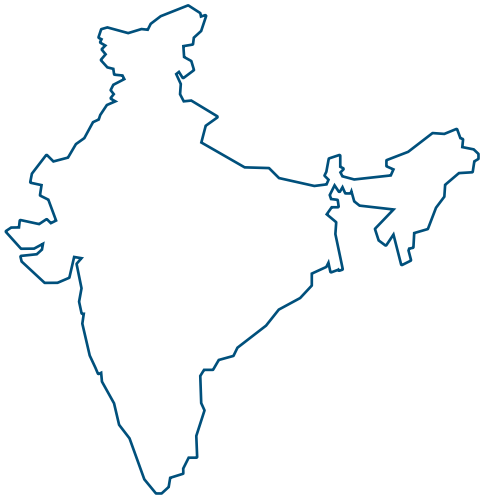
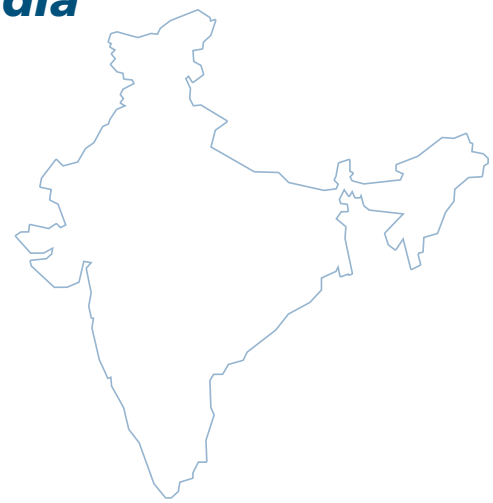
Country outlook
India



CaixaBank

Closing date of this issue: July 2020

India



Form of Government: Federal parliamentary republic

Capital: New Delhi

Official language: Hindi, English

Population: 1,368 billion inhabitants (2019)

Currency: Indian rupee (INR)

Exchange rate: 1 EUR = 84.80 INR (30/06/2020)
1 USD = 75.55 INR (30/06/2020)

GDP: $2,935 billion (7.9% of world GDP)

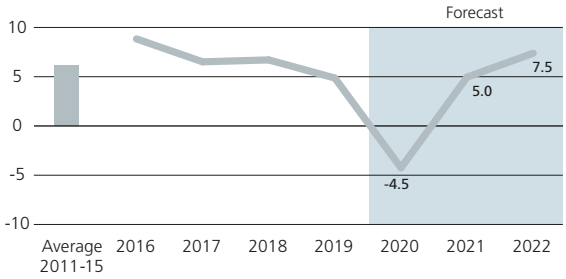
GDP per capita: $2,172 ($8,378 purchasing power parity)

Ease of doing business: 63th in the world out of 190 according to the World Bank (Doing Business)

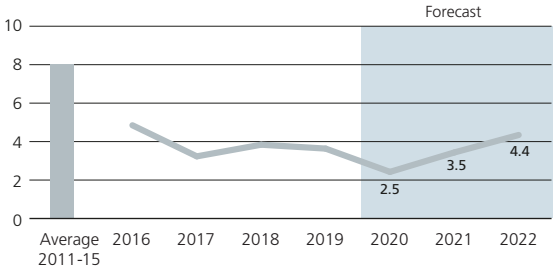
Religion: Hindu: 80.5%

Economic forecast

GDP. Year-on-year change (%)



CPI. Year-on-year change (%)

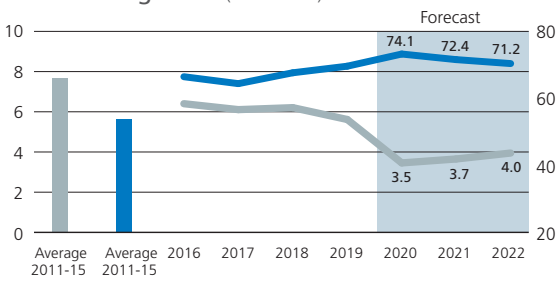


- The Indian economy will suffer a deep recession in 2020 due to the impact of COVID-19. The overall decline in activity in 2020 will be heavily marked by a collapse in Q2 that could reach double figures after the country's lockdown in the spring of 2020. If the epidemic is successfully tackled, the economy should start to recover very gradually during the second half of the year, although this will not be enough to avoid a drop in GDP that could be close to 5% on the average for the year. Workers in the Indian informal economy and the services sector will be particularly affected by this recession and the effects on the labour market will take time to recede. In 2021, the economy should rebound strongly and recover lost ground in 2020, provided there is an effective coronavirus vaccine or treatment.

- In 2020 inflation will drop slightly more than 1 pp, mainly because the collapse in consumption due to COVID-19 suppress demand pressures. The fall in oil prices, the expectation of a quiet summer monsoon season that does not cause major supply disruptions and a favourable base effect (inflation rebounded strongly in the second half of 2019) all point to inflation in 2020 being slightly above the minimum value (2%) of the target range set by the central bank (between 2% and 6%). In 2021 and 2022, with the reactivation of the economy, a gradual rise in inflation is expected towards the intermediate values of the range.

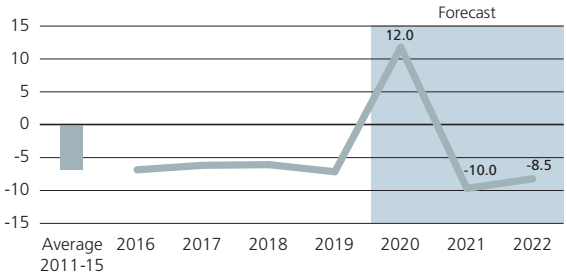
Economic policy

Benchmark interest rate (%) and exchange rate (INR/USD)

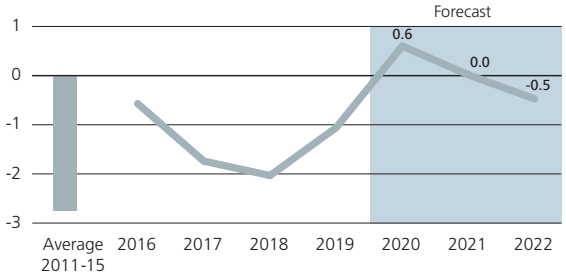


Benchmark interest rate (left scale)
Exchange rate (right scale)

Fiscal balance (% GDP)

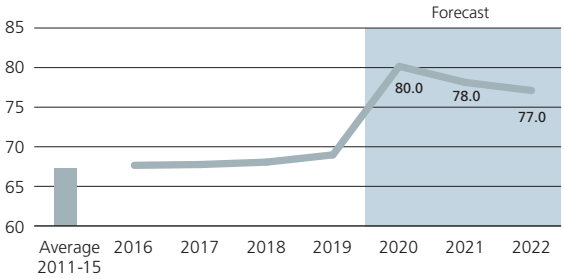


Current account (% GDP)



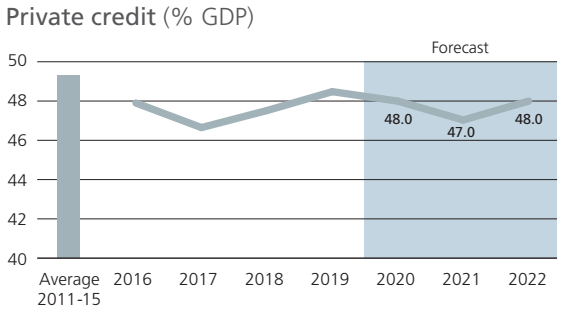
- The central bank is bearing the brunt of the economic response to the COVID-19 crisis. Specifically, it has reduced the reference interest rate from 5.15% in effect when the lockdown began to 4% at the end of the first half of the year, and it still has some scope to make further decreases. It has also injected liquidity into the economy for a value close to 5% of GDP.

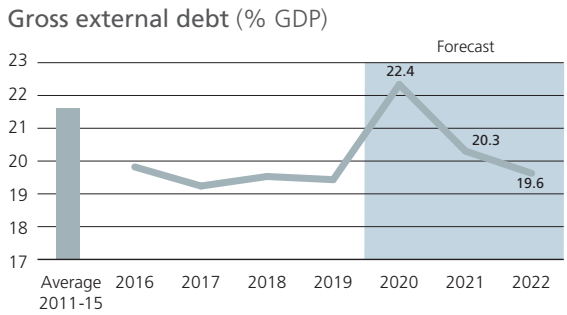
Public debt (% GDP)



- The Modi administration has announced a stimulus package of 10% of GDP to counter the effects of COVID-19. However, most of these incentives will be in the form of public guarantees for the granting of loans, and it is estimated that direct fiscal aid will never exceed 2% of GDP. Direct aid will focus on supporting the most vulnerable sectors (migrant workers, farmers and workers who have become unemployed in rural areas).

Financial conditions



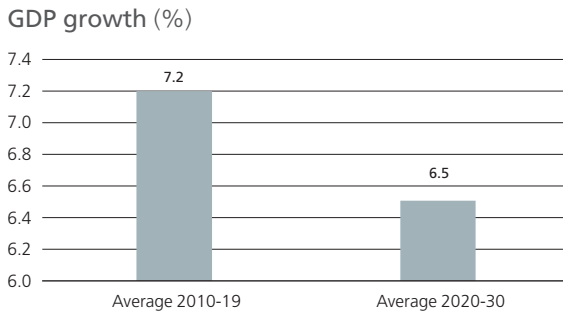


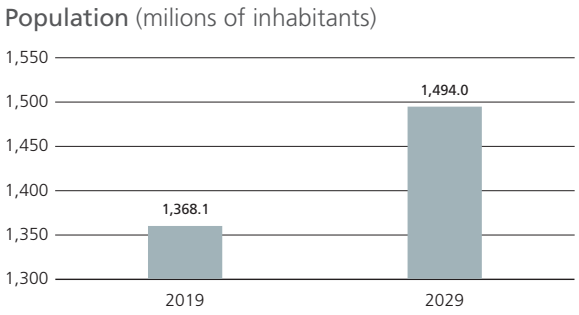
- COVID-19 will increase pockets of vulnerability in some parts of the Indian financial system. Specifically, the percentage of non-performing loans (from 9.2% at the end of 2019) is expected to increase substantially (some studies suggest that they will double). In addition, the banking system is undergoing a major transformation (recapitalisation of public banks of GDP, implementation of the bankruptcy and insolvency code and sector consolidation plan), and the current situation may require more measures to strengthen it. COVID-19 will therefore necessitate the acceleration of the restructuring of problematic bank assets, a large part of which are in the hands of public banks, and the taking of more vigorous support measures, such as enabling new direct credit lines to companies. In this context, private credit will continue at modest levels, which will limit the speed of economic recovery.
- To mitigate the effects of COVID-19, the central bank has taken certain measures to alleviate the situation in the financial sector, such as a moratorium on term loans and liquidity measures for small and medium businesses. The central bank has also relaxed the obstacles for foreign capital inflows, which helped make outflows of capital manageable for the economy in the first half of the year.

Political situation

- The importance of the shock of the coronavirus may alter the direction of the Modi Government's economic policy. On the one hand, the government will have to increase public expenditure to help revive the economy. On the other, it will have to make progress with far-reaching structural reforms in labour and infrastructure. Modi has said that the coronavirus crisis is the ideal time to undertake these reforms, given that the repositioning of global value chains represents a good opportunity for India to attract employment and investment from the rest of the world.
- President Narendra Modi won the general election held in April 2019, achieving a comfortable absolute majority in the lower chamber. Modi will thus be free to implement his agenda during his term, which ends in 2024. Nonetheless, increasing polarisation following the approval of the citizenship law, which facilitates the legalisation of undocumented persons, provided they are not Muslim, the higher risk of poverty due to COVID-19 and the tensions with Pakistan in the state of Jammu and Kashmir, constitute threats to the political stability of the country.

Long-term outlook





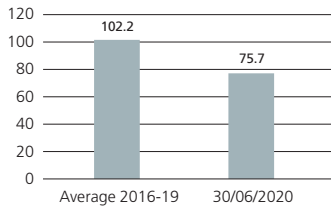
- The Modi Government's reforms to increase infrastructure spending and the expansion of technological, pharmaceutical and manufacturing companies will all contribute to creating an environment more conducive to long-term growth, although more profound reforms are essential to increase potential growth. Particularly pressing issues to be resolved are the elimination of obstacles for acquiring land, the full liberalization of trade and the ironing out of rigidities of the labour market (which props up a huge informal economy). The margin for improvement in creating a business-friendly environment is apparent in the World Bank ranking, which measures the ease of doing business: in 2019, India was 63rd out of a total of 190 countries with a better environment for doing business. The country must also modernise its digital infrastructures to enable greater use of remote work, an important practice so that productive activity does not fall as much when there is a pandemic like the current one.
- Long-term growth will be supported by very favourable demographics. To make the most of the increase in the working-age population, however, labour market reforms will be necessary in order to create new jobs. A factor of particular concern is the extremely low rate of female participation in the labour market (24% according to the World Bank), which is the lowest among emerging countries (in China, for example, the figure is 61%).

Country risk

	Rating	Last changed	Outlook
STANDARD & POOR'S	BBB-	30/01/07	Stable
Moody's	Baa3	01/06/20	Negative
FitchRatings	BBB-	01/08/06	Negative

■ Indicates that the country has an "investment grade".
□ Indicates that the country does not have an "investment grade".

CDS* 5 years (basis points)



*Credit default swap: measurement of country risk that reflects the cost of ensuring the non-payment of the sovereign bond.

OECD credit risk rating
(from 0 to 7, with 0 being the best)

3/7

Risks

SHORT-TERM

- Greater than expected global impact of the pandemic
- Greater than expected impact of the pandemic in India
- Increased tightening up of international financing
- Instability of the banking system
- New social unrest

LONG-TERM

- Inequality
- Inefficient and oversized public sector
- Failure to implement reforms

Business environment

STRENGTHS

- Market size.
- Dominance of English.
- Tertiary education.
- Cutting-edge Institutes of Technology.

WEAKNESSES

- Institutions (bureaucracy and pending modernisation).
- Inefficient labour market.
- Infrastructure deficit.
- Poverty.
- Low education level.
- Clear rise in the ICT service industry.

Main sectors

EXPORTS

- Metals and precious stones, mineral fuels, machinery, vehicles and organic chemicals.

IMPORTS

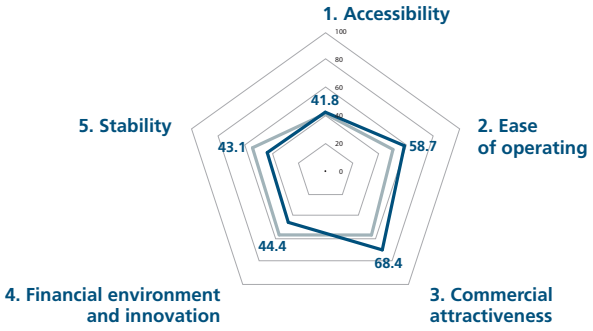
- Mineral fuels, metals and precious stones, electronics, machinery and organic chemicals.

CIBI | CaixaBank Index for Business Internationalisation

POSITION IN COUNTRY RANKING

38/67

PILLARS



Southeast Asia and the Pacific — India
(Mín. 0 - Máx. 100)

SUBPILLARS

Top

Similar tastes to Spain

Investment relations with Spain

Innovation capability

Bottom

Easiness of operating a business

Distance, communications, and agreements with Spain

Macroeconomic stability

Source: CaixaBank Research, based on data from Bloomberg, IMF, OECD, Oxford Economics and Thomson Reuters Datastream.

Taxation

In July 2017, India implemented its biggest fiscal reform with the inclusion of the GST (goods and services tax), with the aim of unifying the whole country and turning it into a market with uniform taxes. It is a common indirect tax for all of its states and territories. The aim of implementing this tax was to have a system that would consider India as one market and would mean it was no longer fragmented. It is a historical reform and the country is currently in the process of learning and adapting to it, which is why there may be minor modifications in the coming years.

The GST is divided into various rates, with the maximum type currently being 28%, although the majority of products are in the range of 18%.

In terms of the remaining taxes in India, personal income tax varies from a minimum rate of 10% to 30%, according to income. Corporate tax depends on whether the company is Indian or foreign, being 30% for national firms (with a 10% surcharge when revenue exceeds INR 10 million and an education cess of 3%) and 40% for foreign firms, non-resident companies (with a 2.5% surcharge when revenue exceeds INR 10 million and also an education cess of 3%). Companies with an income of more than INR 10 trillion must allocate 2% of net profit to social projects.

Finally, it is important to note that the fiscal year in India runs from 1 April to the following 31 March.

Investment

The country receives an increasing amount of foreign investment thanks to its projected growth and numerous strong points, including highly specialised services and a cheap English-speaking workforce. The main investment sectors are: services, construction, telecommunications, IT programmes and materials, medicine and pharmaceutical products, automotive industry, chemical products and energy.

Establishment

LOCAL COMPANY

The main legal forms present in India for company start-ups are:

- Sole Proprietorship: sole proprietors.
- Partnership: Companies formed by the association of two or more individuals.
- Limited Liability Partnership: Limited Liability Partnership, a form created in 2010 that is the result of combining a Partnership and a Limited Company, which can be public or private, as well as of limited or unlimited liability.
- Company is the option via which foreign firms are regulated, using subsidiaries or joint ventures.

BRANCH

A branch, understood as an office in the country, does not have the status of a joint stock company but is an extension of the foreign firm in India. A branch of a foreign firm is limited to the following activities by the Reserve Bank of India (RBI): representing the parent company and acting as its agent in sales and purchases, carrying out import activities and export trade, promoting technical and financial collaborations between Indian and foreign companies, providing professional or consulting services, providing information technology services and developing software and providing technical support for products supplied by the parent company.

A branch is subject to tax in India and is allowed to repatriate any profits made after paying the relevant taxes. However, it is not allowed to carry out activities of production or direct processing, although it can outsource these activities to an Indian manufacturer or locate itself in a special economic zone (SEZ) where such activities are allowed.

REPRESENTATIVE OFFICE

This is the simplest form of start-up with the least risk. The aim of such offices is solely to supervise commercial networks, raise awareness of the products among existing and prospective clients and explore new business and investment opportunities. A representative office is not allowed to carry out any commercial activity that generates an income in India. As no income is generated there are no fiscal implications. Such offices cannot be paid any fees or receive other income from clients from India for providing services. All expenditure is met by internal remittances. A foreign firm setting up a representative office in India cannot repatriate money from India.

Alliances strategic

FREE TRADE ZONE

The government has established several special zones for foreign trade with the idea of boosting production aimed at exports. Within these zones are special economic zones (SEZ), industrial free trade zones (IFTZ), software technology parks (STP) and export oriented units (EOU).
There are currently nine SEZs in the country, the closest formula to the so-called free zone, and these are located in Santa Cruz (Maharashtra), Cochin (Kerala), Kandla and Surat (Gujarat), Chennai (Tamil Nadu), Visakhapatnam (Andhra Pradesh), Lack (Bengala Occidental), Noida (Uttar Pradesh) and Indore (Madhya Pradesh).

JOINT VENTURE

This kind of agreement is very common because India encourages foreign collaboration to facilitate capital investment, capital goods imports and technology transfer. However, it is advisable to be cautious as, once a decision has been made to set up a joint venture, the following guidelines should be taken into account: the roles and expectations of each partner should be defined because equality and trust will help maintain the company, experience should be regarded as a key factor and a long-term approach should be considered.

There are two ways to set up a joint venture: automatically or via the government route. The first is simpler as it requires no approval or government permit. The second is divided into two types depending on whether an industrial licence is required, granted by the SIA (http://dipp.nic.in/) under the recommendations of the Licensing Committee. Investments subject to government approval are described as the "government route" and require the approval of ministries and bodies before the investment is made.

Customs conditions

FREE TRADE AGREEMENTS

This market has approached regional trade agreements (RTA) as stages towards the overall objective of liberalising trade. The country is currently participating in a number of agreements including free trade agreements with Sri Lanka, preferential trade agreements with countries such as Chile, Afghanistan and Mercosur and global agreements of economic cooperation with Malaysia, Finland, Nepal, Singapore, Japan and South Korea, among others.
The European Union and India are currently committed to increasing even further their flows of trade in goods and services, as well as bilateral investment policies and access to public contracts via negotiations under the Free Trade Agreement implemented in 2007 and still in force today.

FREE TRADE ZONE

Special economic zones have the status of a foreign territory so the companies operating within these zones are not subject to the same tax regimes as companies resident in the country; both in terms of customs regulations, for the purposes of trade and customs duties, tariffs and duty free, and also in terms of receiving exemptions from requirements regarding the granting of industrial licences and enjoying tax breaks and other rebates.
Industrial free trade zones are industrial estates with incentives for foreign investors in export-oriented companies.

GENERALISED SYSTEM OF PREFERENCES (GSP)

The Bangkok agreement, an initiative by the Economic and Social Commission for Asia and the Pacific (ESCAP), encouraged the expansion of trade by exchanging customs concessions between the signatory countries. After some modifications there are five states that still operate under these agreements: Bangladesh, India, Korea, China and Sri Lanka. India also has preferential trade agreements with Mercosur, Egypt, the South African Customs Union (SACU) and Afghanistan.

Negotiations and protocol

BUSINESS CULTURE

This country has significant cultural differences with Spain which must be taken into account when handling any kind of business contact. Nevertheless, Indians also pay attention to these differences and modify certain aspects of their behaviour such as greetings, using a brief handshake when meeting and taking leave. Other forms of physical contact are not welcome in public.

The best time to arrange appointments with Indian directors is before or after lunch (at 11 am or 4 pm) and it is not strictly necessary to wear a suit and tie at meetings unless the occasion is very formal or top level.
The company's hierarchy must be respected and the right contact person identified. Negotiations are tough in terms of price and established for the long-term.

Top fairs

- Agritech.
- Acetech.
- India Chem.
- Auto Expo.
- FoodTec.
- India Lab Expo.

Websites of interest

- Investing in India: http://investindia.gov.in/
- Development programme "Make in India": www.makeinindia.com
- Indian customs: www.cbec.gov.in
- Indian Chamber of Commerce: www.indospanishcc.org

Payment and charging methods

MEANS OF COLLECTION

It is advisable to always guarantee that payments are received by using the usual international methods, primarily documentary credit, which offers most guarantees. Documentary remittances can also be used: sight (CAD-Cash against Documents) or term (DA-Delivery against Acceptance). Another possibility is bank transfer although, given the cultural differences and distance of the market, this is not recommended for initial payments and should only be used once a climate of trust has been established.

MEANS OF PAYMENT

Documentary credit is the payment method that is most trustworthy, as well as documentary remittances, both CAD and DA. Documentary credit with deferred payment also provides exporters with financing facilities via the issuing bank.

EXCHANGE RATE INSURANCE

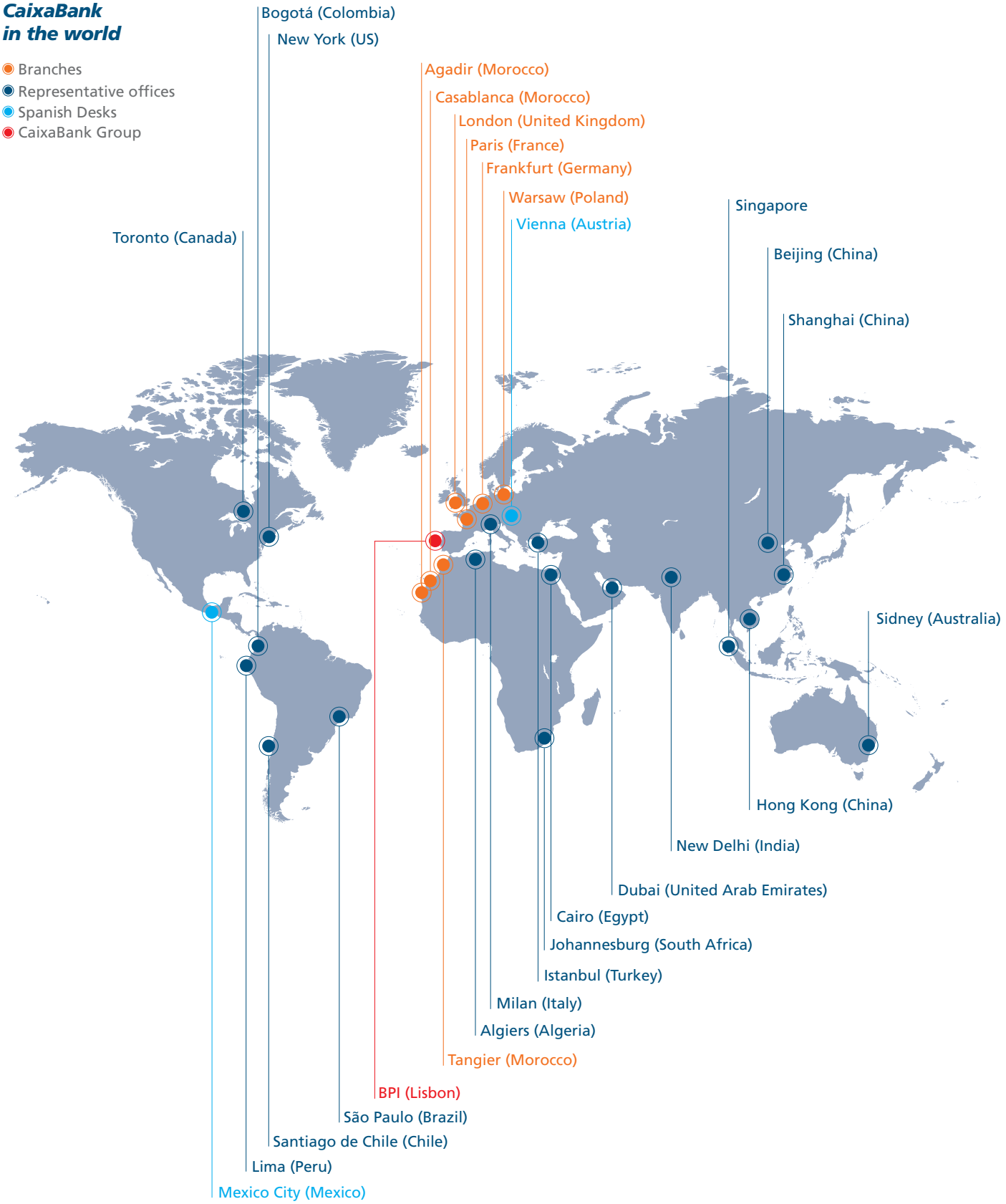
The rupee is an unstable currency and, in fact, in the last few years India has taken various measures in an attempt to stop the national currency from depreciating, some of these being considered "desperate". This is a country where it may be of interest to purchase exchange rate insurance. However, most transactions are made in US dollars (exchange rate insurance is advisable) and in euros.

CaixaBank in the country

The main objective of the India office is to improve communication channels with local financial institutions, supporting CaixaBank customers' activities in the country, whether they are foreign trade or investment and deployment projects. They also offer consulting and accompany Spanish companies that wish to develop their business abroad.

CaixaBank in the world

- Branches
- Representative offices
- Spanish Desks
- CaixaBank Group



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