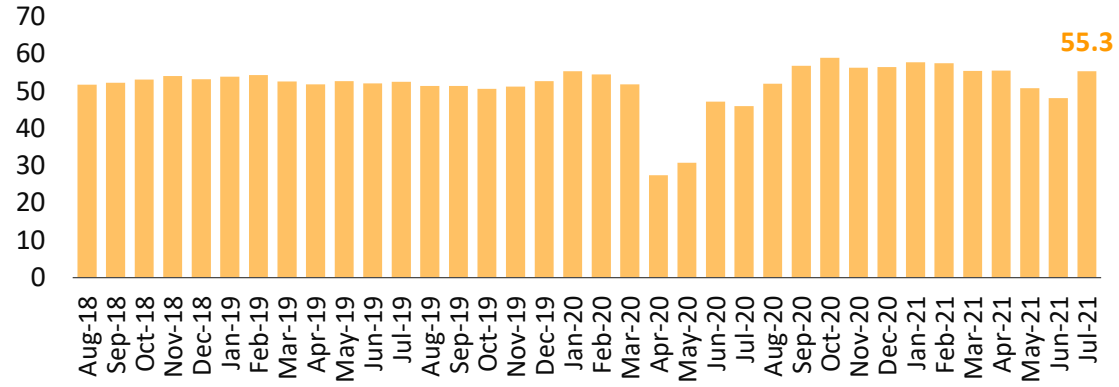
Source: CEIC

Structure of Real GDP (Production Side) in 2020	(% Share)
Agriculture, Forestry and Fishing (AF)	14.8
Crops	8.3
Livestock	4.4
Forestry & Logging	1.2
Fishing & Aquaculture	1.0
Industry	29.6
Mining & Quarrying	**2.4**
Manufacturing (Mfg)	**17.1**
Food Products, Bev & Tobacco	1.9
Textiles, Apparel & Leather Products	2.2
Metal Products	2.5
Machinery & Equipment	4.4
Other Manufactured Goods	6.2
Electricity, Gas, Water Supply & Oth	**2.3**
Construction	**7.8**
Services	**55.6**
Trade,Hotels,Transport,Communication & Broadcasting	**20.3**
Trade, Repair, Hotel & Restaurant (TR)	13.8
Trade & Repair Services	12.6
Hotels & Restaurants	1.2
Transport, Storage, Comm & Broadcast (TS)	6.6
Railways	0.7
Road Transport	3.3
Water Transport	0.1
Air Transport	0.1
Services Incidental to Transport	0.7
Storage	0.1
Communication & Broadcasting	1.6
Financial Serv,Real Estate & Profesional Services	**22.0**
Financial Services	6.0
Real Estate, Dwelling & Profesional Services	16.0
Public Admin, Defence and Other Services	**13.3**
Public Administration & Defence	5.8
Other Services	7.4

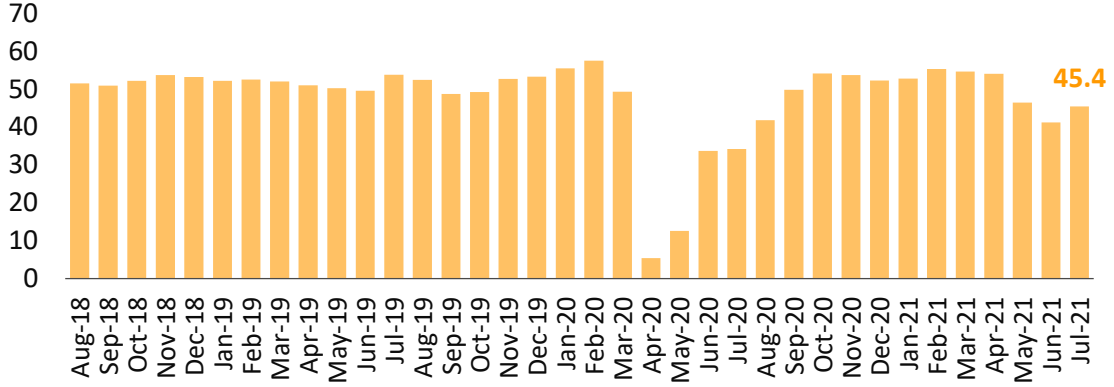
Economic activity in 2Q FY2021/22 confirms the recovery amid headwinds to growth, particularly the pandemic and its new variants

The latest PMI: manufacturing in July 2021 has surged to 55.3 above the level of 50 which indicates the expansion compared to previously month reflecting the rebound in the industrial sector. However, activity in the service sector remains weak reflected by the PMI: Services which has been blow the level of 50 in July at 45.4. Overall, the economic activity is gradually recovering. Household consumption which is the largest growth driver on the expenditure side has also showed signs of recovery.

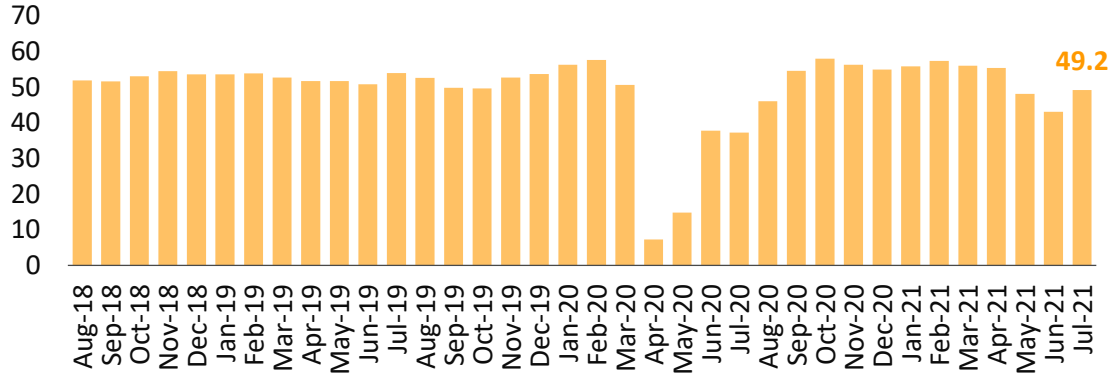
PMI: Manufacturing (Headline sa)



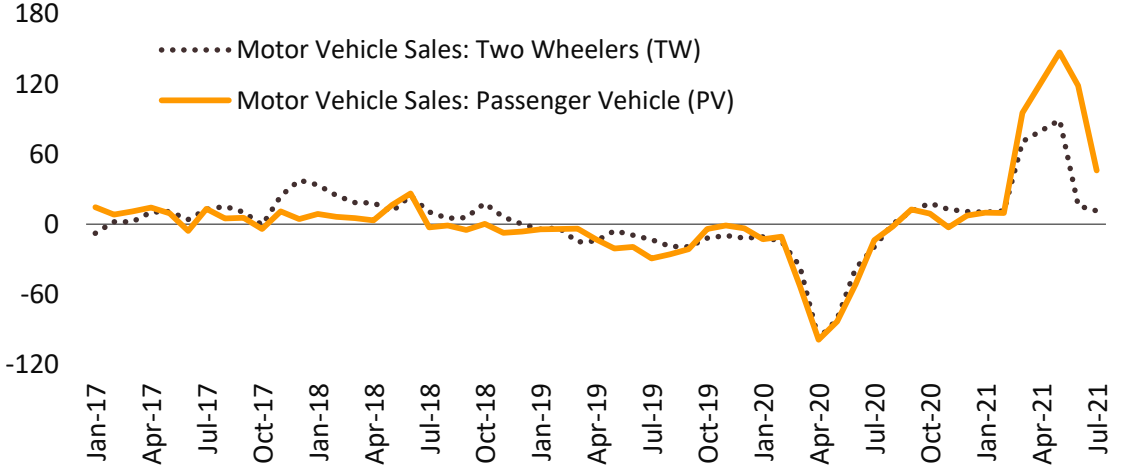
PMI: Services (Headline sa)



Composite PMI (Headline: sa)



Consumption indicators (%YoY)

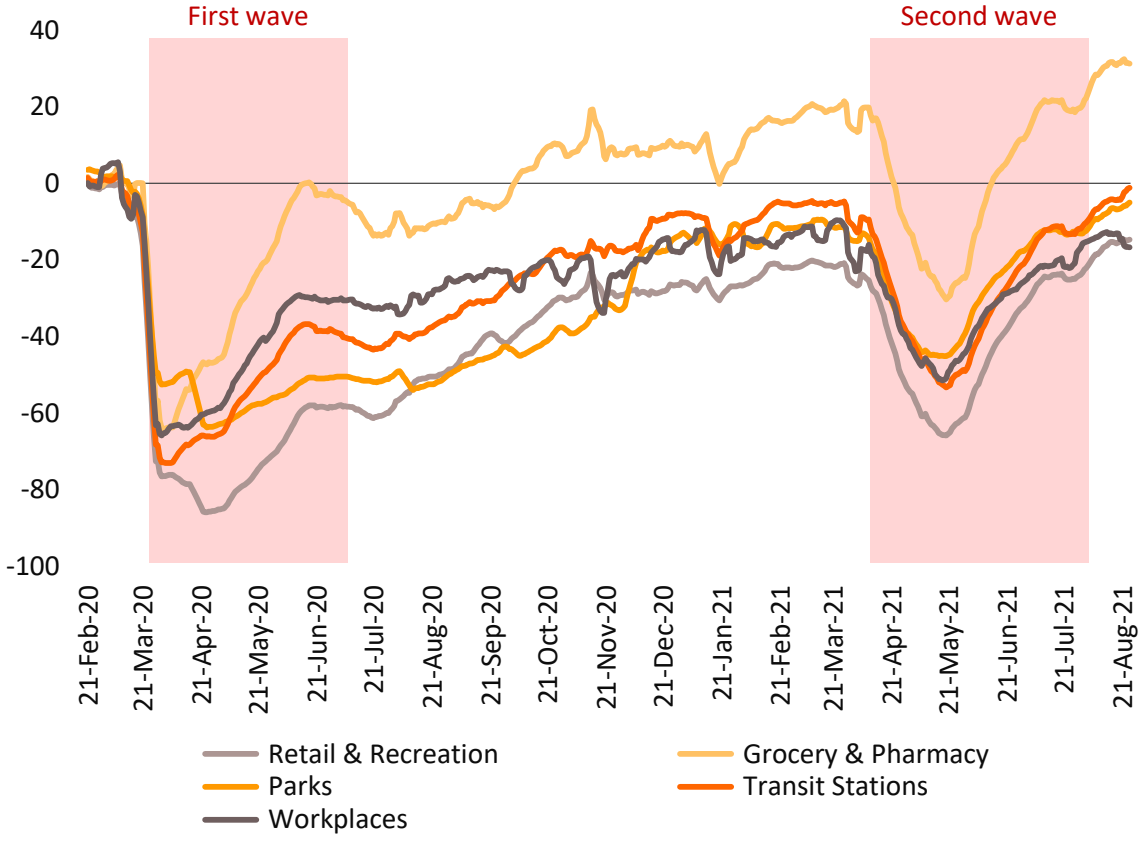


Source: CEIC

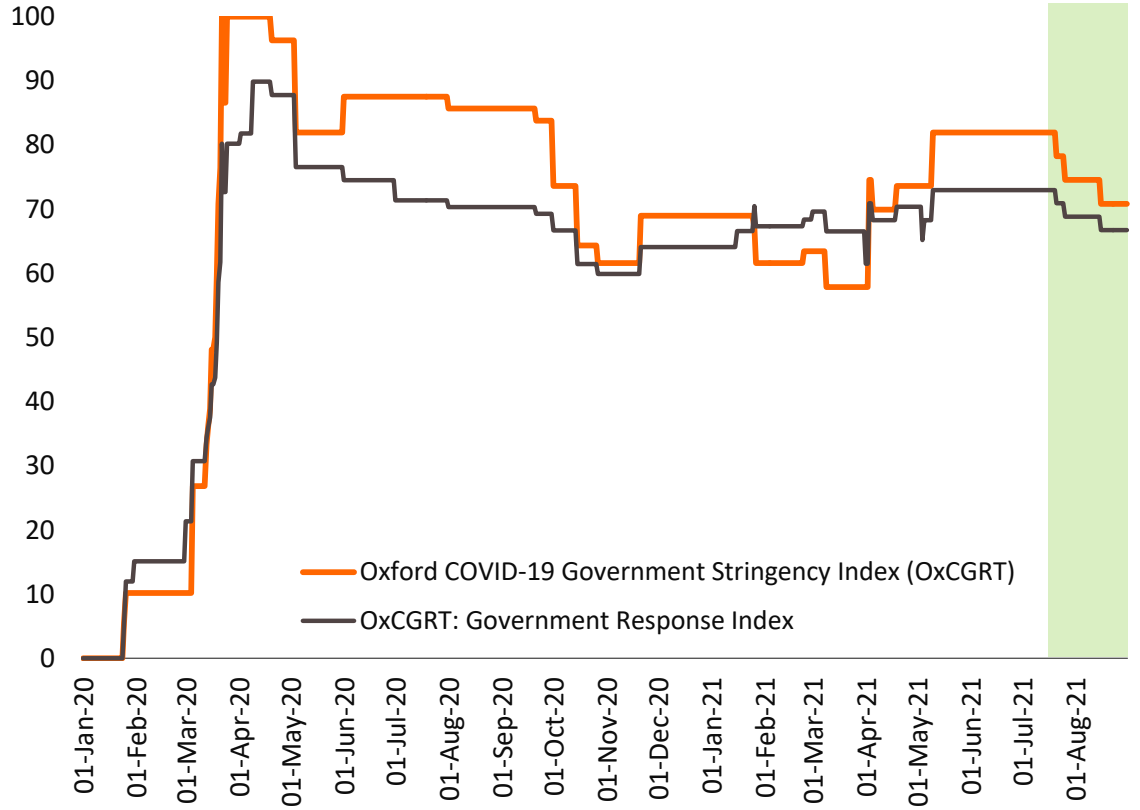
High-frequency data confirms the normalization of India's overall economic activity

Due to a gradual relaxation of mobility restrictions and the recent re-opening of the economy following the second wave in late March-April 2021, economic activities in India are starting to normalize reflected by the latest Google Mobility Trends and the Oxford COVID-19 Government Stringency Index. Looking ahead, we expect the pace of economic recovery to gain further traction nurtured by a meaningful progress of vaccinations across the country, but risks remain against the backdrop of the spread of the delta variant.

Google Mobility Trends (% change from baseline, 7-day mma)



Oxford COVID-19 Stringency Index (OxCGRT) (100 = most stringent)

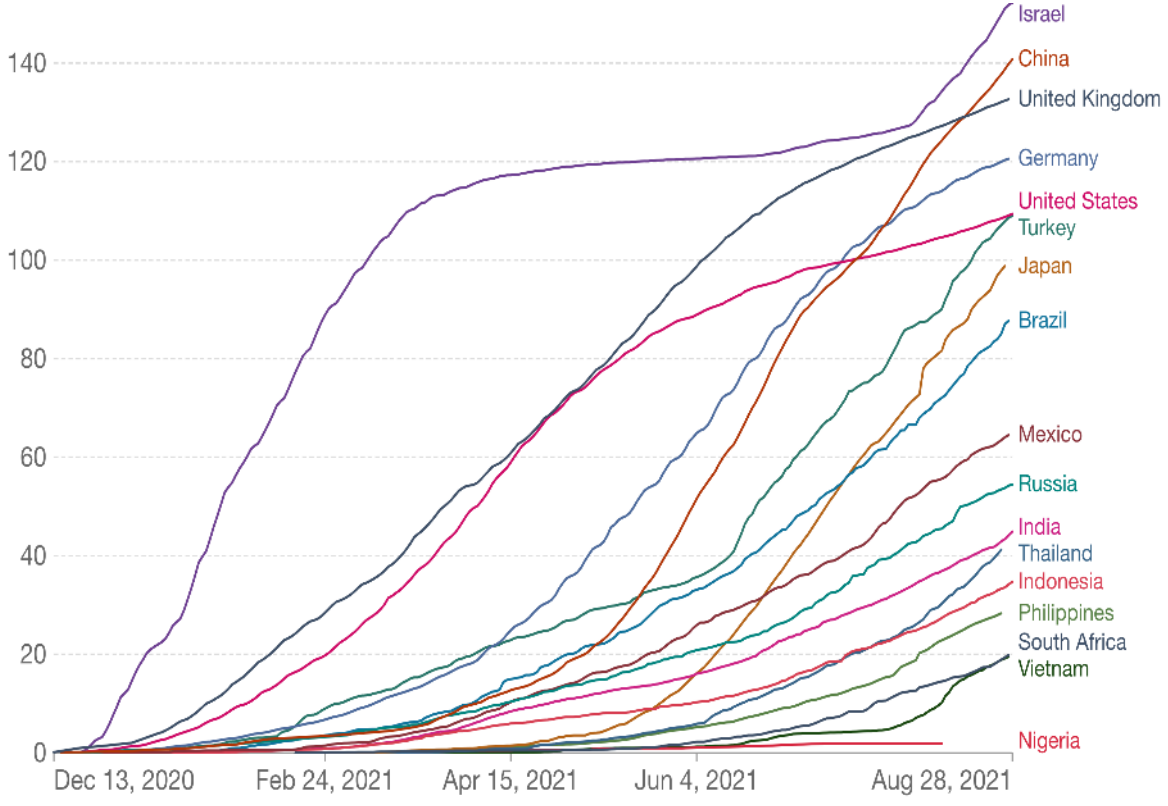


Source: CEIC, Krungsri Research

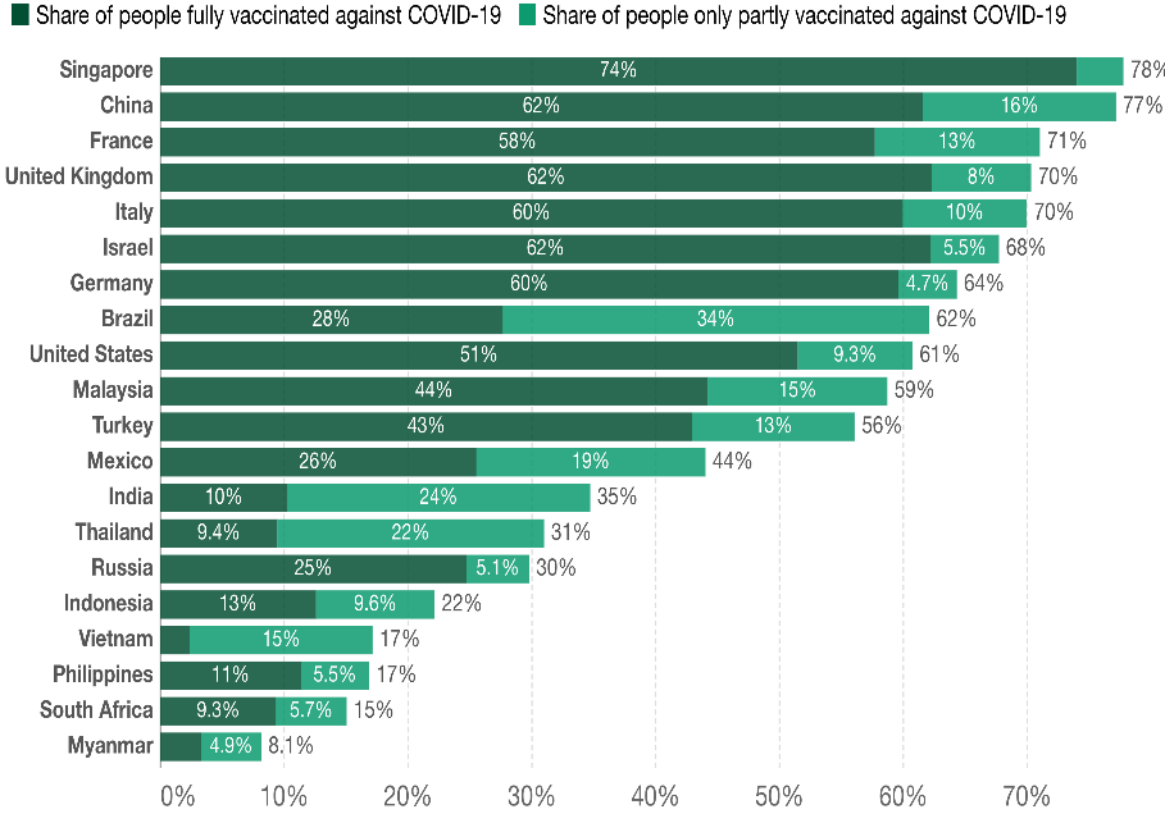
Progress of vaccination rollout amid the emergence of new variants of the pandemic would be a key to nurture the sustainable economic recovery on the horizon

Vaccination progress in India have on on the rise and there is about 35% of the population partially vaccinated. But the population fully vaccinated remains relatively low, only 10% (as of August 2021). Looking ahead, with the current pace of vaccination rollout, the share of fully vaccinated population is likely to increase, and this would subsequently accelerate the rebound of domestic demand.

COVID-19 vaccines doses administered per 100 people



Share of people vaccinated against COVID-19 (as of 30 August 2021)

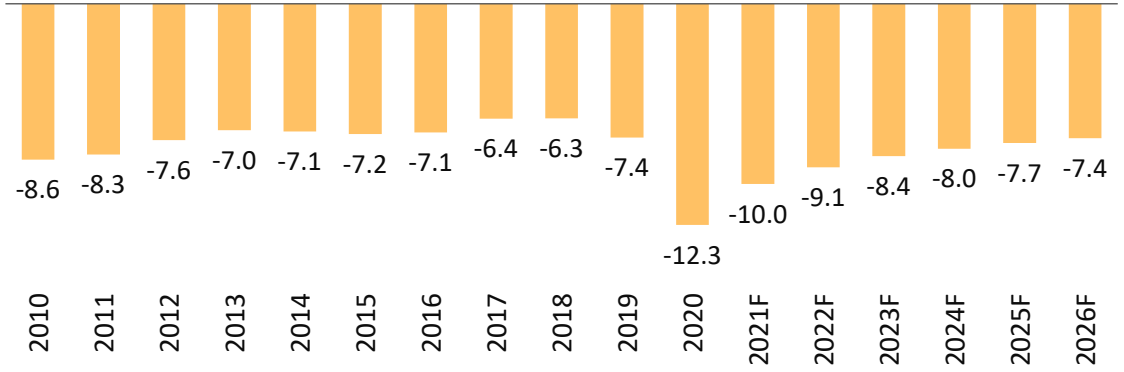


Source: Our World in Data, Krungsri Research

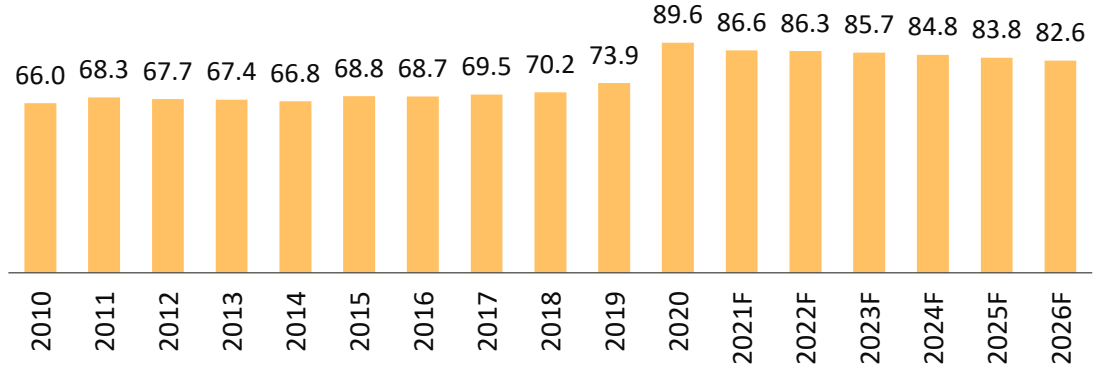
Fiscal deficits have been lingering worsened by the pandemic-induced recession on the back of twin deficits

Based on the IMF data, the government run -12.3% of GDP of budget deficit in 2020, the most sizeable gap over the past decade. Against the backdrop of the pandemic-induced recession, the public debt (% GDP) reached almost 90% and India's public debt seems relatively large in comparison with other major emerging market peers. However, to contain any on concerns of fiscal sustainability, the Indian government has made efforts to adhere to fiscal discipline and its headline fiscal deficit objective as well as agree to pursue medium-term fiscal consolidation.

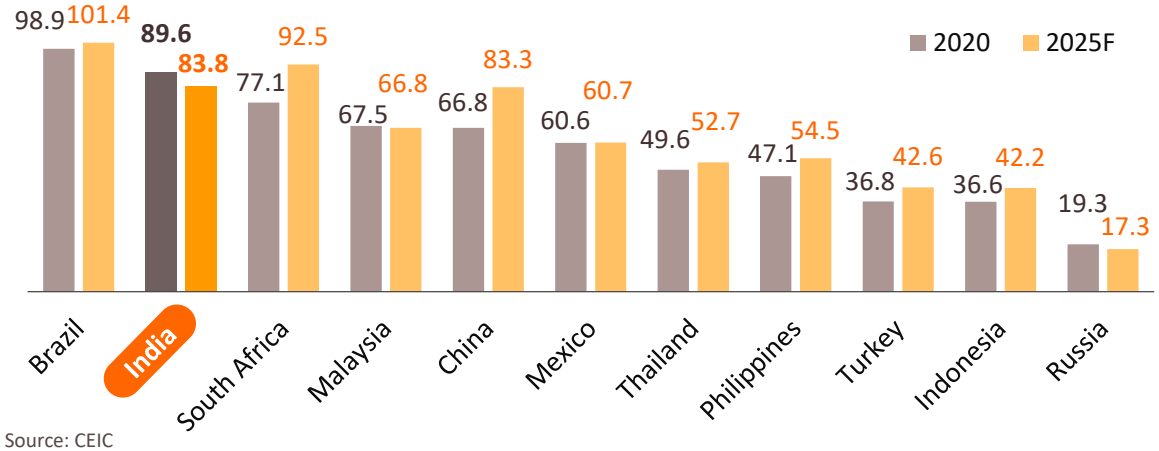
General government net lending/borrowing (% GDP)



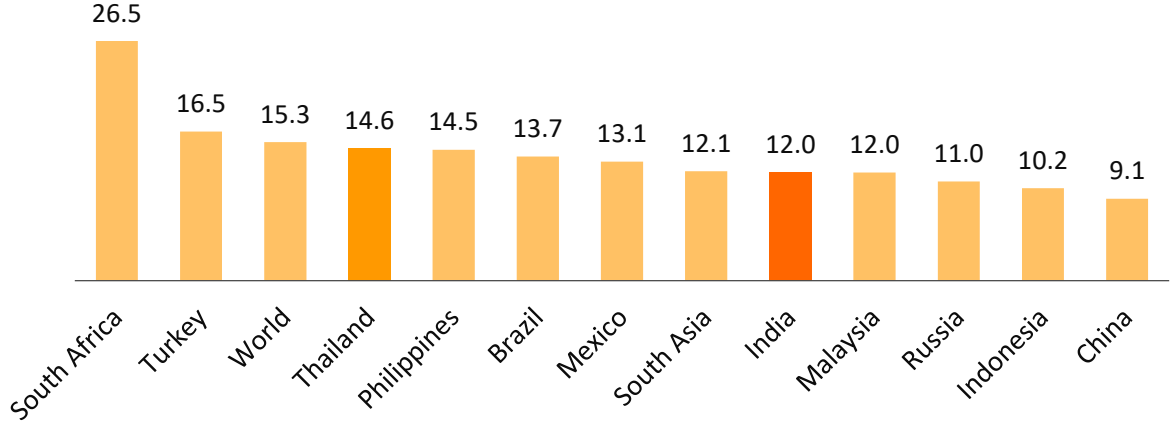
General government gross debt (% GDP)



General government gross debt (% of GDP)



Tax revenue (% of GDP, 2019)

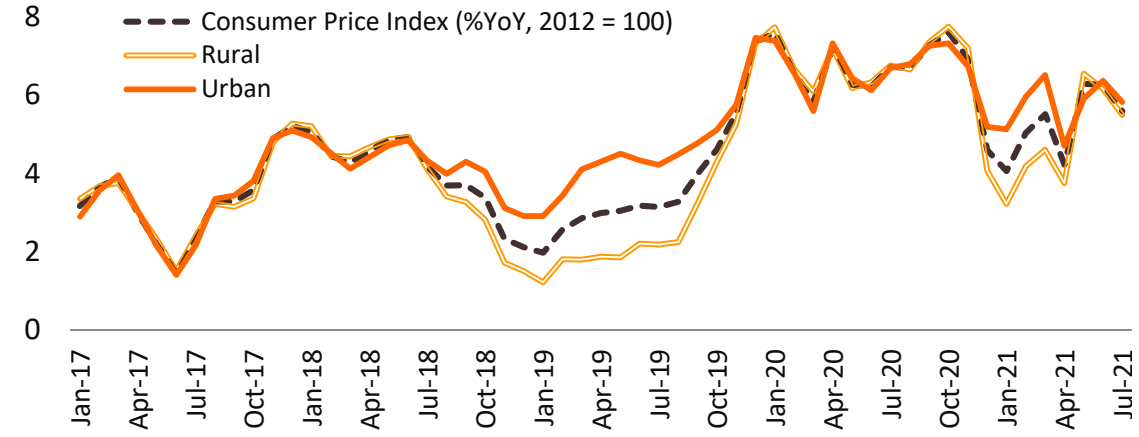


Source: CEIC

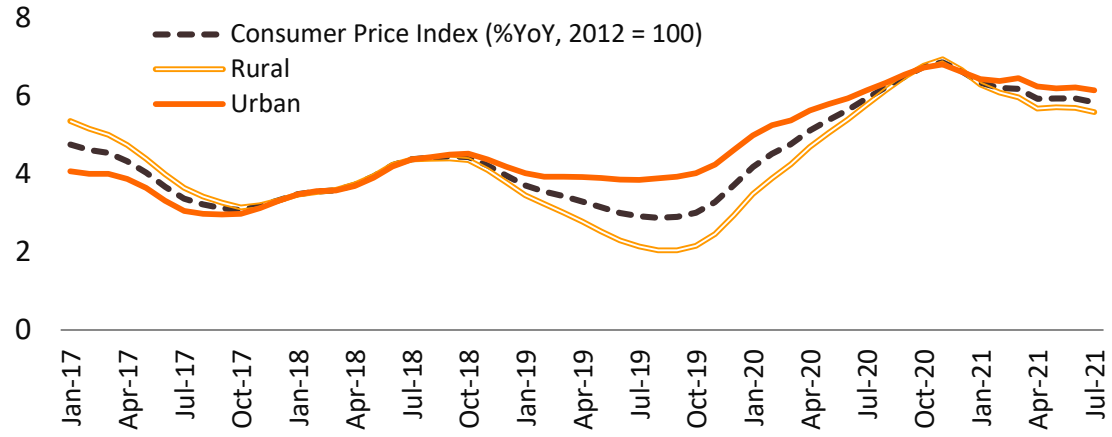
Surge in inflationary pressure driven largely by food prices appears to be contained

India's recent inflationary pressure has been driven by food prices. The inflation rate has decelerated to 5.6% YoY in July 2021 from 6.3% YoY in June. Looking ahead, the inflationary pressure appears to abate and move toward the Reserve Bank of India (RBI) 's target range of 4% +/-2%. However, upside risks remain given domestic demand is picking up.

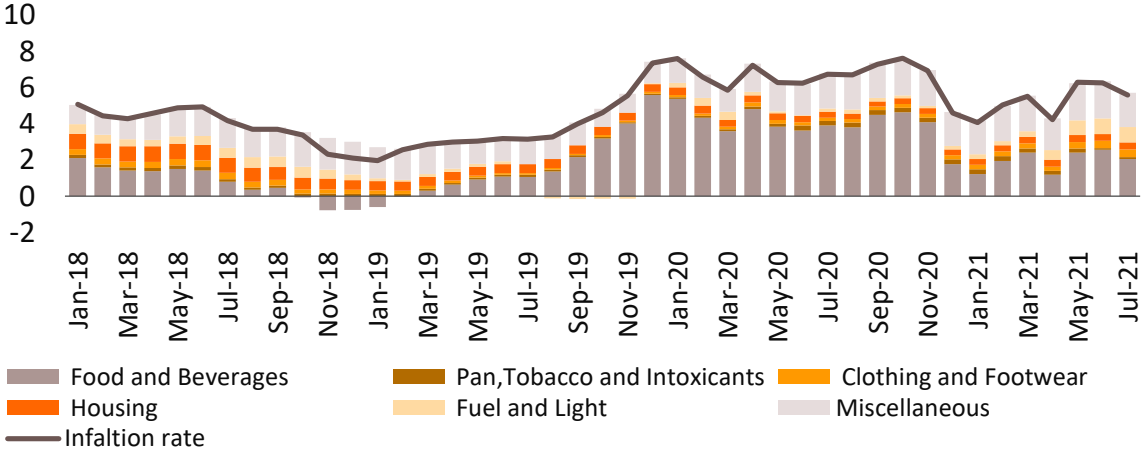
Inflation rate



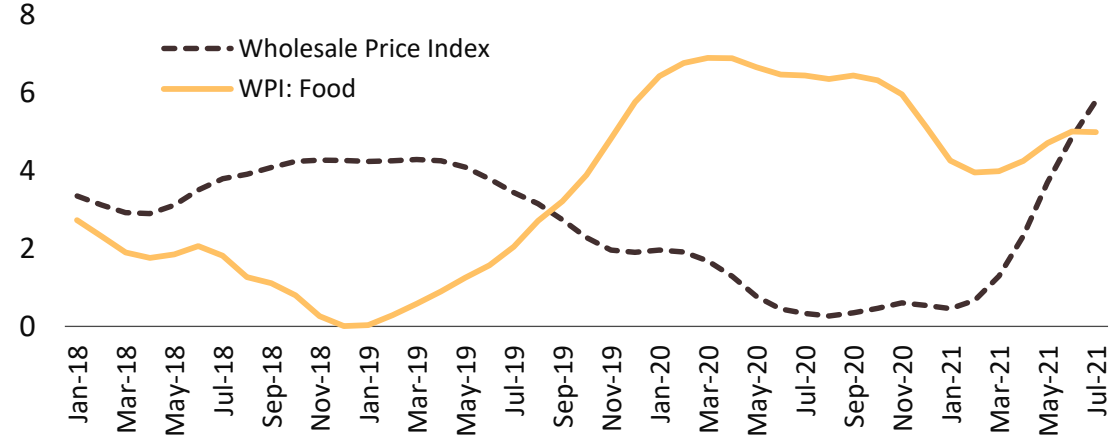
Development of inflationary pressure (%YoY, 12 mma)



Sources of inflation (ppt)



Wholesale Price Index (%YoY, 12 mma)



Source: CEIC, Krungsri Research

The flexible inflation targeting has served the country well in preserving price stability

India formally adopted flexible inflation targeting (FIT) in June 2016 to preserve price stability, defined in terms of a target CPI inflation, as the primary objective of monetary policy. The RBI, the central bank', has adopted the 2%-6% target range over the medium term to guide its monetary policy conduct. While there are short-term fluctuations of inflation rate, the FIT has seemed to successfully help contain inflation expectations in India so far.

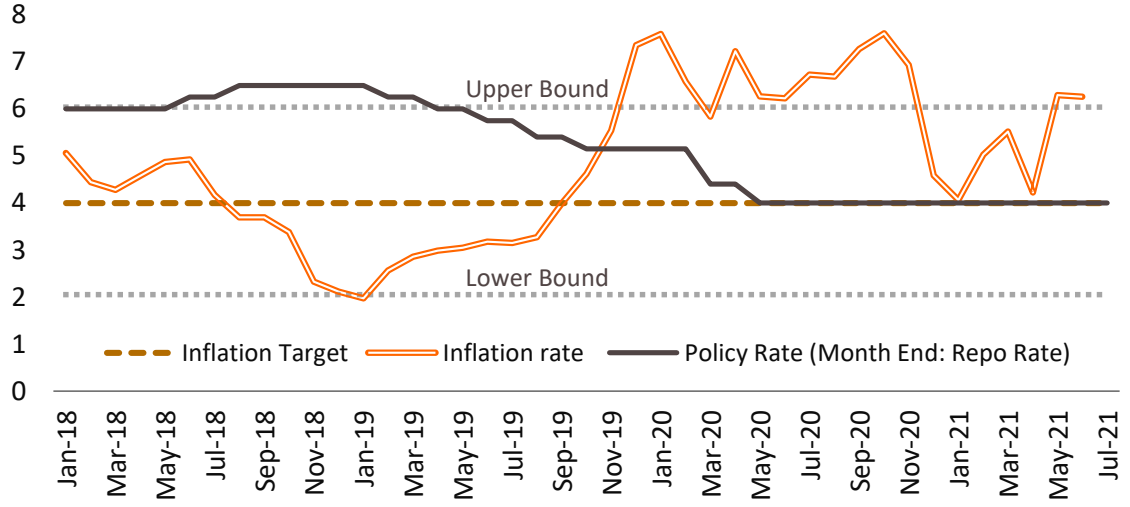
Monetary Policy Framework

- The Reserve Bank of India (RBI) Act, 1934, amended in 2016, provides for the statutory basis for implementing the flexible inflation-targeting framework.
- Inflation target for the period beginning from August 5, 2016, and ending on March 31, 2021, is as follows:
  - Inflation target: 4%.
  - Upper tolerance level: 6%.
  - Lower tolerance level: 2%.

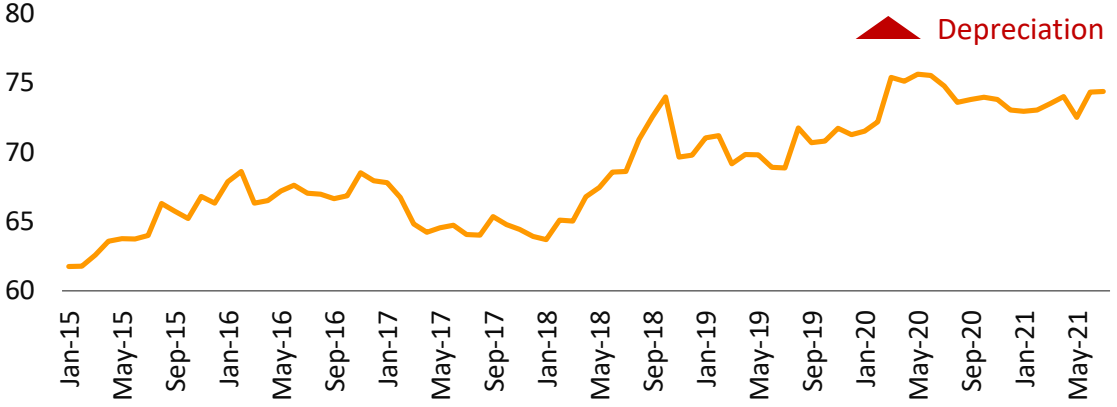
Exchange rate policy

- The de jure and de facto exchange rate arrangements are floating. The exchange rate of the rupee is largely market determined, but the Reserve Bank of India (RBI) intervenes in the domestic foreign exchange market to manage excessive volatility and maintain orderly conditions without any fixed target or band for the exchange rate.
- Regarding the official exchange rate, the Financial Benchmarks India Private Limited (FBIL) has the responsibility of computation and dissemination of reference rate for USD/INR and exchange rate of other major currencies.

Inflation rate (%YoY) and policy rate (% p.a.)



Foreign Exchange Rate (RBI: Reference Rate: US Dollar)

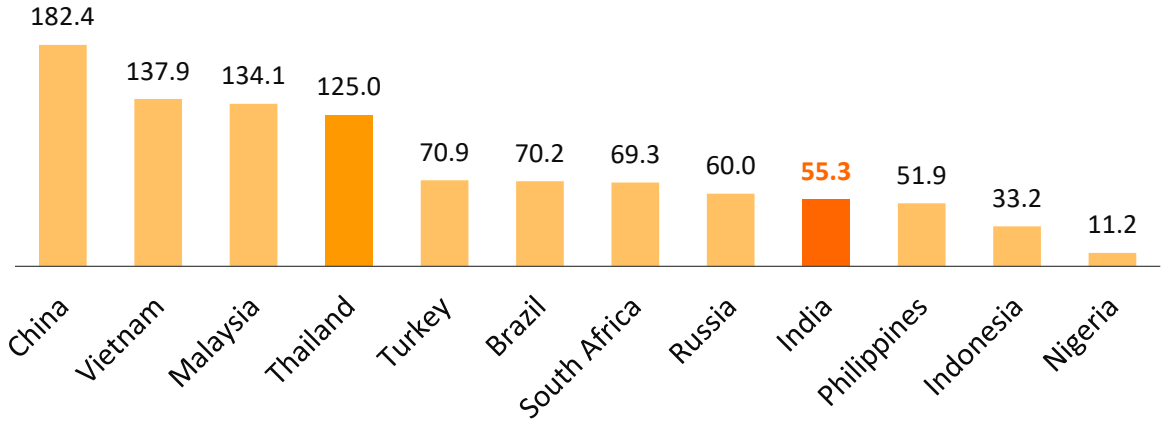


Source: CEIC, RBI, IMF AREAER, Krunsri Research

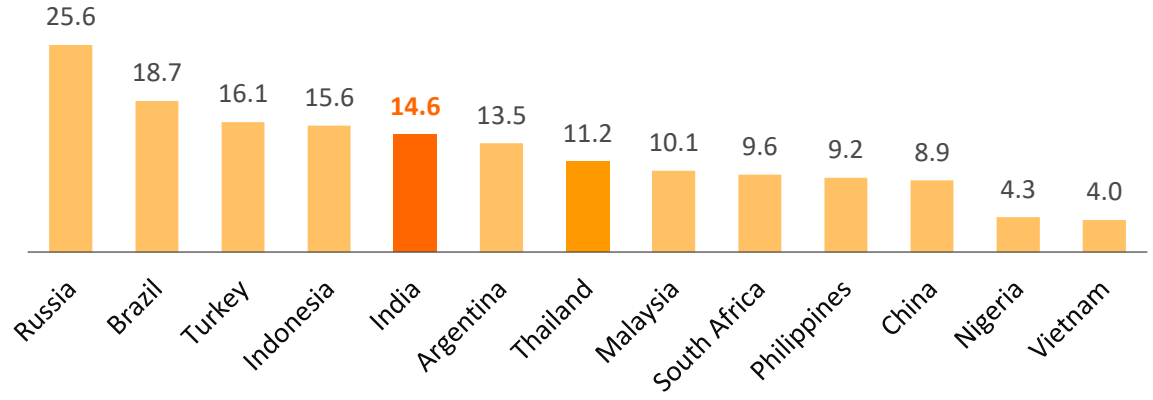
The financial sector can be developed further to achieve better inclusion and access to financial services

The banking sector in India appears to have less dominant role in supporting the economy compared to that of global peers with the ratio of domestic credit of 55.3% of GDP, compared to 182.4%, and 137.9% of China and Vietnam, respectively. In addition, the issues of financial inclusion – particularly access – have sizeable room for developments through mobile-led modes and digital financing given a relatively high mobile subscriptions.

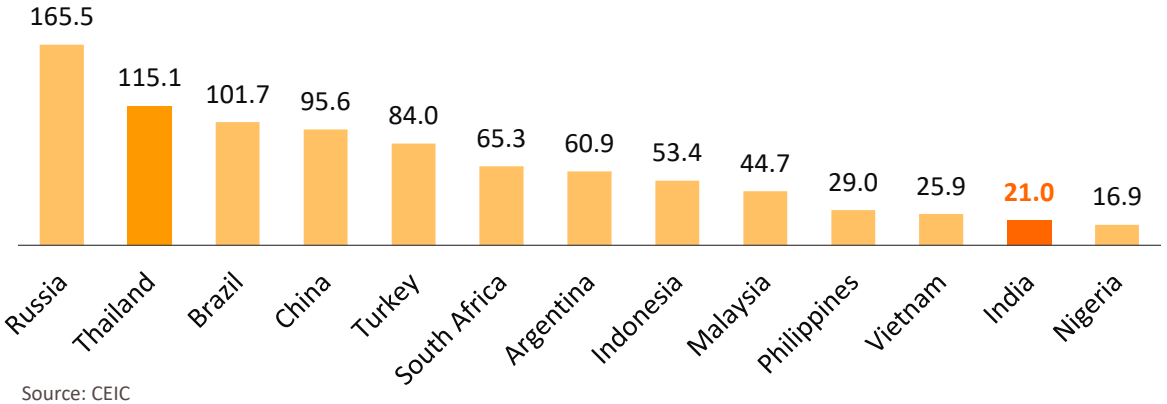
Domestic credit to private sector by banks (% of GDP) in 2020



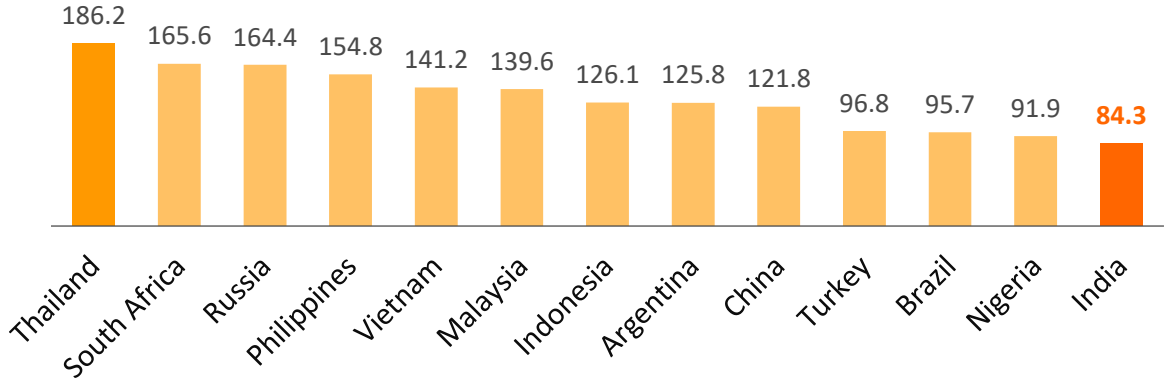
Commercial bank branches (per 100,000 adults) in 2019



Automated teller machines (ATMs) (per 100,000 adults) in 2019



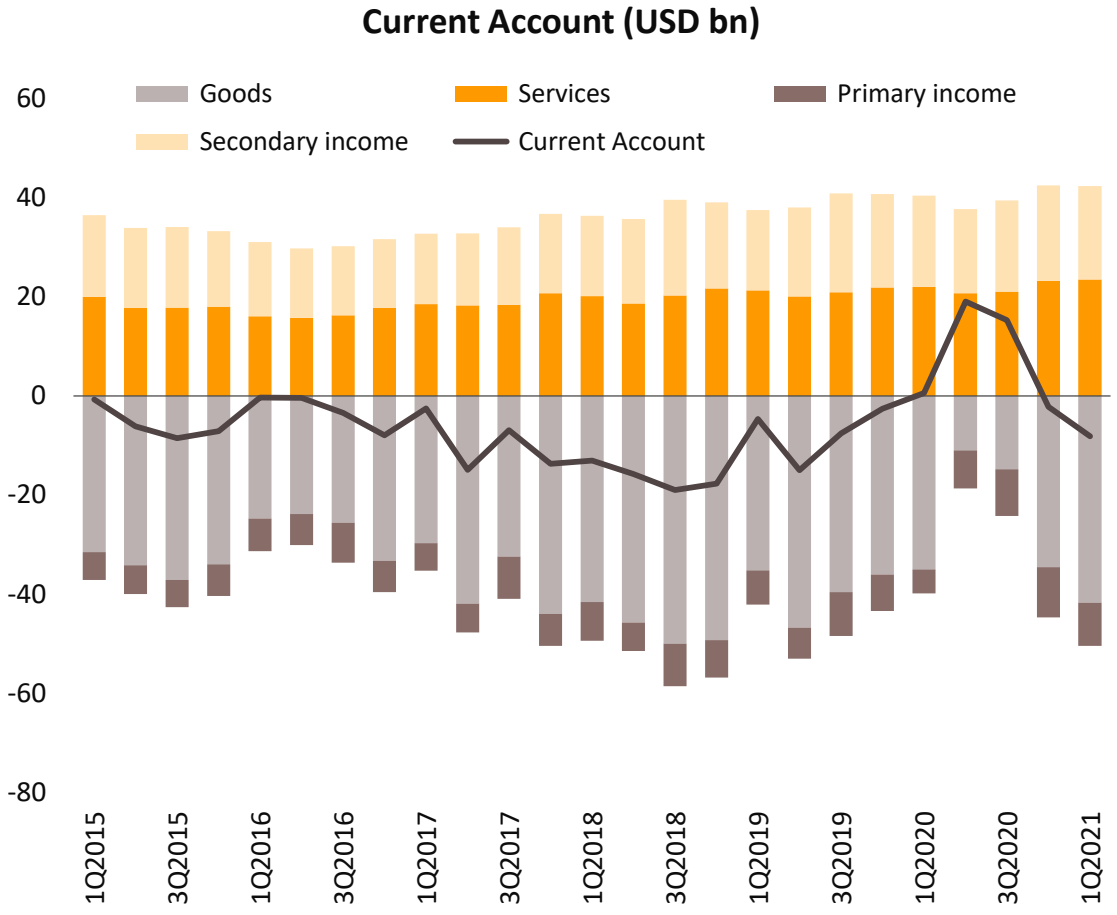
Mobile cellular subscriptions (per 100 people) in 2020

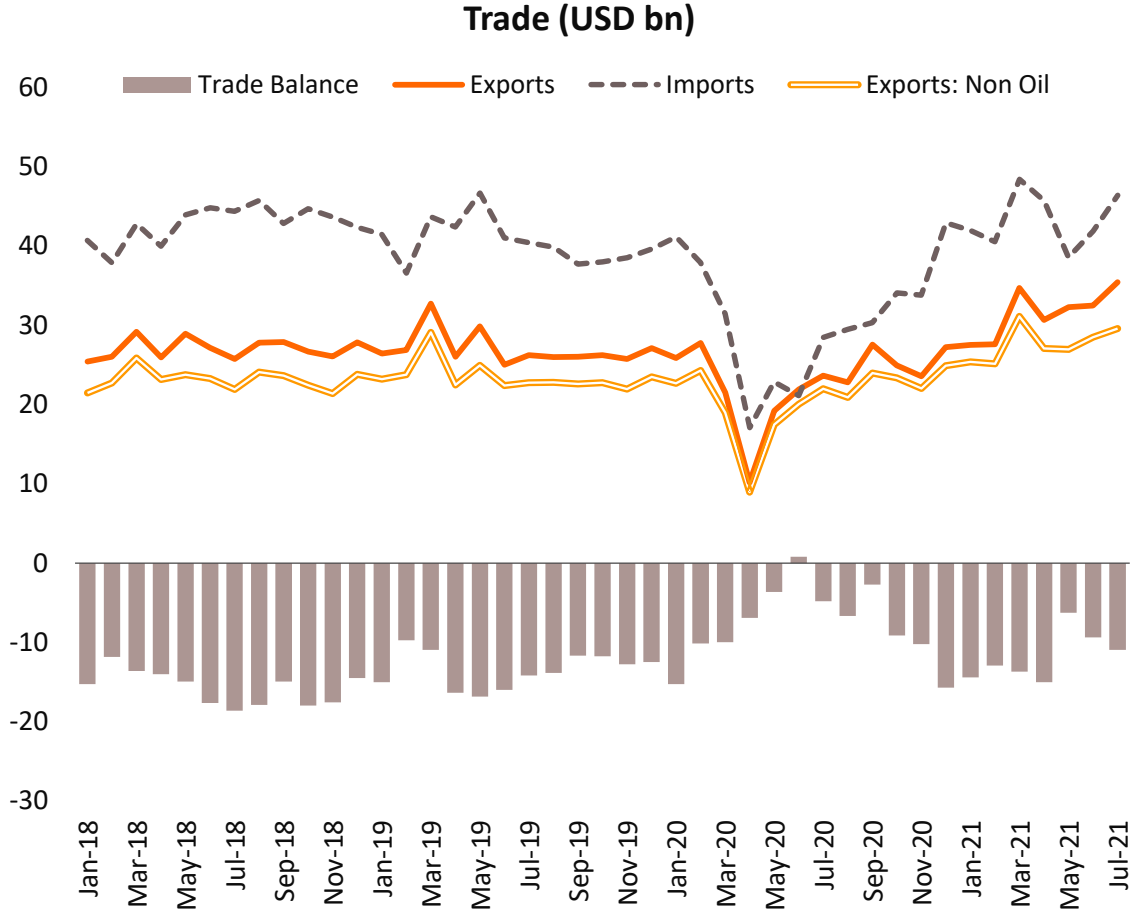


Source: CEIC

Persistent deficits of trade in goods have primarily led to prolonged current account deficits

India have suffered from prolonged current account deficits (CAD) against the backdrop of persistent government budget deficits leading to chronic twin deficits. Occasionally, these have fueled external instability and put downward pressure on the exchange rate. However, the overall external stability remains sound due to sufficient foreign reserves and low external debts.

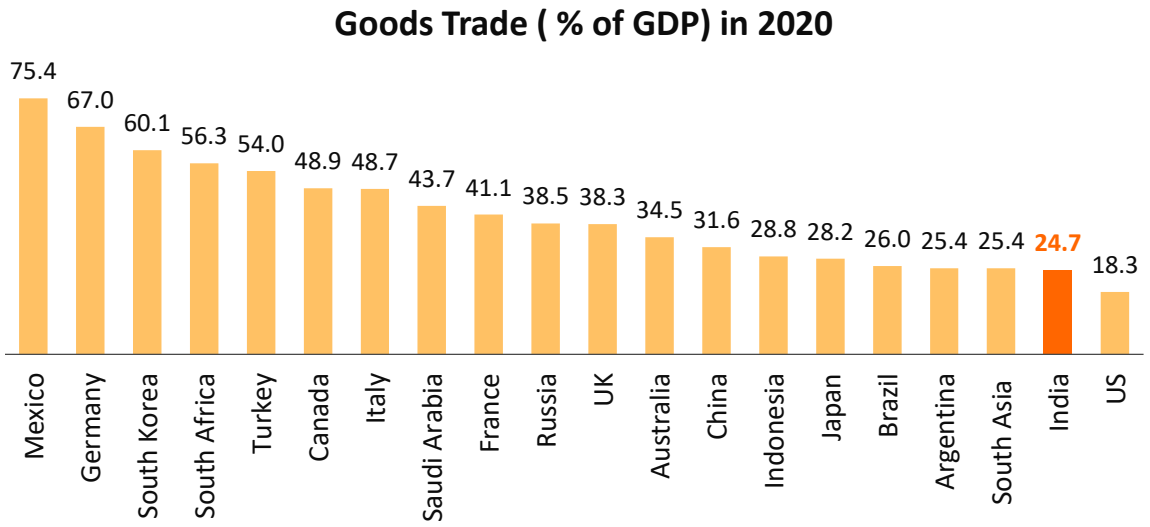


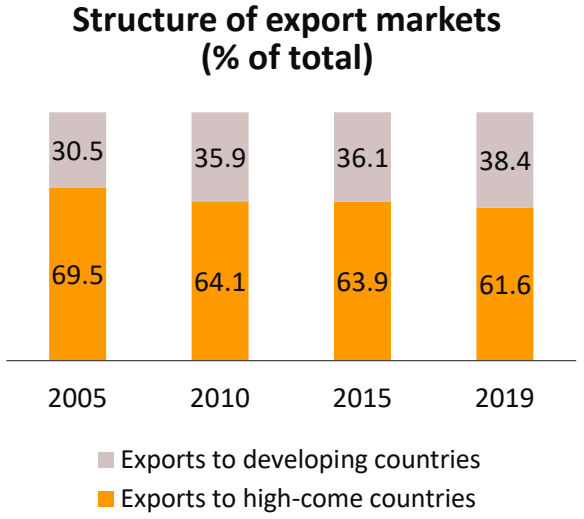


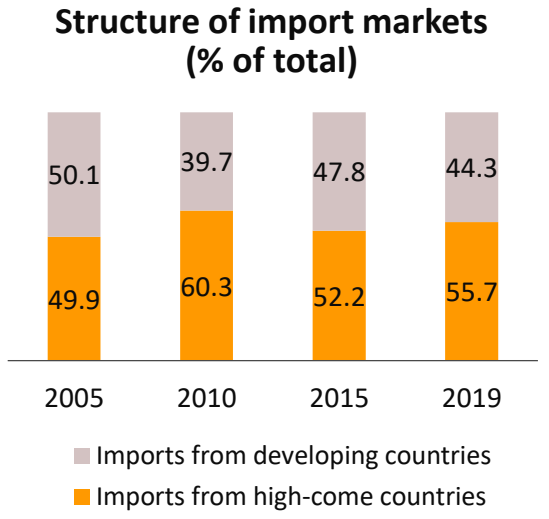
Source: CEIC, Krungsri Research

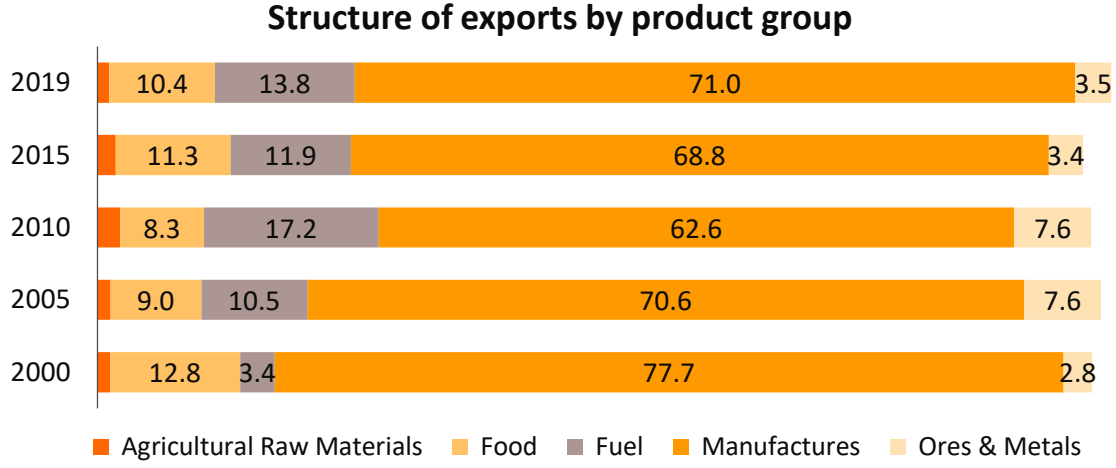
A degree of trade openness may reflect structural bottlenecks and impede Indian businesses to be integrated into global and regional supply chains

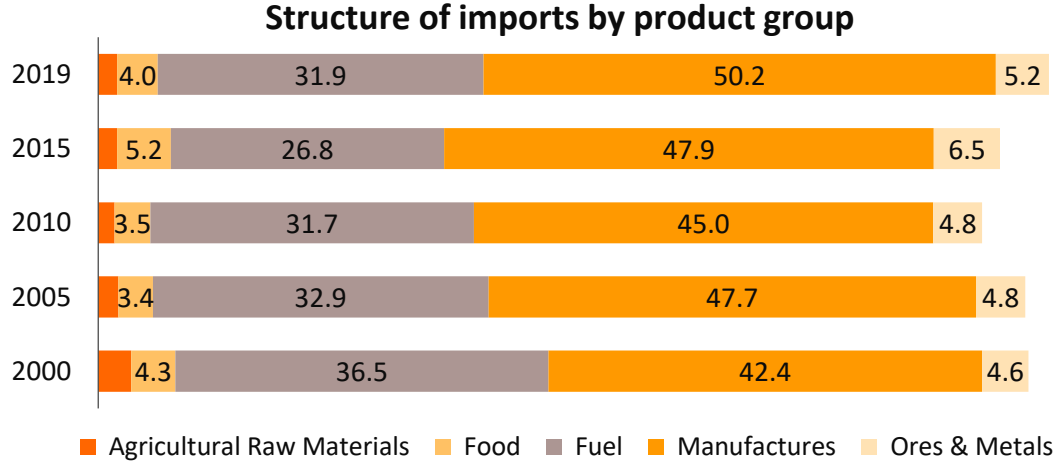
India has a relatively low degree of trade openness in relative to that of peers, with the ratio of about 25% in 2020. This may limit opportunities of India to reap the benefits of international trade.









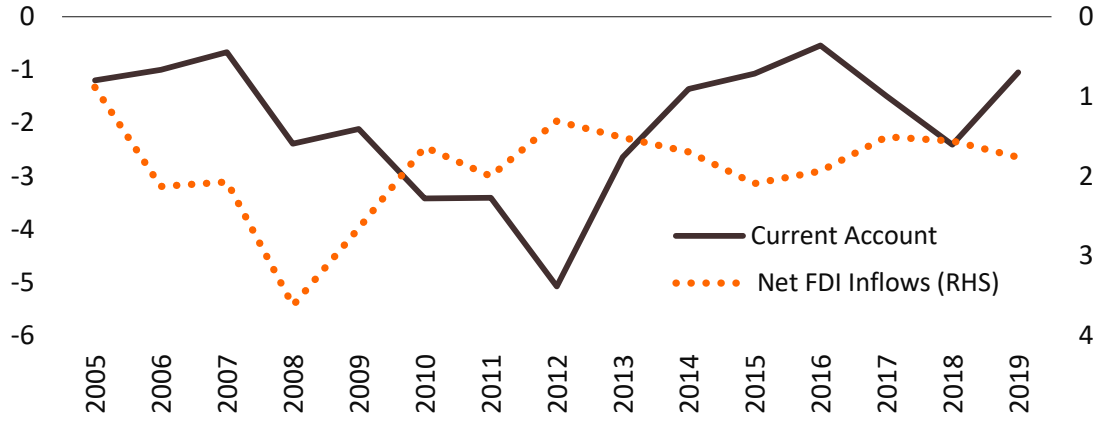


Source: CEIC

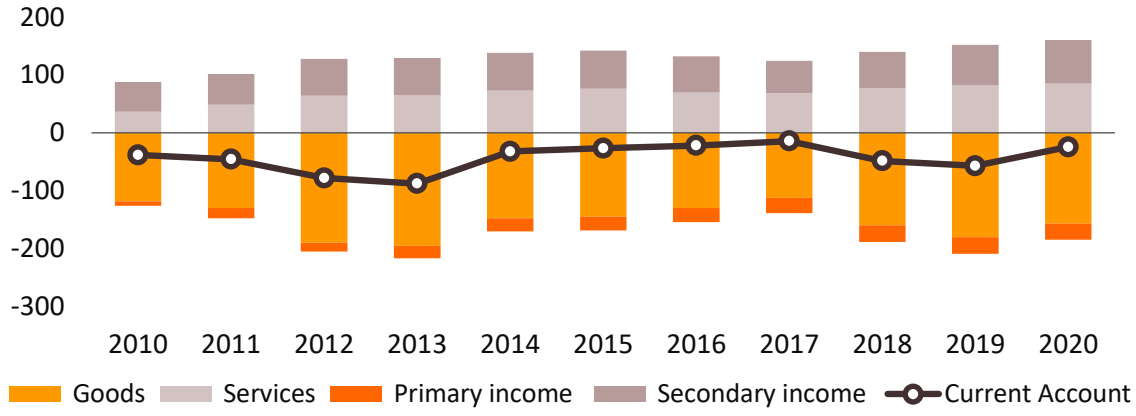
The overall external stability remains fundamentally sound amid lingering current account deficits

Despite persistent current account deficits (CAD), the external sector stability remains relatively sound due to adequate levels of international reserves and low external debts. In addition, FDI inflows have played significant roles in supporting India's external sector stability by sufficiently financing the prolonged CAD.

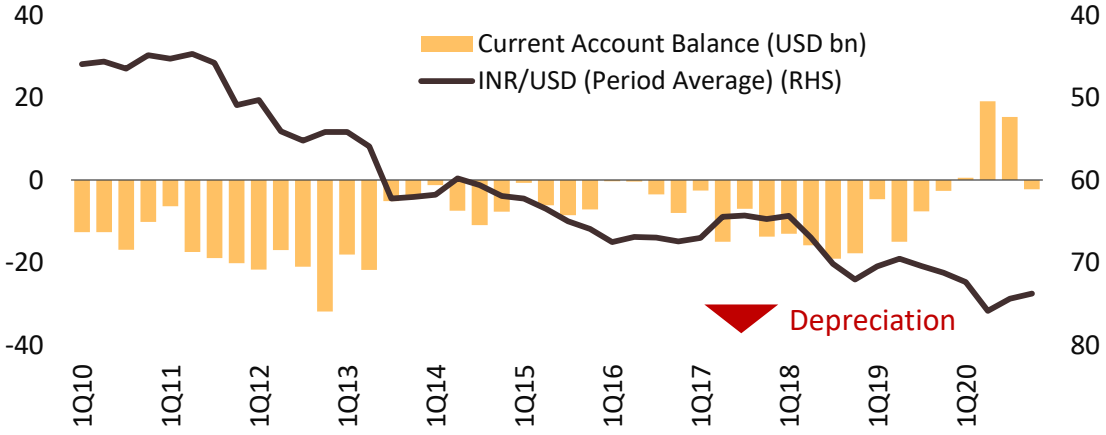
Current Account Balance and FDI Inflows (% of GDP)



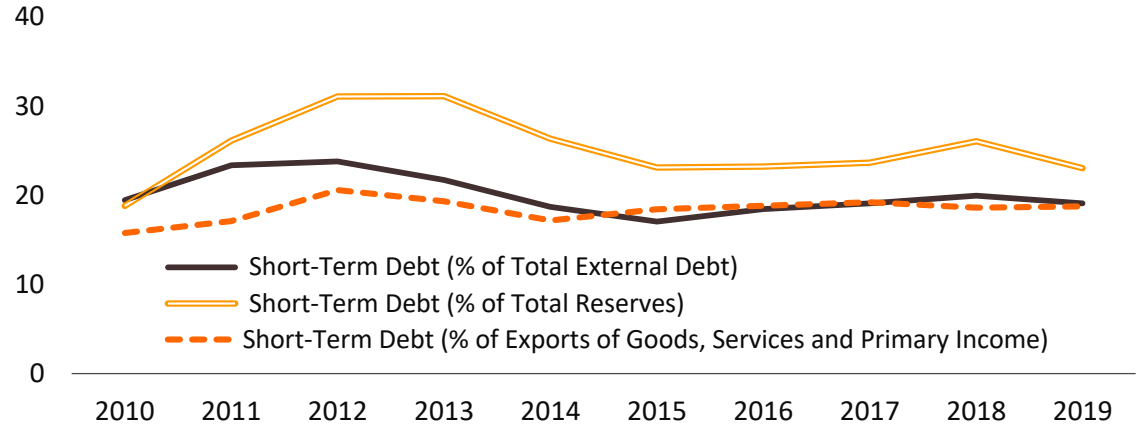
Developments of current account (USD bn)



Current account balance and exchange rate (INR/USD)



External debts



Source: CEIC, Krungsri Research

The US and the EU are the two largest export markets for India

Major export markets (% of total)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
United States of America	10.7	10.9	12.8	12.5	13.4	15.3	16.1	15.6	16.0	16.8	17.9
European Union	16.0	15.2	14.0	13.6	13.2	13.6	14.2	14.3	14.7	14.6	14.0
China	7.9	5.5	5.1	4.9	4.2	3.6	3.4	4.2	5.1	5.3	6.9
United Arab Emirates	12.4	12.4	12.4	10.1	10.4	11.5	11.8	10.1	9.0	9.1	6.5
Hong Kong, China	4.3	4.2	4.1	4.1	4.2	4.6	5.1	5.1	4.1	3.6	3.5
Singapore	4.1	5.2	4.7	4.2	3.0	3.0	2.8	3.9	3.2	3.3	3.0
Bangladesh	1.4	1.1	1.7	1.8	2.0	2.1	2.2	2.4	2.7	2.6	2.9
United Kingdom	2.9	2.9	2.8	3.1	3.0	3.4	3.3	3.0	3.0	2.7	2.8
Germany	2.7	2.7	2.5	2.4	2.4	2.7	2.8	2.8	2.8	2.7	2.8
Netherlands	3.0	3.2	3.3	2.7	2.1	1.8	1.9	1.8	2.7	2.8	2.3
Malaysia	1.6	1.3	1.3	1.6	1.5	1.9	1.6	1.9	2.0	1.9	2.2
Saudi Arabia	2.0	1.7	3.0	3.7	4.1	2.6	1.9	1.8	1.7	1.8	2.2
Nepal	0.9	0.8	0.9	0.9	1.3	1.2	1.7	1.9	2.3	2.2	2.1
Belgium	2.3	2.5	1.9	2.0	1.9	1.9	2.1	2.1	2.1	1.9	1.7
Korea, Republic of	1.6	1.5	1.4	1.3	1.5	1.4	1.3	1.5	1.5	1.4	1.6
Viet Nam	1.1	1.1	1.3	1.8	2.1	2.0	2.3	2.7	2.1	1.7	1.6
Indonesia	2.1	2.1	2.1	1.7	1.4	1.1	1.2	1.3	1.5	1.4	1.6
France	2.2	1.7	1.7	1.7	1.6	1.8	1.9	1.7	1.6	1.7	1.6
Italy	1.9	1.7	1.5	1.7	1.7	1.6	1.7	1.9	1.7	1.6	1.6
Japan	2.2	1.9	2.2	2.2	1.8	1.7	1.5	1.5	1.5	1.5	1.5
Thailand	1.0	0.9	1.2	1.2	1.1	1.2	1.1	1.2	1.4	1.3	1.4
Brazil	1.7	1.8	2.1	1.8	2.2	1.2	0.9	1.0	1.1	1.3	1.3
Turkey	1.1	1.2	1.3	1.4	1.8	1.7	1.7	1.7	1.7	1.4	1.3
South Africa	1.7	1.4	1.7	1.7	1.8	1.4	1.2	1.4	1.2	1.2	1.3
Australia	0.7	0.7	0.9	0.7	0.8	1.2	1.1	1.3	1.2	0.9	1.3
India's total exports (USD bn)	**220.4**	**301.5**	**289.6**	**336.6**	**317.5**	**263.9**	**261.0**	**295.9**	**324.0**	**323.3**	**275.5**

Source: ITC Trade Map, Krungsri Research

Chemical and mineral products dominate India's exports

Exports by major groups of product (HS codes)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Live animals/products	1.9	2.1	2.4	3.2	3.5	3.5	3.7	3.9	3.3	3.2	3.2
Vegetable products	4.0	5.0	7.7	6.8	6.5	5.9	5.4	5.7	5.2	5.0	6.5
Animal or vegetable fats	0.3	0.3	0.3	0.3	0.3	0.4	0.3	0.4	0.3	0.4	0.5
Prepared foodstuffs	2.4	2.4	2.6	2.4	2.1	2.1	2.2	2.1	2.1	2.3	3.0
Mineral products	20.9	20.9	20.5	22.0	20.7	12.6	11.8	13.5	16.2	15.3	12.2
Products of the chemical	10.1	9.1	10.8	10.5	10.6	12.5	12.9	12.6	13.9	15.0	17.5
Plastics and articles	2.4	2.7	2.7	2.7	2.6	2.8	2.9	3.0	3.4	3.3	3.5
Raw hides and skins	1.0	1.0	1.1	1.1	1.2	1.3	1.3	1.1	1.0	1.0	0.8
Wood and articles	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.2	0.2
Pulp of Wood	0.5	0.4	0.4	0.4	0.5	0.5	0.6	0.5	0.7	0.8	0.7
Fabrics	6.2	5.2	5.5	5.9	5.5	5.8	5.3	5.0	5.0	4.4	4.6
Garments	6.1	5.8	5.8	6.1	6.7	8.2	8.2	7.5	6.5	6.6	6.2
Footwear	0.8	0.8	0.8	0.9	1.0	1.2	1.2	1.0	1.0	1.0	0.8
Articles of stone	0.8	0.6	0.7	0.8	0.9	1.1	1.2	1.1	1.2	1.4	1.6
Precious metals	14.7	16.6	14.9	13.1	12.8	14.7	16.5	14.4	12.4	11.4	8.9
Base metals	10.0	7.0	7.6	7.6	8.1	8.0	7.4	9.5	8.2	8.0	9.3
Machinery and mechanical appliances	7.6	7.5	7.5	7.2	7.1	8.0	8.3	8.6	10.0	11.2	11.4
Vehicles	6.9	6.6	6.3	6.5	8.2	8.3	8.2	7.9	7.5	7.8	6.8
Optical	0.7	0.6	0.7	0.7	0.8	0.9	1.1	1.0	1.0	1.1	1.2
Arms and ammunition	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Miscellenous manufactures	0.5	0.5	0.6	0.6	0.6	0.8	0.8	0.8	0.8	0.9	1.0
Antiques	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Others	1.9	4.6	0.9	1.0	0.3	0.9	0.3	0.1	0.1	0.1	0.0
Total (%)	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

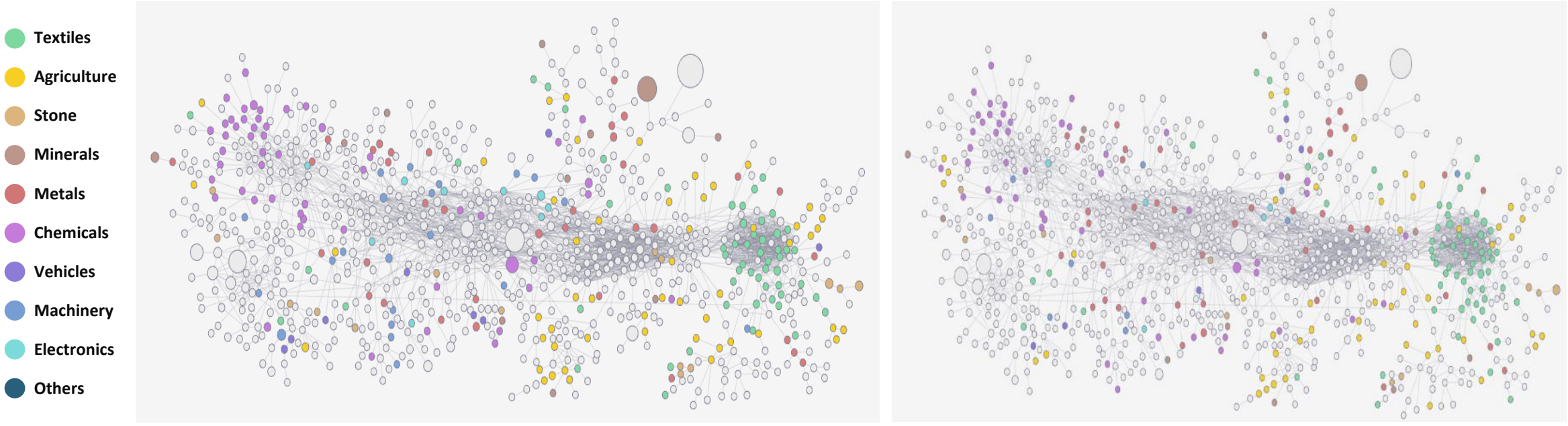
Source: ITC Trade Map, Krungsri Research

The export structure has not been changed significantly over the past two decades

Since its economic reforms in the 1990s, India has not been successful in developing its manufacturing sector reflected by the manufacturing's share stagnated at around14-16% of GDP since the 1970s. In addition, this could be reflected a visualization called product space depicting the connectedness between products, based on the similarities of know- how required to produce them. India exports at the core of the product space have been concentrated on chemicals and textiles. This structure have not been changed significantly in 2019 compared to that in 2000. However, reforms including the Make in India Policy could help boost the development of the manufacturing sector in the country.

India's Product Space in 2019

India's Product Space in 2000



Note: Colored node is a product the country exports. The Product Space depicts the connectedness between products, based on the similarities of know-how required to produce them. Product nodes are sized by world trade.

Source: The Atlas of Economic Complexity

China is the single largest source of India's imports

Major Sources of Imports (% of total)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
China	11.5	11.8	12.0	11.1	11.1	12.7	15.8	17.0	16.2	14.5	14.3	16.0
European Union	12.9	10.6	10.3	9.7	9.2	9.5	9.9	10.2	9.0	8.9	8.9	9.1
United States of America	6.0	5.5	4.9	4.9	4.8	4.4	5.2	5.7	5.4	6.4	7.3	7.2
United Arab Emirates	7.4	8.8	7.7	7.7	7.1	5.9	5.2	5.4	5.2	5.3	6.3	6.5
Saudi Arabia	5.4	5.8	6.1	6.7	7.9	7.1	5.5	5.2	4.7	5.6	5.6	4.8
Iraq	2.2	2.1	3.8	4.0	4.3	3.5	2.9	2.8	3.4	4.5	4.6	4.4
Hong Kong, China	2.0	2.2	2.6	1.6	1.7	1.3	1.5	2.0	2.5	3.2	3.6	4.0
Singapore	2.3	2.1	1.8	1.6	1.5	1.5	1.9	1.9	1.6	2.8	3.1	3.3
Korea, Republic of	3.1	2.8	2.7	2.8	2.7	2.9	3.3	3.4	3.6	3.2	3.4	3.3
Indonesia	2.9	2.8	3.0	2.9	3.2	3.3	3.5	3.4	3.7	3.2	3.3	3.3
Switzerland	3.8	6.3	6.8	5.9	5.3	4.6	5.4	4.2	4.6	3.6	3.7	3.1
Japan	2.5	2.4	2.4	2.5	2.3	2.2	2.5	2.7	2.4	2.5	2.7	2.8
Germany	4.1	3.3	3.2	3.0	2.8	2.8	3.0	3.2	2.9	2.7	2.6	2.6
Qatar	1.6	1.8	2.4	3.4	3.1	3.6	2.5	2.1	1.8	2.1	2.0	2.2
Malaysia	1.9	1.7	2.0	2.1	2.0	2.4	2.4	2.4	2.0	2.0	2.2	2.0
Australia	4.5	3.4	2.9	2.6	2.3	2.2	2.4	2.4	3.2	2.8	2.2	2.0
South Africa	1.9	2.0	2.0	1.6	1.6	1.3	1.6	1.4	1.6	1.3	1.4	1.8
Belgium	2.1	2.1	2.2	2.1	2.2	2.5	2.1	2.1	1.3	1.9	2.0	1.8
Nigeria	2.1	2.9	2.9	2.9	3.0	3.4	2.6	2.1	1.9	2.2	2.2	1.7
Kuwait	2.9	2.6	3.2	3.6	3.8	3.3	1.5	1.1	1.4	1.5	1.9	1.6
Russian Federation	1.3	1.0	0.9	0.9	0.8	0.9	1.2	1.3	1.8	1.3	1.3	1.6
Viet Nam	0.2	0.3	0.3	0.4	0.6	0.6	0.7	0.9	0.9	1.4	1.6	1.5
Thailand	**1.0**	**1.1**	**1.1**	**1.1**	**1.2**	**1.2**	**1.4**	**1.5**	**1.5**	**1.5**	**1.5**	**1.4**
United Kingdom	1.5	1.5	1.6	1.4	1.4	1.0	1.4	1.1	1.0	1.4	1.4	1.3
Taipei, Chinese	1.0	1.0	1.1	0.9	0.9	0.9	0.9	0.9	0.8	0.9	0.9	1.0
India's total imports (USD bn)	**266.4**	**350.0**	**462.4**	**489.0**	**466.0**	**459.4**	**390.8**	**356.7**	**443.9**	**509.3**	**478.9**	**368.0**

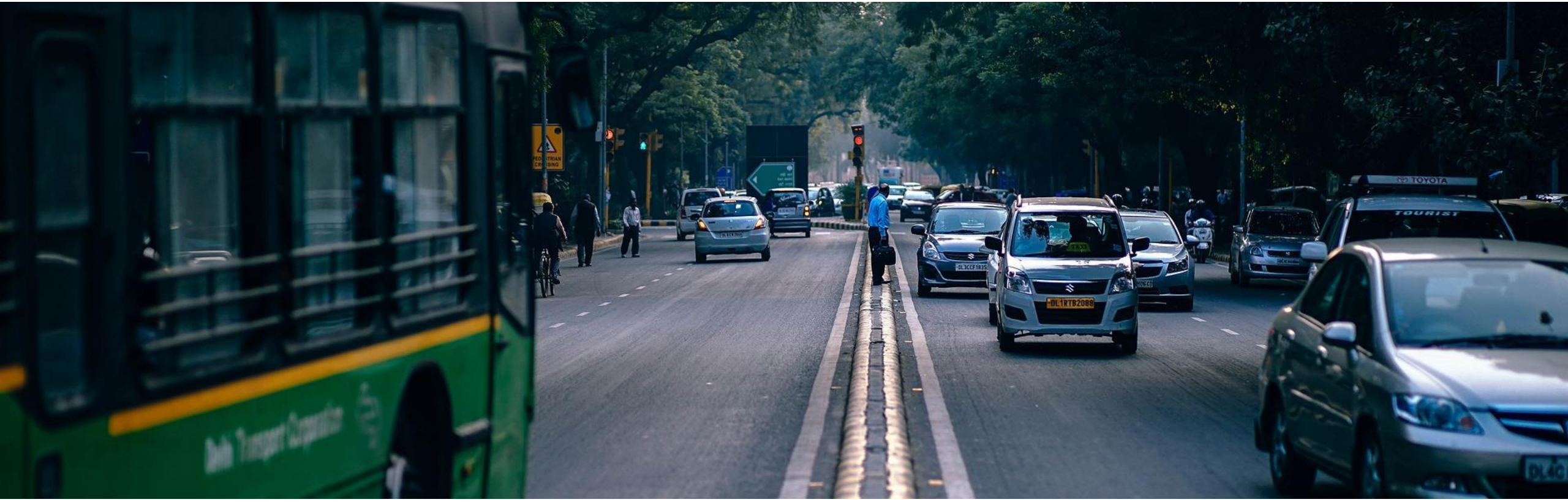
Source: ITC Trade Map, Krungsri Research

India's import structure by major product group reflects its export structure

Imports by major product group (HS codes)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Live animals/products	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Vegetable products	1.1	1.0	1.0	1.2	1.4	2.1	2.5	2.3	1.3	1.4	1.9
Animal or vegetable fats	1.8	2.0	2.3	2.1	2.3	2.7	2.9	2.7	2.0	2.1	2.9
Prepared foodstuffs	0.5	0.2	0.3	0.4	0.4	0.5	0.8	0.7	0.5	0.6	0.7
Mineral products	33.8	36.0	40.0	41.9	40.8	29.0	26.7	29.6	34.9	33.0	29.6
Products of the chemical	8.2	7.8	7.6	7.9	8.4	9.6	9.5	8.8	9.6	10.0	11.8
Plastics and articles	2.9	2.5	2.7	2.9	3.3	3.7	4.0	3.7	3.7	3.7	4.0
Raw hides and skins	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.2	0.2	0.2	0.2
Wood and articles	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.5	0.4	0.5	0.4
Pulp of Wood	1.0	1.0	0.9	0.9	1.1	1.1	1.3	1.2	1.2	1.2	1.1
Fabrics	1.0	0.9	0.9	1.0	1.1	1.2	1.4	1.2	1.1	1.4	1.1
Garments	0.1	0.1	0.1	0.2	0.2	0.3	0.3	0.3	0.3	0.4	0.4
Footwear	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.1
Articles of stone	0.4	0.4	0.4	0.4	0.4	0.6	0.6	0.6	0.6	0.6	0.6
Precious metals	19.6	20.2	16.7	14.5	13.0	15.3	13.5	16.7	12.8	12.3	11.2
Base metals	5.8	5.7	5.6	5.1	5.8	6.8	6.4	6.0	6.5	6.6	6.2
Machinery and mechanical appliances	15.2	14.7	13.5	13.2	13.7	17.4	19.5	18.7	18.8	19.9	21.2
Vehicles	3.2	2.2	2.8	3.1	2.6	3.3	3.8	3.3	2.7	2.9	3.2
Optical	1.6	1.4	1.5	1.5	1.6	1.9	2.1	2.0	1.9	2.1	2.3
Arms and ammunition	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Miscellenous manufactures	0.4	0.4	0.4	0.4	0.5	0.6	0.7	0.6	0.6	0.6	0.5
Antiques	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Others	2.5	2.5	2.5	2.4	2.3	2.8	3.0	0.9	0.5	0.4	0.5
Total (%)	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: ITC Trade Map, Krungsri Research

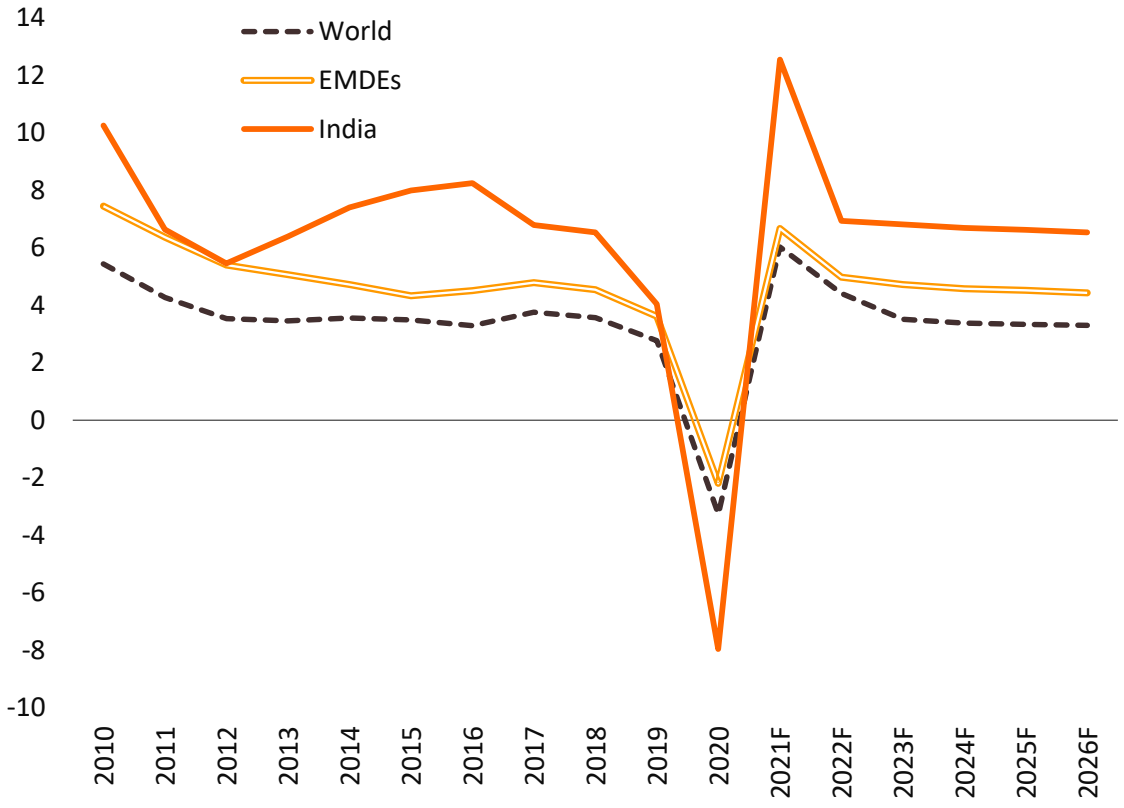
Medium-term prospects



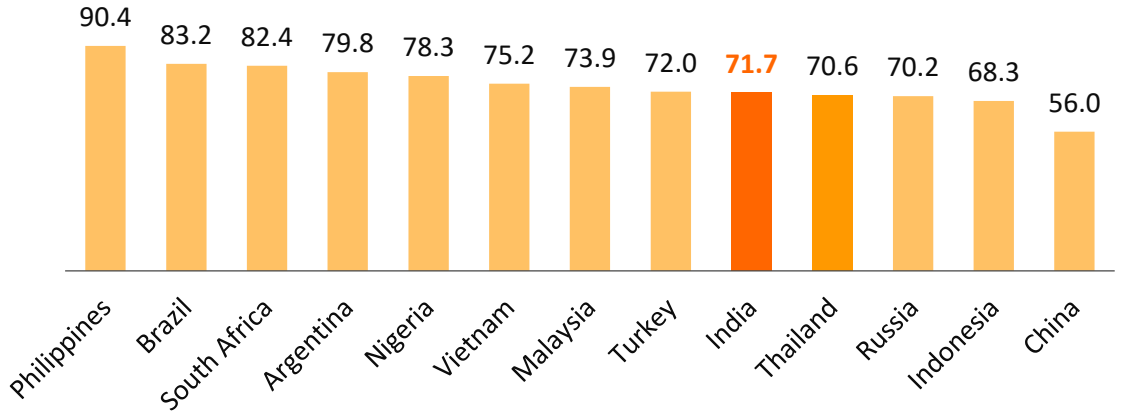
Long-term growth prospects for India remain favorable due to India's fundamental factors

Despite economic scars caused by the pandemic, the outlook for India's long-term growth remains favorable and the economy could expand by 5.0 – 6.0% p.a. which is slightly below the growth trajectory in the last decade (2010-19) of about 7.0 – 7.5 % p.a. India's longer-term path will be boosted by its favorable demographic structure, foreign direct investment (FDI), structural reforms, and digitalization and modernization of the economy .

Growth projection for India (%YoY)



Final consumption expenditure (% of GDP) in 2020



4 Key Factors to Sustain India's High Growth in the post COVID-19 era

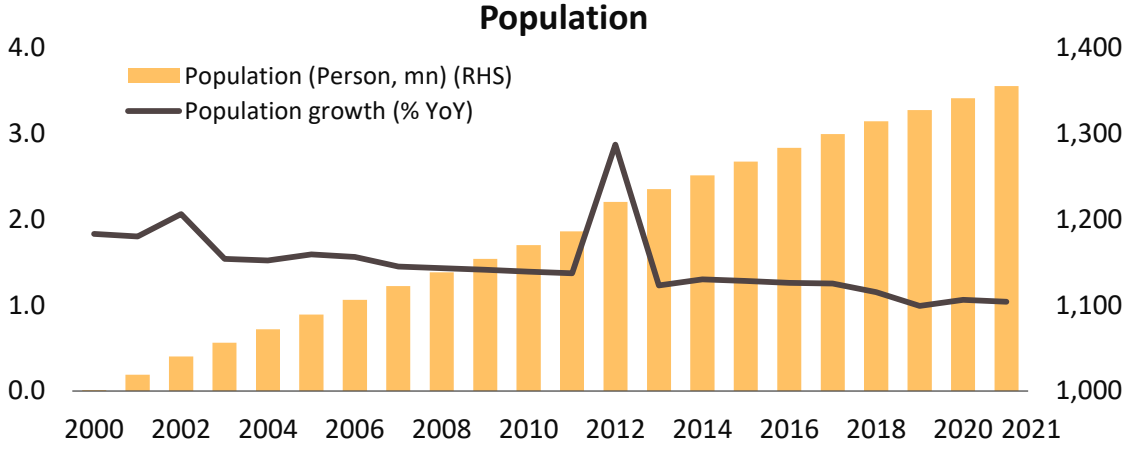
1. **Favorable demographic structure**
2. **Sustained inflows of foreign direct investment (FDI)**
3. **Structural reforms**
4. **Digitalization**

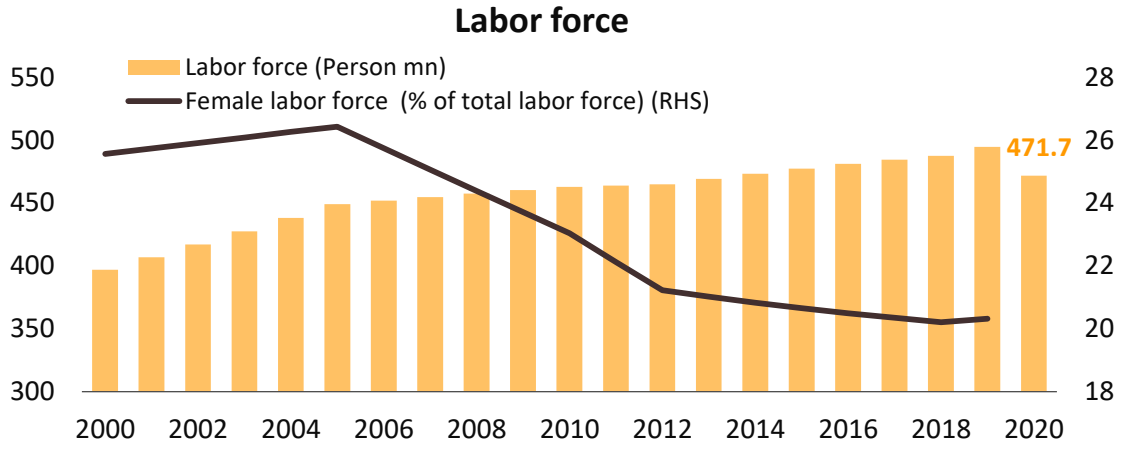
Note: EMDEs are Emerging Markets and Developing Economies

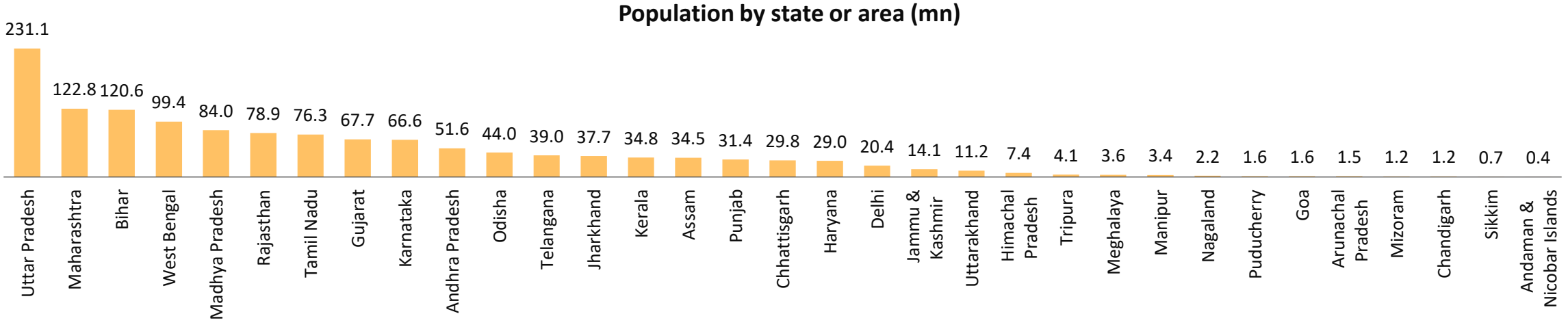
Source: CEIC, Krungsri Research

Demographic advantage has put India in a competitive position to drive its manufacturing sector and its digital economy

India is projected to add more than 100 million population to its workforce by 2030. While it could be challenging for the authorities to generate large job opportunities, India has opportunities to reap a demographic dividend. But low labor force participation rates and poor access to education could impede the contribution of labor supply to growth. On the other hand, while the economy is heading back to its high potential path, it is expected that the number of households with an income greater than USD30,000 is likely to more than double over the next decade.





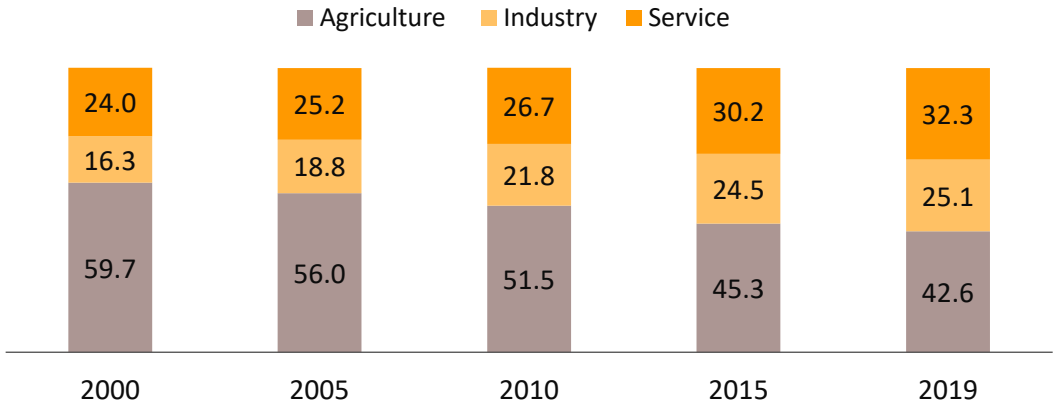


Source: CEIC

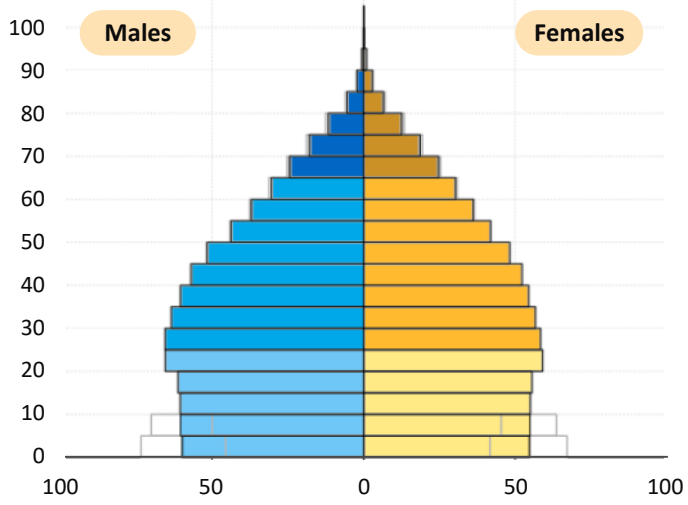
Sizeable middle-class consumers continue to expand driven by sustained high growth

While decreasing, the share of agricultural employment has been large accounting for 42.6% in 2019 compared to about 60% in 2000. This would release workforce to more productive sectors including manufacturing and higher value-added services. By 2030, the structure of population will be favorable with sizeable young and wealthier workforce as about two-thirds of population is below 35 years with the average age of 25 years old. The middle class is on course to expand on the back of high growth.

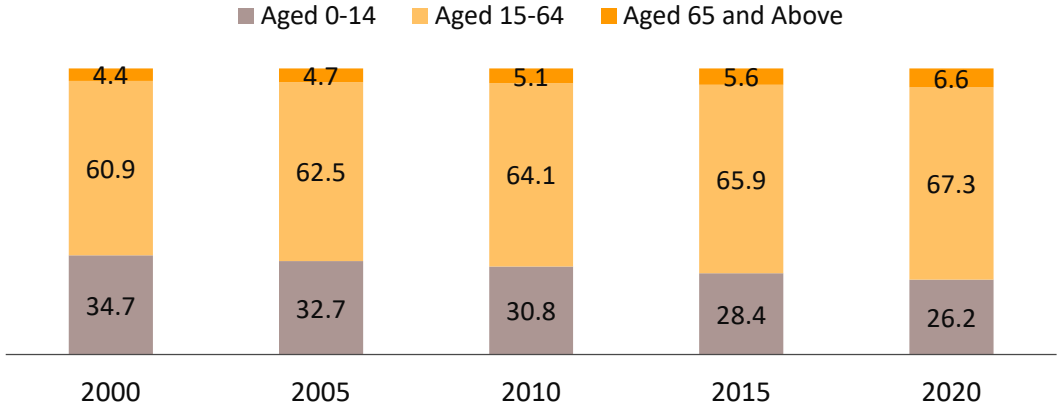
Employment by economic sector (% of total labor force)



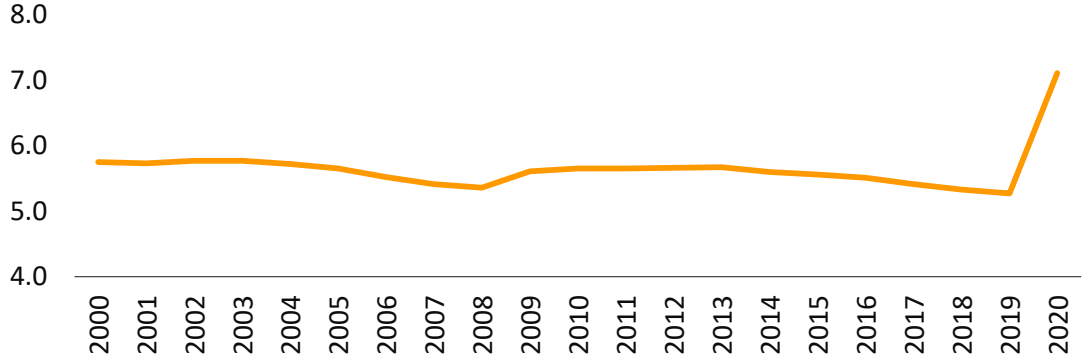
Population structure in 2030



Population structure by age (% of total)



Unemployment Rate (%)

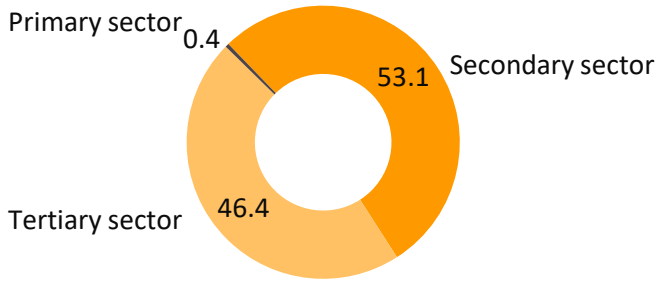


Source: CEIC

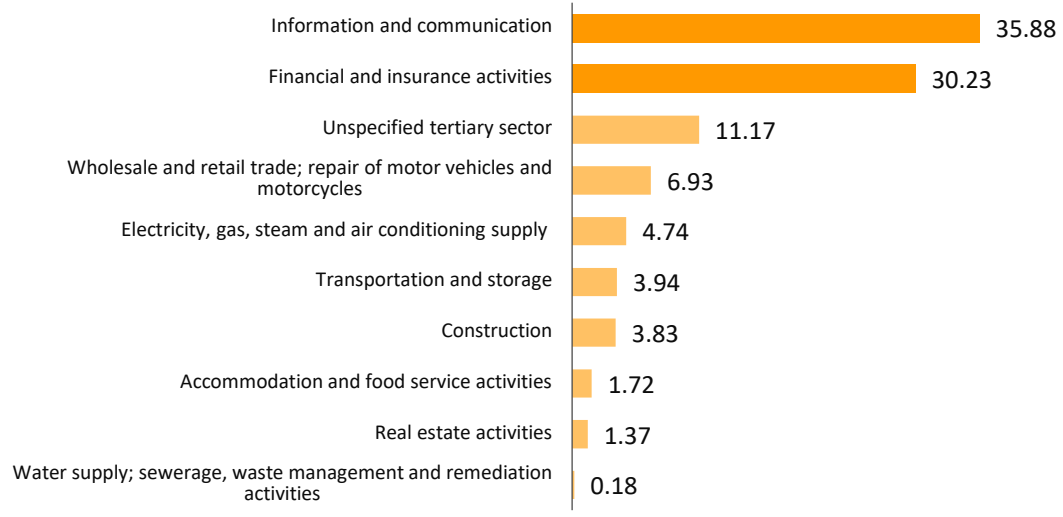
FDI is concentrated on the ICT and financial and insurance sectors with the US and the UK as the largest investors

Structural reforms and initiatives implemented under the current administration of PM Modi have induced sizeable inflows of foreign direct investment (FDI) to India. As of 2019, the secondary and the tertiary sectors are the largest beneficiaries of FDI with the share of 53.1% and 46.4%, respectively.

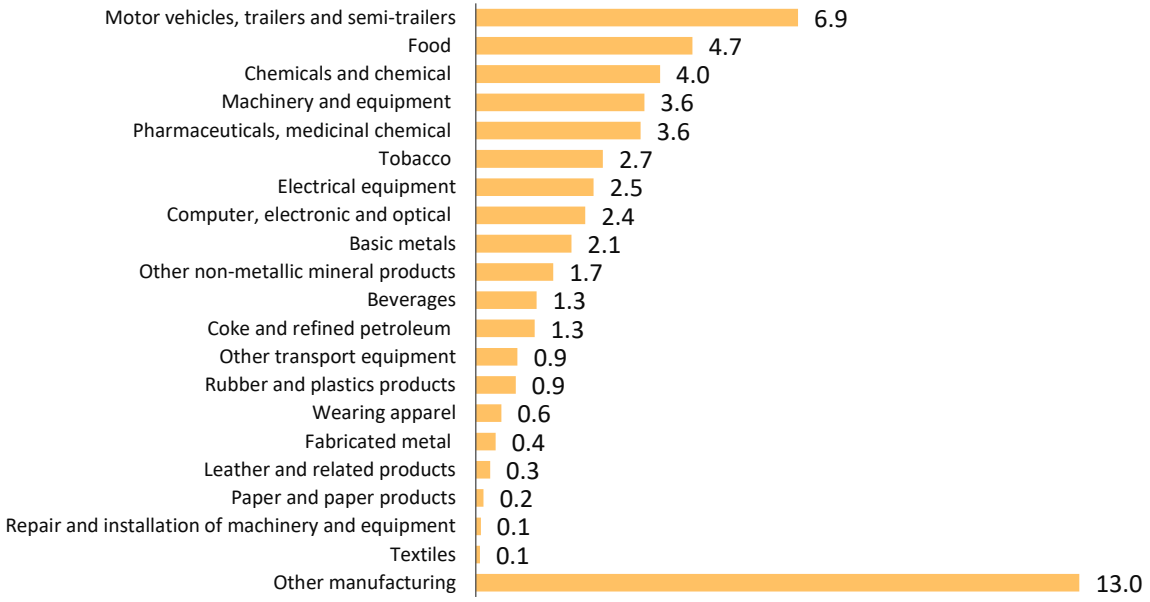
Share of FDI stock in 2019 (%)



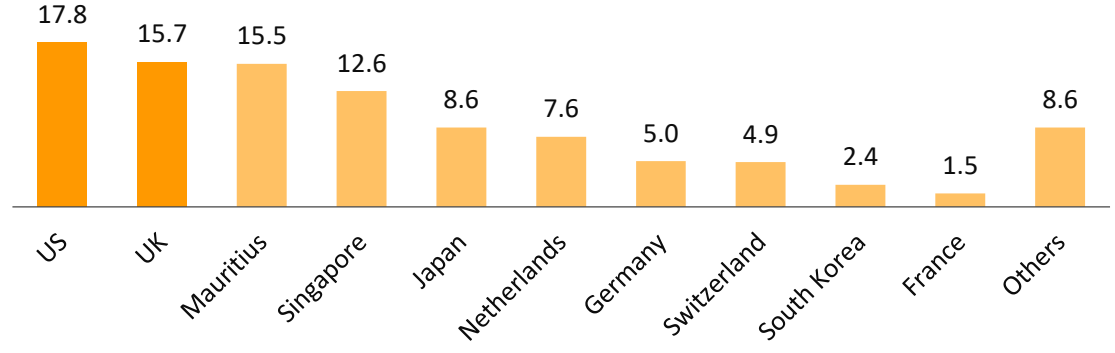
Share of FDI Stock in the Tertiary Sector (%, 2019)



Share FDI Stock into the manufacturing sector (% of total, 2019)



Major sources of FDI (% total FDI Stock as of 2019)

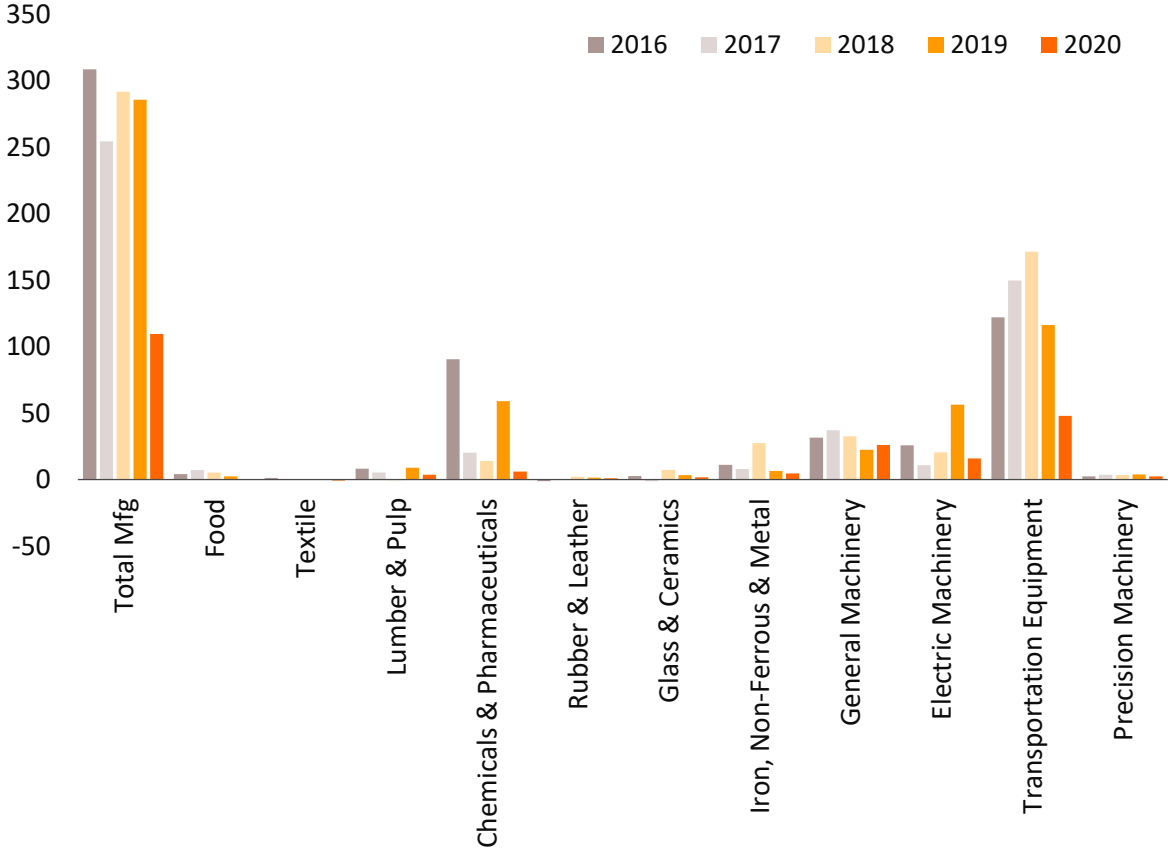


Source: CEIC

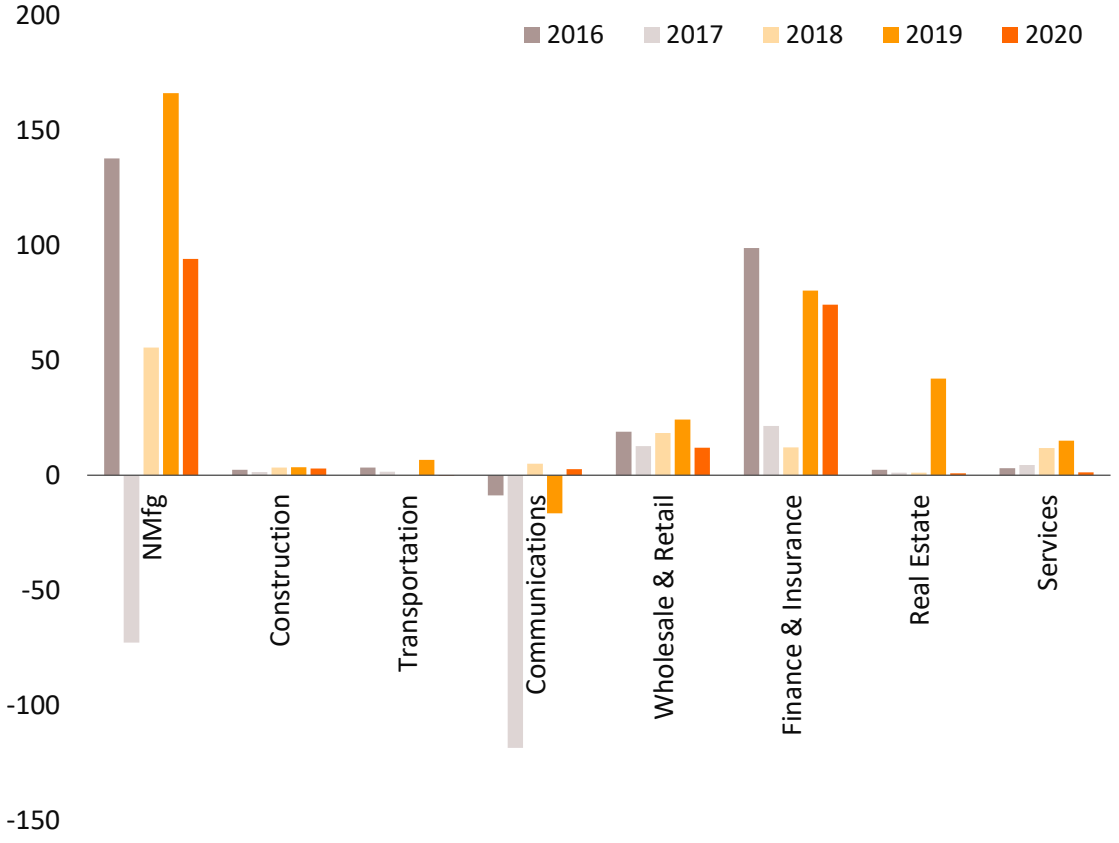
Japanese Direct Investment has been concentrated on the transportation equipment on the manufacturing, and on financial and insurance sector on the non-manufacturing

Currently, Japan is the 5th largest investor in the India with cumulative FDI inflows of USD35.4bn over the past two decades accounting for about contributing 6.7% to India's total FDI outstanding in 2020. Since the launch of the Make in India Initiative, Japanese direct investment to the country has continued to rise both in the manufacturing – particularly the transportation equipment- and non-manufacturing – especially finance and insurance- activity.

Japanese FDI: Manufacturing activities (JPY bn)



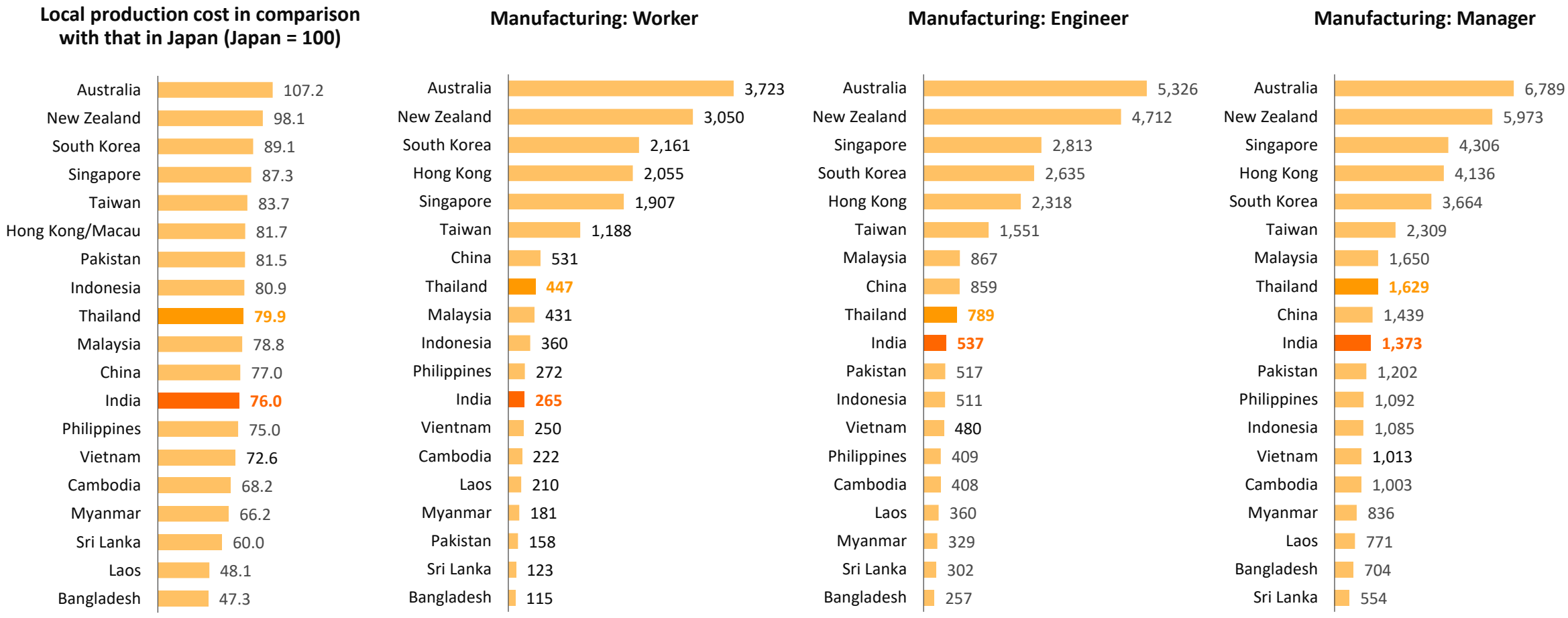
Japanese FDI: Non-Manufacturing (JPY bn)



Source: CEIC, Krunsri Research

Costs of production is relatively low and provides India competitive advantage as an investment destination labor-intensive manufacturing sector

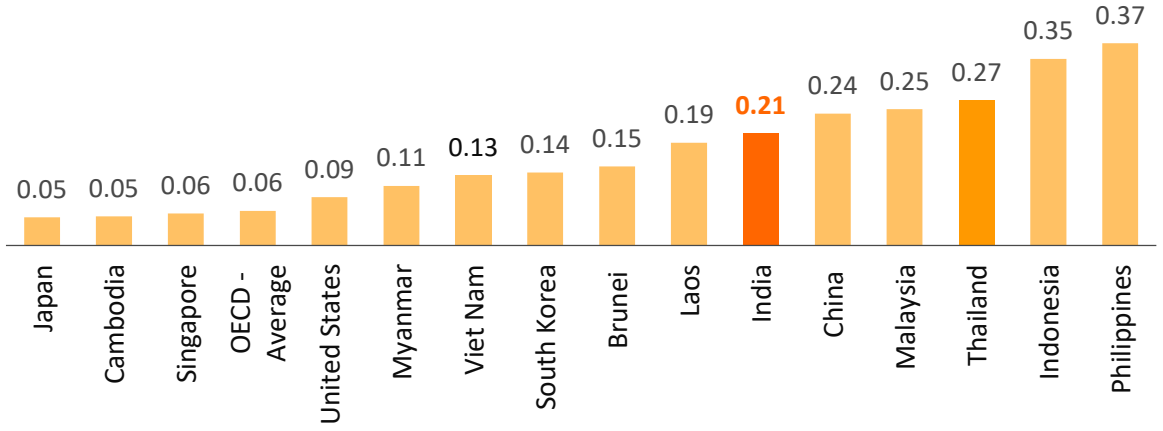
Production cost and wages for the manufacturing sector in Asia and Oceania



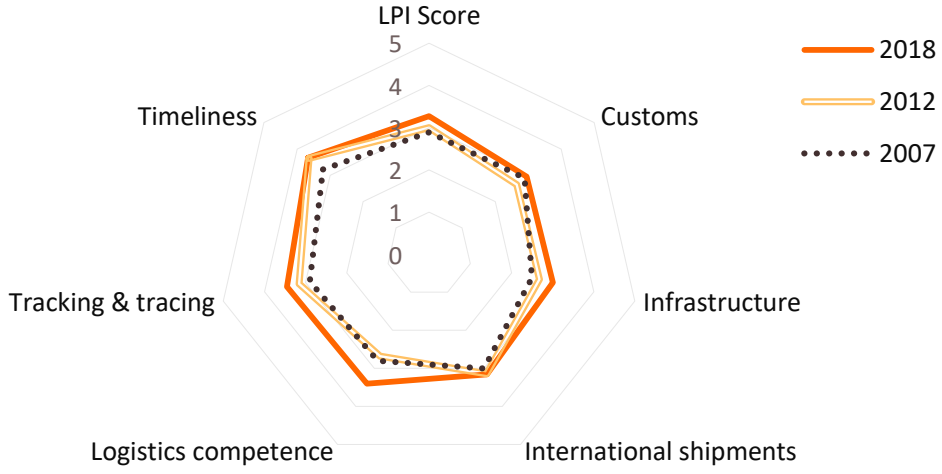
Source: Data based on JETRO Survey Report: Survey on Business Conditions of Japanese-Affiliated Companies: Asia and Oceania, December 2020

Business environment is relatively conducive as regulatory restrictiveness has been lowered as a result of ongoing structural reforms

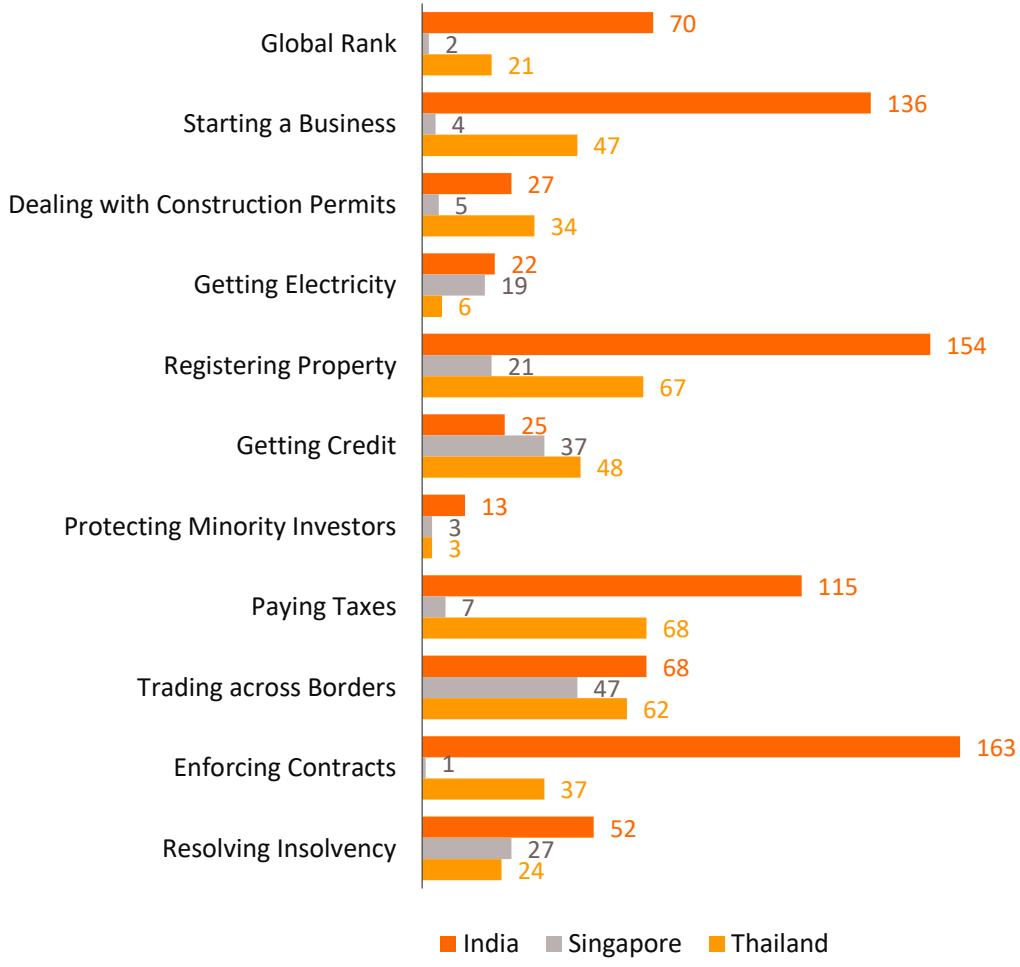
OECD FDI Regulatory Restrictiveness Index (2019)



India's Logistics Performance Index (LPI)



2020 Ease of Doing Business Ranking (of 140 countries)



Source: CEIC, OCEC, World Bank

Reforms initiated under PM Modi could unlock India's structural bottlenecks and realize its full growth potentials

Since taking office in 2014, the Modi government has introducing and prosecuting an ambitious economic reform agenda aiming at bringing more local businesses into the formal economy, divesting the government's stake in public sector companies, increasing Goods & Services Tax (GST) compliance, and stabilizing the financial sector. In this second term following the landslide victory in the recent general election in 2019, the government has introduced additional reforms including liberalizing domestic agricultural markets and easing labor regulations, as well as reforms to education policy. These measures could significantly unlock structural bottlenecks and boost India's potential growth.



Narendra Damodardas Modi
14th and current prime minister of India since 2014

Make in India Initiative



- **The Make in India Policy** launched by Prime Minister Modi in 2014 is as part of a wider set of nation-building initiatives.
- **The Policy has the key aim to transform India into a global design and manufacturing hub** by targeting 25 economic sectors for job creation and skill enhancement.

The Policy has 3 main objectives:

- Increasing the manufacturing sector's growth rate to 12-14% p.a.
- Creating 100 million additional manufacturing jobs in the economy by 2022.
- Ensuring that the manufacturing sector's contribution to GDP is increased to 25% by 2025.

Source: World Bank, Nekkei Research, Bloomberg

Reform agenda of prime minister Modi in his second term

Agricultural market reforms	• Abolishing state governments' wholesale market monopolies. • Liberalizing interstate wholesale marketing. • Opening-up private sector agri-logistics businesses including warehousing, cold storage, on-field food processing, transportation.
Labor market reforms	• Replacing 29 federal-level laws with 4 new laws on wages, working conditions and workplace safety, industrial relations, and social security. • Fully legalizing fixed-term employment. • Liberalizing dismissals by companies with fewer than 300 non-managerial employees, together with allowing state governments to freely raise the threshold. • Recognizing a trade union only if it has 10% or 100 of the total non-managerial employees of a workplace as its members, bans union executive committees comprising non-employees (excl. professional unionists) • Requiring 60-day prior notice to employer before striking.
Reforms of state-owned enterprises (SOEs)	• Privatizing, liquidating or consolidating existing 367 SOEs, setting aside bare minimum SOEs that belong to strategic sectors including national security and public utilities.

Source: Nikkei Research

Digitization could provide a significant boost to India's economic growth on the horizon

India's digital market potentials have been driven by the considerable number of internet users of 624 million in 2021. As a result, India is among one of the largest and fastest-growing markets for digital consumers second only to China. In addition, the government under PM Modi launched the Digital India Initiative in 2015 to promote e-services provided by the public sector as well as to improve digital infrastructure including internet connectivity and digital literacy to drive the digital adoption. Undoubtedly, digitalization has huge potentials to drive India's long-term growth.

Total number of internet users (any device)	Internet users as a percentage of total population	Annual change in the number of internet users	Average daily time users aged 16 to 64 spend using the internet	Percentage of users accessing the internet via mobile devices
				
624.0 million	45.0%	+8.2% +47million	6Hr 36mins	91.7%

Source: We Are Social Report: Digital in India (January 2021)

Digital technology is expected to play significant roles in delivering better financial services and promoting financial inclusion in India

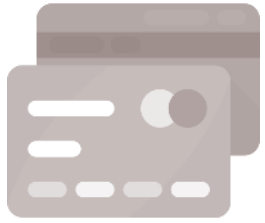
Financial inclusion factors in India

Has an account with a financial institution



79.9%

Has a credit card



3.0%

Has a mobile money account



2.0%

Makes online purchases and/or pays bills online



4.3%

% of women with a credit card



2.3%

% of men with a credit card



3.7%

% of women making online transactions



3.0%

% of men making online transactions



5.5%

Source: We Are Social Report: Digital in India (January 2021)

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