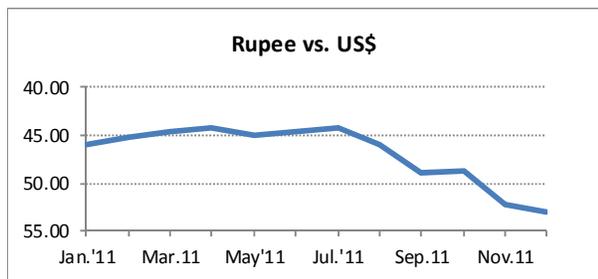


Country Risk Update – India

January 2012

Significant Recent Development

Disappointingly, the upper house of the Indian parliament has recently failed to pass a long-awaited anti-corruption bill. While attempts will be made to try to pass the bill again in 2012, we have doubts as to whether it will ever become law. The endemic levels of corruption in India (which include, recently, a telecoms bribery scandal and allegations of impropriety concerning the 2010 Commonwealth Games) are a serious risk to business dealings. India's score of 3.1 in Transparency International's latest annual Corruption Perceptions Index (released in December) places the country 95th out of 182 countries worldwide.



Risk Outlook

India's breakneck pace of expansion slowed in 2011 and we expect the trend to continue in 2012, supporting our "negative" risk trend. Exports, although having shown resilience in 2011, will weaken as the euro zone crisis deepens; this will affect key sectors such as automobiles, aviation, manufacturing and mining. Moreover, the country will continue to be affected by inflation and high borrowing interest rates.

Real GDP growth slipped to 6.9% year on year (y/y) in July-September 2011 - corresponding to Q2 of fiscal year 2011/12 - from 7.7% y/y in April-June. This put the expansion for the first half of the current fiscal year well below the government's original target of 9% +/- 0.25%. Finance Minister Pranab Mukherjee subsequently lowered the growth target to 7.5%. However, we believe that even this figure will be hard to achieve in light of the recent trend in industrial production, which posted an outright decline of 5.1% y/y in October. A pick-up in industrial confidence witnesses as 2011 drew to a close may prove short-lived.

The economic slowdown has been exacerbated by a series of interest rate hikes by the Reserve Bank of

India (central bank) in its bid to restrain inflation. This, and uncertainty concerning the economic outlook, is leading Indian companies to delay or postpone capital spending programmes, while the economic slowdown has seen interest rate sensitive sectors, such as cars and property, suffer from weaker output and demand.

The government is not in a position to increase public spending to pump-prime the economy, as its main focus is on narrowing the budget deficit. The economic slowdown is making that achievement much harder by causing tax revenue to fall below target and thus forcing the government to borrow more on the bond markets.

India's woes are compounded by a depreciating currency, the rupee, which has fallen by some 15% since April 2011. This is increasing the cost of borrowing for firms that have sought foreign currency (mostly US Dollars) from the domestic banks, benefiting from lower interest rates abroad. With the cost of borrowing escalating, foreign debts will need to be converted into rupee-denominated borrowing or restructured. This could have major implications for the corporate sector, increasing the risk of bankruptcy for small and medium sized firms, as well as the banking system by weakening profits and causing a rise in non-performing loans.

Risk Level: High		Risk Trend: Negative		
Annual Avg. % change	2010	2011e	2012f	2013f
Real GDP growth	9.9	7.0	6.5	6.7
- IMF	10.1	7.8	7.5	na
- OECD	9.9	7.7	7.2	8.2
Inflation (CPI)	12.0	9.8	8.8	8.0
- IMF	12.0	10.6	8.6	na
- OECD	12.0	8.9	7.9	7.2
Current Acc. (% GDP)	-3.0	-2.5	-2.0	-2.0
- IMF	-2.6	-2.2	-2.2	na
- OECD	-3.1	-2.1	-2.1	-2.0
Budget Bal. (% GDP)	-7.2	-7.0	-6.5	-6.2
Head of State:	President Pratibha Patil			
Head of Government:	Prime Minister Manmohan Singh			
Ruling Party:	Coalition led by Congress			
Next Election:	May 2014 (parliamentary)			
Capital City:	New Delhi (GMT +5.5 hours)			
Currency:	Rupee			
GDP (USDbn)	1538.0	Doing Business	134	
Population (m)	1169.0	Competitiveness	4.30	
Bank Debt (% GDP)	13.2	Corruption	3.1	
Economic Freedom	54.6	Corporate Tax (%)	33.0	
Sources: BBC, IFES Election Guide, IMF, FT, MJE, OECD, The Times and; Index of Economic Freedom (The Heritage Foundation): 0-100; 100 is best Doing Business Ranking (World Bank): 1-183; 1 is best Global Competitiveness Score (World Economic Forum): 0-6; 6 is best Corruption Perceptions Index (Transparency International): 0-10; 10 is best Headline Corporate Tax Rate (Deloitte)				