Industry Report

Financial services

India

4th Quarter 2021

Economist Intelligence
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EIU

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Symbols for tables
"0 or 0.0" means nil or negligible; "n/a" means not available; "–" means not applicable

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The Industry Reports are driven by the country-based macroeconomic forecasts for which EIU is renowned. An EIU expert examines our forecasts for the key indicators in each industry, taking into account economic and political developments, global and regional trends, and market- or competitor-specific factors that are likely to have an impact on the sector in the future. The analyst then provides commentary to outline the implications of these trends for companies in the industry.

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Financial services report

Overview

- Financial firms will mark a strong recovery in 2022, as India's current economic recovery gains steam, raising the prospects for improved demand for bank credit. Banks will be supported by a recovery in fees income and improved interest margins, and insurers will see a revival in the uptake of policies, even as premiums costs are set to increase. However, their profitability will continue to remain under pressure owing to uncertainty around the virus trajectory.
- There will be a firm but manageable rise in bad loans in 2022, when a complete picture of the pressure on lenders is likely to emerge. Public-sector banks will face the brunt of the stressed assets prompted by the pandemic, but privately and foreign-owned lenders will be also be hit by their exposure to retail borrowers and credit-card loans. Meanwhile small finance banks will suffer from their exposure to small and medium-sized enterprises (SMEs).
- India is the second-most populous country and services make up the majority of its GDP. The ruling coalition commands a large majority in the lower house of parliament, providing political stability. The government will undertake large-scale liberalisation and privatisation to support post-pandemic economic growth.
- The speed of the sector's recovery from the pandemic now depends on the government's ability to execute its previously announced strategic plans: the privatisation of a few lenders and the formation of a "bad bank" to resolve a heavy burden of delinquent loans.. However, the government needs to reform bankruptcy proceedings and bring in reforms related to improving corporate governance and risk practices of financial firms.
- The financial services sector accounted for 5.7% of GDP in fiscal year 2019/20 (April-March), according to the country's Ministry of Statistics. The share of the industry in the overall economy has been largely stable since it was recorded providing 5.8% of GDP in 2009/10.
- State-owned financial firms dominate the country's banking, insurance and capital markets, yet they are steadily losing ground to private rivals—a trend that will continue across the EIU's forecast period of 2021-25.
- Although traditional assets, such as gold and real estate, will continue to dominate Indian households' investment preferences, ease of use, favourable tax treatment and modernisation of the economy will spur more people to increase their exposure to securities markets. Bank deposits make up the bulk of households' outstanding financial assets (about 56%), followed by life insurance (23%), currency funds (13%) and mutual funds (7%).
- We forecast that real GDP will grow by 8.2% in 2021/22, after a contraction of 7.4% in 2020/21. This assumes some disruption from a third wave of Covid-19 infections in the second half of the fiscal year. The economy will exceed its 2019/20 level in 2021/22.

- The government will prioritise fostering a sustained economic recovery over the remainder of 2021 and in 2022. Supported by expanding domestic production, the government will strive to rapidly widen vaccine coverage and reduce its reliance on economically disruptive restrictions to tackle future Covid-19 outbreaks. We expect that India will have vaccinated 60% of its population by the second quarter of 2022.
- The administration will make piecemeal changes to legislation related to commerce, such as a relaxation of regulatory requirements and a modest liberalisation of foreign direct investment (FDI) rules. We expect the government to be moderately successful in privatising state-owned enterprises (SOEs), even as it faces pushback from employees and lukewarm interest from the private sector.
- We forecast that the Reserve Bank of India (RBI, the central bank) will start to incrementally tighten monetary policy from the second quarter of 2022. It will continue to drain excess liquidity in the interim, leading to a rise in borrowing costs by end-2021.
- The rupee, the local currency, is forecast to resume depreciating against the US dollar in 2022, when the Federal Reserve (the US central bank) is expected to begin tapering excess liquidity and follow with rate rises. The rate of depreciation is expected to slow from 2024 onwards, amid a narrowing of the current-account deficit and a benign inflation outlook.

Banks

India has a diversified set of lenders and promising financial technology (fintech) firms, including global technology firms, in the country's payments market. Access to credit and banking products has improved over the past decade on the back of sustained efforts by the government. However, there is still ample room to deepen customer engagement and promote the use of credit and sophisticated products, especially in the vast rural and poor regions of the country.

In July 2021 there were 12 public-sector banks, 22 private-sector banks, 46 foreign banks, ten small finance banks, two payments banks and four "financial institutions" in operation, according to the RBI. There were also 43 regional rural banks and four local area lenders, which were created mainly to improve the financial-inclusion drive in the country's rural areas through basic banking services. The sector also includes other non-scheduled banks, which hold lower levels of base capital and cannot borrow from the RBI. In addition, 56 non-banking financial corporations (NBFCs) are authorised to accept term deposits and make loans.

Following a recent amalgamation of state-owned lenders, the government has hinted at pursuing the privatisation of two lenders in 2021/22. Media reports in July 2021 indicated that Indian Overseas Bank and Central Bank were the shortlisted candidates for privatisation. In the medium term, we expect that the government will look to privatise a few larger lenders.

In late 2020 an RBI internal working group suggested sweeping recommendations to transform the country's banking sector, including allowing large non-financial companies or industrial houses to run banks. Unless the regulator bolsters its supervisory mechanisms, we believe that the threats of connected lending, misallocation of credit and increased systemic risks will intensify if such bank owners enter the market. Given the industry's current woes, including poor standards of corporate governance, the RBI is unlikely to accept this proposed reform.

Financial sector

	2016[a]	2017[a]	2018[a]	2019[b]	2020[b]	2021[c]	2022[c]	2023[c]	2024[c]	2025[c]
Total financial sector										
Total loans (US$ bn)	1,846	2,217	2,286	2,430	2,624	2,852	3,134	3,327	3,693	3,995
Deposits (US$ bn)	1,896	2,148	2,148	2,279	2,460	2,669	2,926	3,097	3,428	3,696
Current-account deposits (US$ bn)	205	236	228	243	262	284	312	328	363	392
Time & savings deposits (US$ bn)	1,691	1,912	1,919	2,036	2,198	2,384	2,614	2,769	3,065	3,304

[a] Actual. [b] EIU estimates. [c] EIU forecasts.

Source: EIU.

The coronavirus pandemic has aggravated the woes of the sector, which have included NBFCs going bust and the government rescuing a few lenders in the past several years. The pandemic has shaken India's banking system and exerted further pressure on lenders' already stressed balance sheets. Although an unprecedented mix of fiscal, monetary and regulatory initiatives calmed the markets and ensured financial stability in 2020, banks are likely to experience a surge in bad loans in fiscal year 2021/22 (ending in March 2022).

Bail-outs of weaker banks and consolidation in the troubled NBFC sector can be expected in the aftermath of the pandemic. The Supreme Court has ordered banks to waive compound interest on all credit accounts that sought moratorium support in March-August 2020, putting further pressure on lenders' financial results in 2021/22. However, we expect overall lending to rebound, as the vaccination drive picks up pace.

Gross bank credit by commercial banks was up by 6.7% in August 2021, after expanding by 5.6% in 2020/21, and 6.8% in 2019/20. Credit growth was slow across all segments in August 2021, with lending to industry growing by 2.3% and to services up by 3.5%. Credit to infrastructure—a major segment of industrial credit—rose by 5.9%, even as lending to the sectors of cements, basic metals, iron and steel; construction and telecoms contracted. However, personal loans bucked the trend, posting 12.1% growth, aided by consumer durables financing. Industries make up about 30% of the commercial banks' loan book, followed by the household sector (29%) and the services sector (27%).

The asset quality of lenders, although still below favourable levels, has improved. The non-performing asset (NPA) ratio of all scheduled commercial banks (SCBs) dropped to 7.5% at end-June 2021, from 8% a year earlier. Agriculture was the most stressed sector, with a NPA ratio of 10.6%, followed by industry (10.4%), services (7.5%) and retail (2.8%). The SCBs ended March 2021 with a capital/risk-weighted assets ratio (CRAR) of 15.8% and a common equity Tier 1 (CET1) ratio of 12.8%.

The stress generated by the pandemic has hindered the recovery of banks from the recent cycle of non-performing loans (NPLs). That build-up of NPLs was the result of a rapid and unsustainable increase in credit growth, fraud and poor risk management in the sector. Several instances of financial fraud involving corporates and business leaders have been reported by banks since the revelation of a US$2bn scam at the state-run Punjab National Bank in 2018.

The pandemic has aggravated the woes of India's NBFCs and housing finance companies, which do not take demand deposits and are less stringently regulated. The sector has been hit with stricter regulations and defaults since the 2018 collapse of IL&FS, a large NBFC that suffered from financial irregularities and a build-up of unsustainable debt. The shadow banking crisis had also brought to light asset-liability mismatches and overleveraging of companies that distribute long-term loans against short-term borrowings. Recent rescues by the government underline how a fragile financial sector has been put under additional pressure by the pandemic.

Banking sector

	2016[a]	2017[a]	2018[a]	2019[a]	2020[b]	2021[c]	2022[c]	2023[c]	2024[c]	2025[c]
Bank performance										
Banking assets (% change in local currency)	9.6	8.0	8.1	8.5	10.7	10.6	12.9	10.6	10.9	11.5
Bank loans (% change in local currency)	4.2	9.7	11.5	6.8	5.6	11.2	13.0	10.6	11.3	11.2
Bank deposits (% change in local currency)	11.9	6.9	9.1	9.0	12.3	11.4	13.1	10.9	11.0	10.8
Net interest income (% change in local currency)	8.8	5.4	16.8	11.4	11.8	9.6	10.9	8.6	9.9	9.5
Net margin (net interest income/assets; %)	2.4	2.4	2.5	2.6	2.6	2.6	2.6	2.5	2.5	2.5

[a] Actual. [b] EIU estimates. [c] EIU forecasts.

Source: EIU.

In November 2020 the RBI superseded the board of Lakshmi Vilas Bank, a small private-sector lender, and arranged for a forced merger with the local arm of Singapore's DBS Bank. The takeover of Lakshmi Vilas Bank follows similar rescues: Yes Bank in 2020, Punjab & Maharashtra Co-operative Bank and Dewan Housing Finance Corp (DHFL) in 2019; and Infrastructure Leasing and Financial Services (IL&FS) in 2018. In addition, IDBI Bank, which was in jeopardy following significant deterioration in its capital, was rescued by the state-run Life Insurance Corporation of India (LIC) in 2019. The government and LIC are currently in the process of privatising IDBI Bank completely by the end of March 2022. The government and the LIC currently have stakes in IDBI of about 45% and 49% respectively.

The banking sector has a mix of state-run and private-sector players, including foreign banks. The country's banking sector is dominated by state-run lenders. By far the largest domestic bank by assets is the government-owned State Bank of India (SBI). The government completed a mega-merger of ten state-run lenders into four in April 2020, including the anchor banks of Bank of Baroda, Punjab National Bank, Canara Bank, and Union Bank of India and Indian Bank.

The RBI has been experimenting with innovative licensing models and technology in a bid to drive financial inclusion and improve access to credit. Elements of this are 11 small finance banks and 6 payments banks.

Citibank (US) is the largest foreign-owned lender in India, followed by HSBC (UK), Standard Chartered (UK) and Deutsche Bank (Germany). However, Citibank announced in April 2021 that it would wind down its retail banking operations in 13 countries, including India. The lender plans to continue its activities in business banking and capital markets, and gave no details or timeline for its reorganisation. The bank has 35 branches in India, along with nearly 19,000 employees and Rs2.2trn (US$29bn) in assets. In recent years, Singapore's DBS has been aggressive in expanding its presence in India.

Top ten banks in India

(Rs bn, fiscal year ending on March 31st 2021)

Bank	Total assets	Total advances	Total deposits	Total investments	Interest income	Total income	Net profit
State Bank of India (SBI)	45,344	24,495	36,813	13,517	2,652	3,086	204
HDFC Bank[a]	17,469	11,328	13,351	4,437	1,209	1,461	311
Punjab National Bank	12,606	6,742	11,063	3,930	808	936	20
ICICI Bank[a]	12,304	7,337	9,325	2,813	791	981	162
Bank of Baroda	11,554	7,063	9,670	2,612	705	829	8
Canara Bank	11,537	6,390	10,109	2,617	692	845	26
Union Bank of India	10,717	5,910	9,238	3,315	688	801	29
Axis Bank[a]	9,961	6,237	7,073	2,261	636	785	66
Bank of India	7,259	3,657	6,271	1,873	406	480	22
Indian Bank	6,260	3,640	5,381	1,765	391	452	30

[a] Private-sector banks; the others are public sector.

Source: Indian Banks Association.

According to the World Bank's 2017 Global Findex survey, the share of Indian adults with an account has more than doubled since 2011, to 80%, driven largely by government initiatives, especially the opening of new accounts among the unbanked population via "Aadhaar" biometric identification cards. The government's Jan Dhan Yojana scheme, launched in 2014, brought an additional 310m Indians into the formal banking system by March 2018. However, most accounts had remained inactive over the previous year, according to the survey.

The country has a thriving fintech sector and has now emerged as the fastest-growing market for digital payments. According to Prime Time for Real-Time 2021, an annual report from ACI Worldwide (a US-based payments company) and GlobalData (a UK-based analytics firm), India continues to dominate the real-time payments market, recording 25.5bn transactions in 2020. China came second, with 15.7bn transactions, followed by South Korea (6bn), Thailand (5.2bn), the UK (2.8bn) and Nigeria (1.9bn).

In spite of the boom in digital payments, cash remains the dominant mode of payment in India, and the use of payment cards remains well below levels in other Asian countries. According to the 2021 Global Payments Report by WorldPay, a firm providing payment devices and services, the pandemic has accelerated digital transactions in India, with the use of cash at physical retail stores down to 34% of total transaction value in 2020, from 70% a year earlier. Digital wallets made up 22% of total point-of-sale spending, followed by debit cards (20%) and credit cards (12%). Meanwhile digital wallets are the preferred payment mode for e-commerce, making up 40% of total spending, followed by credit cards and debit cards (15% each).

An increase in consumerism, the rising penetration of e-commerce and the formalisation of the economy will propel the use of cards and digital wallets. The government is keen to drive cashless transactions, and has encouraged initiatives to improve payment infrastructure, leveraging internet and mobile technology. HDFC Bank leads the credit card market, followed by SBI and ICICI Bank. Meanwhile, SBI leads the debit card market, followed by Paytm Payments Bank and Bank of Baroda. According to the RBI, there were 63.9m credit cards and 913.8m debit cards in circulation at the end of August 2021.

India was a pioneer in instant payments when the Immediate Payment Service (IMPS), an instant interbank electronic funds transfer system, was launched in 2010. However, a major breakthrough in instant payments came in 2016, when the government created the Unified Payments Interface (UPI), an instant payment system built on open application processing interface architecture. The UPI platform recorded an all-time high of 3.6bn transactions worth Rs6.5trn in September 2021, a sharp rise from 1.8bn transactions worth Rs3.3trn a year earlier, according to the National Payments Corporation of India (NPCI).

The introduction of UPI and rationalisation of merchant discount charges on digital transactions are among the drivers behind the increased adoption of digital payments. PhonePe (owned by US-based Walmart), Google Pay (a US-based firm) and Paytm Payments Bank (backed by China's Ant Group and Japan's Softbank) dominate the UPI market, recording more than 90% of all transactions (both in volume and value terms). Traditional banks and other participants—including Amazon Pay and WhatsApp Pay (both US), Samsung Pay (South Korea) and the domestic Mobikwik and Airtel Payments Bank—all have minute shares in the market.

In a bid to reduce concentration risk and drive further innovation and technology in retail payments, the RBI released final guidelines in August 2020 for firms keen to set up new umbrella entities (NUEs). The NUEs will primarily compete with the NPCI, which is the dominant retail payments operator in the country, managing multiple retail payments platforms (notably Bharat Bill Payments, RuPay and UPI).

Insurers

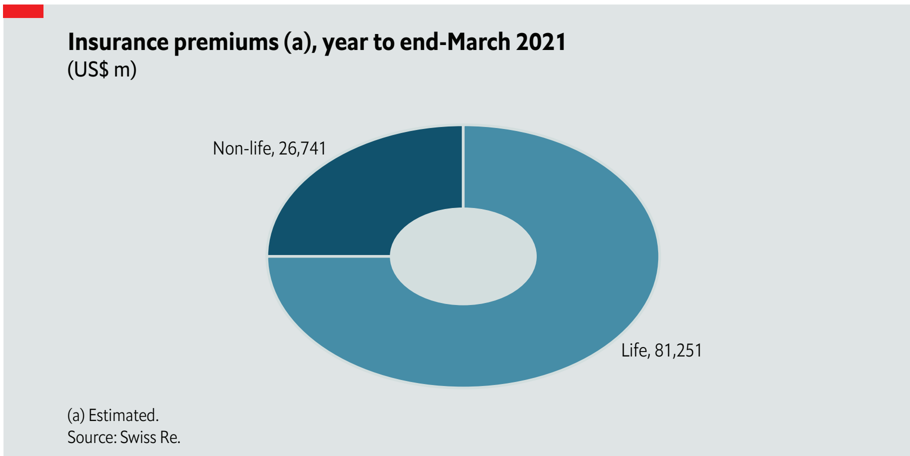
Insurance premiums, 2020/21[a] (estimated)

Premiums (US$ m)	107,993
Premiums (% of GDP)	4.06
Premiums (% of world total)	1.72

[a] Fiscal year ending March 31st.

Sources: Swiss Re; EIU.

The country's insurance sector has grown significantly over the past decade, aided by increased formalisation of the economy and the greater presence of private and foreign players. Customer preferences are evolving because of increased technological adoption, and innovative products have emerged to cover risks related to income protection, cyber-security, lifestyle, travel and major diseases. Growing awareness of protection products, boosted by the pandemic, and the expansion of the middle-class population offer growth potential for insurers and insurance technology (insurtech) firms in 2021-25.



India is the 11th largest insurance market in the world, recording US$108bn in total premiums in 2020/21, according to Swiss Re, a global reinsurer. The country holds a 1.7% share in the global market, ahead of emerging economies such as Brazil (0.9%) and South Africa (0.65%), but below major Asian economies like China (10.4%) and Japan (6.6%). However, most Indians do not have access to insurance products, with the country holding an insurance penetration ratio (insurance premiums to GDP) of 4.1%. This is lower than many of its emerging peers, including Malaysia (5.4%) and Thailand (5.3%).

According to the Insurance Regulatory and Development Authority of India (IRDAI), there were 69 insurers operating in India in August 2021. Of these, 24 were life insurers, 33 were general insurers (including six stand-alone health insurers) and 12 were reinsurers, including Lloyd's India and branches of foreign reinsurers. Furthermore, there were more than 500 insurance brokers operating in the sector at the end of September 2021. Life insurers hold the bulk of the industry's assets, ending fiscal 2019/20 with total assets under management (AUM) of Rs38.9trn. Of these, life funds amounted to Rs26.2trn, pension and general annuity funds to Rs9trn and unit-linked insurance plans (which entail a mix of insurance coverage and investment) to Rs3.7trn.

In April-August 2021 life insurers underwrote first-year premiums worth Rs1trn, marking a 1.6% year-on-year rise, according to IRDAI. The state-owned Life Insurance Corporation of India (LIC) leads the life insurance market with a 66% share of new business premiums, whereas HDFC Life and ICICI Prudential Life are the principal private-sector insurers, with shares of about 7.6% and 7.3% respectively. Direct selling remains the dominant channel for new sales, generating nearly three-fifths of the life insurance industry's new business premiums, followed by individual agents (who bring in nearly a quarter of premiums) and corporate agency networks (around 15%), including bancassurance (wherein insurers sell policies through tie-ups with banks).

Although private-sector firms have gradually scaled up their presence, LIC dominates the market, with a robust distribution system and the widespread trust of customers. The government has reiterated its plans to list LIC during 2021/22—a blockbuster listing that it had hoped to achieve a year earlier. The government has not yet disclosed any further details regarding the proposed stake sale. However, it will be required to offer at least a 10% stake in LIC, according to the listing regulations of the Securities and Exchange Board of India (SEBI, the country's markets regulator). Media reports in October noted that the government was also mulling to allow a 20% share purchase by foreign investors. Despite the government's poor track record in terms of big divestments, we expect the initial public offering to occur during the second half of 2021/22.

Top ten life insurers in India
(Fiscal year ending on March 31st 2020)

Insurer	Foreign partner (if any)	Total premiums (Rs m)	First-year premiums (Rs m)	Equity share capital (Rs m)	Solvency ratio (%)
Life Insurance Corporation (state-owned)	None	3,793,896	1,782,762	1,000	1.55
SBI Life Insurance	BNP Paribas Cardif, France	406,347	165,925	10,000	1.95
ICICI Prudential Life Insurance	Prudential Corporation Holdings, UK	334,307	124,875	14,359	1.94
HDFC Life Insurance	Standard Life (Mauritius Holdings) 2006, UK	327,069	172,385	20,188	1.84
MaxLife Insurance	Mitsui Sumitomo Insurance, Japan	161,836	55,835	19,188	2.07
Kotak Mahindra Life Insurance	None	103,401	51,058	5,103	2.90
Bajaj Allianz Life Insurance	Allianz, Germany	97,525	51,790	1,507	7.45
Tata AIA Life Insurance	American International Assurance (Bermuda)	83,085	32,420	19,535	2.35
Aditya Birla Sun Life Insurance	Sun Life Financial (India) Insurance Investment, Canada	80,100	36,572	19,012	1.78
PNB MetLife India Insurance	Metlife International Holdings, US	55,070	17,786	20,129	1.89
National totals		**5,729,102**	**2,592,624**	**280,843**	**n/a**

Source: Insurance Regulatory and Development Authority.

The life segment will remain the most important part of the insurance industry in 2021-25. However, the non-life segment is growing more quickly. Non-life insurers underwrote premiums worth Rs864.8bn (US$11.5bn) for April-August 2021 for the same period, up by 17.6% year on year. Property and casualty (P&C), stand-alone health insurance and reinsurance are the primary categories in the country's non-life insurance market. Crop insurance, which is gaining traction on the back of government-led policies, is also grouped as part of the P&C segment in India.

P&C insurers, led by the state-owned New India Assurance, generally account for about 90% of premiums in the non-life insurance market, whereas stand-alone private-sector health insurers, led by Star Health and Allied Insurance, make up 9% of the underwritten premiums. Reinsurers bring in the remaining 1% premiums under the non-life segment.

Motor insurance is the largest line in the non-life insurance market, bringing in about 54% of the industry's gross premiums. The growth of motor insurance largely sprang from robust uptake for vehicles in the previous decade and a regulation (enforced in 2018) mandating subscription to three- and five-year third-party insurance policies on new vehicles. The government has passed a law that penalises individuals who operate vehicles without an insurance policy.

Similar to the trend in the life insurance sector, where LIC is slowly losing its dominance, state-run non-life insurers are losing ground to the private sector, which is led by two foreign joint ventures: ICICI Lombard and Bajaj Allianz.

Top ten non-life insurers in India
(Fiscal year ending on March 31st 2020)

Name of institution	Classification	Foreign partner (if any)	Gross direct premiums (Rs m)	Equity share capital (Rs m)	Solvency ratio (%)
The New India Assurance	Public sector	None	297,151	8,240	2.11
United India Insurance	Public sector	None	175,151	2,000	0.30
National Insurance	Public sector	None	153,129	25,000	0.02
The Oriental Insurance	Public sector	None	139,960	2,500	0.92
ICICI Lombard General Insurance	Private sector	FAL Corporation, Canada	133,128	4,545	2.17
Bajaj Allianz General Insurance	Private sector	Allianz, Germany	127,798	1,102	2.54
Agriculture Insurance Company of India	Specialised	None	93,612	2,500	2.83
HDFC Ergo General Insurance	Private sector	ERGO International, Germany	93,084	6,058	1.89
IFFCO Tokio General Insurance	Private sector	Tokio Marine Asia, Japan	79,610	2,742	1.58
Reliance General Insurance	Private sector	None	74,650	2,515	1.52
National total			**1,921,926**	**213,607**	**n/a**

Source: Insurance Regulatory and Development Authority.

Individual agents bring in about three-fifths of total non-life new business premiums, followed by corporate agency networks, including bancassurance (about 30%) and direct selling (7%). Leading private-sector groups such as ICICI and HDFC have robust distribution channels and high credibility among consumers, owing to their presence in banking and other financial services segments. Although insurers are steadily bolstering their digital distribution channels and partnering with fintech firms, offline channels will continue to dominate sales of these sophisticated savings products in 2021-25.

The reinsurance market has been opened up to private and foreign firms, and is no longer monopolised by a state firm, GIC Re. However, GIC Re currently holds the right of first refusal on all reinsurance contracts in the country; this means that foreign firms can bid for business only if GIC Re has declined a contract. GIC Re's right of first refusal ensures that it continues to have large market share in the reinsurance market across fire, marine, motor, health, life and other insurance segments compared with Lloyds of London (UK) and nine other foreign reinsurance branches (FRBs).

According to the IRDAI, GIC Re held 81% of the market share in 2019/20, and Lloyds and other FRBs held the remaining 19%. In 2016 the IRDAI approved the final operating licence for ITI Reinsurance, paving the way for the company (backed by Sun Pharmaceuticals) to become India's first private local reinsurer. However, ITI Reinsurance's licence was revoked by the IRDAI in 2019, as the reinsurer did not commence its business in the timeline given by the IRDAI.

The FRBs besides Lloyds currently present in India are Allianz Global and Corporate Speciality (Germany), AXA France Vie, XL Insurance (group entity of AXA), General Reinsurance (Germany), Hannover Re (Germany), Munich Re (Germany), RGA Life Reinsurance Co of Canada, and Swiss Re (Switzerland), SCOR (France). In April 2021 the US-based Factory Mutual Insurance became the latest foreign reinsurance company to be licensed.

The country's fragmented insurance sector has seen some consolidation over the past couple of years. In 2020 IDBI Bank, a small lender, sold 23% of its stake in Ageas Federal Life Insurance (known earlier as IDBI Federal Life Insurance) to its joint-venture partners, Belgium's Ageas Insurance. Meanwhile, Australia's QBE Insurance Group left the country's insurance market, selling its stake in Raheja QBE General Insurance to Paytm, a payments company. These deals came a year after Munich Re consolidated and simplified its operations in the country; the company's general insurance joint venture, HDFC Ergo, acquired a 51.2% stake in Apollo Munich Health Insurance, Munich Re's health insurance joint venture in the country. In September 2021 HDFC Life agreed to acquire Exide Life Insurance, the small insurance business arm of a battery company.

We expect another round of consolidation in the forecast period, including greater participation by private-sector and foreign firms. Insurers will be compelled to make acquisitions to gain economies of scale and boost their digital capabilities. Furthermore, the sector is fragmented, with several players holding minuscule market shares, whereas insurers that are part of groups built around banks dominate the private insurance space.

To spur competition and attract global players, the government lifted the foreign investment cap on local insurers to 74% in March 2021, from 49% previously. MetLife (USA) agreed in October 2021 to acquire an additional 15.27% in PNB MetLife, lifting its stake in the life insurance joint venture with Punjab National Bank to 47.3%.

Asset managers

Mutual-fund assets under management, 2020

Assets (US$ m)	402,140
Assets (% of GDP)	14.97
Assets (% of world total)	0.64

Sources: Investment Company Institute; EIU.

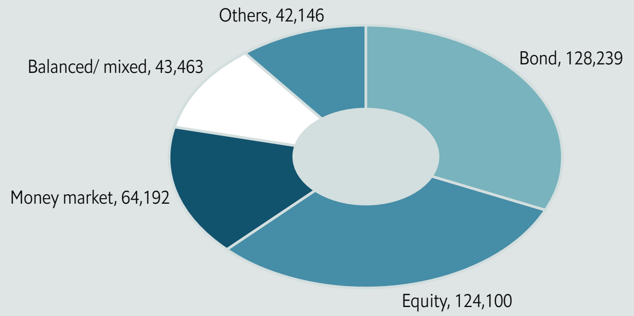
The growing formalisation of the Indian economy, coupled with the increasing infiltration of technology in financial services, has driven the swift development of the country's mutual fund sector over the past decade. However, India made up just 0.6% of the world's total net assets in June 2021, below most major developing economies including China (4.2%) and Brazil (1.8%).

Although the country is still at an early stage in terms of the use of most financial savings instruments, rising disposable income, digitalisation of services, favourable demographics and policy support will be major growth drivers for the sector in 2021-25. In addition, falling interest rates from deposits and subdued returns from traditional asset classes will serve as important tailwinds for the industry.

The country has developed a strong fund-management sector consisting of foreign joint ventures, private managers and asset-management arms of major domestic banking groups. The mutual fund market in India is highly fragmented, with 45 mutual fund managers, including eight foreign players. There were 102.6m accounts in India's mutual fund industry at end-June 2021, marking impressive growth from 45.9m in December 2015. According to the

Association of Mutual Funds in India (AMFI), nearly 91% of the total accounts were held by retail investors, with high-net-worth individuals holding 8.9m accounts and institutional investors accounting for 804,746 accounts.

Mutual fund asset mix, end-2020
(US$ m)



Source: Investment Company Institute.

The sector has recovered from the market sell-off in the first half of 2020 amid the global pandemic, which brought down valuations. Assets managed by the mutual funds industry rose by 30% year on year to Rs36.1trn in August 2021, according to AMFI. Equity-oriented schemes continue to dominate the industry, accounting for about 46% of total assets in August, followed by debt-oriented (28%) and money-market schemes (16%), leaving exchange-traded funds (ETFs) and funds of funds (FoFs) with small shares.

Individual investors are predominantly attracted to equity schemes, which make up about 75% of their holdings, followed by debt-oriented schemes (19%) and liquid/money market funds (4%). Debt schemes are most sought after by institutional investors, making up 38% of their total investments, followed by liquid/money-market funds (30%) and ETFs and FoFs (19%). Nearly 44% of the industry's equity assets remain invested for more than two years—higher than 19% for non-equity assets. Retail investors hold about 56% of their total equity assets for more than two years.

At end-August 2021 there were 1,488 mutual fund schemes in the market, including 1,054 open-ended schemes (redeemable at any time), 413 close-ended schemes (redeemable only after a fixed period) and 21 interval schemes (redeemable at fixed intervals). Among open-ended debt schemes, liquid funds are the most sought after, making up about 25% of the category's total AUM. Meanwhile large-cap make up about 17% of the total AUM under open-ended growth/equity-oriented schemes, followed by mid-cap funds, equity-linked savings schemes, sectoral funds and flexi-cap funds, which all make about 14-16% of the total AUM each.

The banking sector is the most preferred destination for the deployment of equity funds by fund managers, making up a fifth of equity AUM in August 2021, followed by software (12%), other financial services (7%), and consumer non-durables and pharmaceuticals (6% each). According to SEBI, government securities (including Treasury bills) and securities offered by public-sector units dominate the debt funds, making up nearly 30% and 14%

respectively of the total debt AUM. Deployment of funds into NBFCs has climbed, with their corporate bonds making up 5.2% of the debt AUM, with their commercial paper making up an additional 4.2%.

Top ten mutual fund managers in India
(Rs m, at end-2020)

Manager	Assets under management
SBI Mutual Fund	4,564,979
HDFC Mutual Fund	3,894,666
ICICI Prudential Mutual Fund	3,799,911
Aditya Birla Sun Life Mutual Fund	2,554,585
Kotak Mahindra Mutual Fund	2,162,279
Nippon India Mutual Fund	2,130,332
Axis Mutual Fund	1,774,736
UTI Mutual Fund	1,653,586
IDFC Mutual Fund	1,211,017
DSP Mutual Fund	894,867
National total	**29,714,352**

Note. Figures represent the average assets under management, excluding domestic funds of funds, in October-December 2020.

Source: Association of Mutual Funds in India.

Real-estate investment trust (REITs) and infrastructure investment trusts (InvITs) have emerged as new investment avenues for mutual funds, although they are still small in size by global comparison. Although the first investment guidelines for these securities were issued by SEBI in 2014, fund managers were given approval to deploy their funds into them only in 2017. Currently, there are only five registered and InvITs each. However, the market is likely to grow in the forecast period, driven by favourable tax benefits for investors, regular pay-out features and improved yields in a growing economy.

So-called systematic investment plans (SIPs) have attracted interest in recent years, and many Indians have signed up for these schemes, which take periodic deductions from a savings account to make investments in mutual funds. Although uncertainties over jobs and the economy following the Covid-19 outbreak forced people to suspend their periodic investment plans, SIPs are making a strong recovery in fiscal year 2021/22 after a subdued 2020/21. Total contributions hit Rs564.5bn in April-September 2021. By end-September 2021 there were nearly 45m outstanding SIP accounts, with their AUM totalling Rs5.4trn—a sharp rise from Rs2.4trn in March 2020.

Local mutual funds have emerged as a vital counterbalance to foreign portfolio investors (FPIs), especially during times of heavy net selling by overseas institutions. During the past decade FPIs have turned net sellers in 2015/16, 2018/19 and 2019/20, according to the National Securities Depository. India was among the few developing countries that enjoyed significant inflows of foreign funds during the pandemic year; FPIs bought a net US$36.2bn in 2020/21, marking the second-best year after 2014/15, when net inflows of US$45.7bn were registered. In April-September 2021 the country had net inflows worth US$5.6bn, US$2.3bn of which was in debt securities.

There were 799 registered alternative investment funds (AIFs) in June 2021, according to SEBI. There are three categories of AIF: the first includes venture capital and other funds that invest in SMEs, infrastructure funds and social venture funds. The second includes private equity funds. The third includes hedge funds, which are allowed to use leverage through borrowing. From the start of 2013 until March 2021, AIFs made commitments worth Rs4.5trn, raised funds worth Rs2.3trn and made investments worth Rs2trn.

In an unprecedented move in April 2020, Franklin Templeton (US) suspended six debt schemes, worth Rs250bn, prompting the central bank to roll out a Rs500bn special liquidity fund for the mutual funds sector. The fund manager's decision to wind up the schemes was eventually challenged in court, forcing the firm to seek unitholders' approval in December 2020. Following that approval, the Supreme Court directed SBI Mutual Fund in early 2021 to oversee the distribution of proceeds from the closed funds.

Apart from a few exceptions, foreign asset managers have found it hard to compete in the mutual fund market, owing to high costs and an inability to expand their coverage beyond large cities. In 2015 Goldman Sachs (US) announced the sale of its fund unit. This was followed in 2016 by the sale of US-based JPMorgan's mutual-fund business to a local firm, Edelweiss Asset Management, while Nomura (Japan) sold its stake in a joint venture with LIC. In 2019 Bank of Baroda and BNP Paribas agreed to merge their Indian asset-management businesses, and Canada's Manulife set up a joint venture with Mahindra and Mahindra Finance.

Meanwhile Reliance Capital, which was hit with debt woes, left the mutual fund industry, allowing its Japanese partner, Nippon Life, to raise its stake to 75% in Nippon Life India (formerly known as Reliance Nippon Life India Asset Management). UTI Asset Management, the country's oldest mutual fund company, with a strong presence in second- and third-tier cities, listed its shares on local exchanges in October 2020.

Top pension fund managers in India
(end-March 2021)

Pension fund manager	Assets under management (Rs m)	Subscribers (units)
SBI Pension Funds	2,226,144	42,855,155
UTI Retirement Solutions	1,662,091	38,996,512
LIC Pension Fund	1,633,893	39,420,583
HDFC Pension Management	163,833	2,555,993
ICICI Prudential Pension Fund Management	75,585	1,190,856
Kotak Mahindra Pension Fund	15,721	220,255
Aditya Birla Sun Life Pension Management	2,970	67,641
National totals	**5,780,236**	**125,306,995**

Source: National Pension System Trust.

The pension system in India is fragmented and fairly underdeveloped, owing to the country's large unorganised sector and rural population. The government runs several pension schemes, targeting the poor, people with disabilities, civil servants and army officials. The Employees' Provident Fund Organisation (EPFO), part of the Ministry of Labour and Employment, runs the largest organised pension system in India, managing a compulsory contributory provident fund scheme, an insurance scheme and a pension scheme for the workforce in the organised sector.

The investment portion of the EPFO assets was also managed by two government-appointed portfolio managers: SBI Funds Management and UTI Asset Management. The majority of the provident funds' investments are in state development loans, followed by debt securities of state-run firms.

Other major and growing pension services are the National Pension Service (NPS) and Atal Pension Yojana, which are regulated by the Pension Fund Regulatory and Development Authority (PFRDA). NPS primarily operates under two types of voluntary savings/pension accounts: Tier 1, which is a partially withdrawable account; and Tier 2, from which subscribers are free to withdraw or deposit their savings. Meanwhile the Atal Pension Yojana is a government-initiated pension scheme for workers in the unorganised sector, who are not part of EPFO or any other statutory social security schemes.

The numbers of subscribers in various schemes run by NPS and Atal Pension Yojana reached 42.7m at end-April 2021, when total AUM totalled Rs5.9trn. The PFRDA has authorised seven fund managers to manage the pension schemes under NPS: SBI Pension Funds, UTI Retirement Solutions, LIC Pension Fund, HDFC Pension Management, ICICI Prudential Pension Fund Management, Kotak Mahindra Pension Fund and Aditya Birla Sun Life Pension Management.

Financial markets and instruments

Exchanges

	2016	2017	2018	2019	2020
Stockmarket capitalisation excl investment funds (US$ bn)	1,561	2,332	2,083	2,180	2,535
Stockmarket capitalisation (% of GDP)	68.0	87.9	77.1	75.9	95.3

Source: EIU.

India has nine stock and commodity exchanges recognised by SEBI, the most important of which are the BSE (formerly known as the Bombay Stock Exchange) and the National Stock Exchange (NSE), both based in the country's financial capital, Mumbai. The NSE and the BSE jointly account for almost 100% of national trading volume, and influence sentiment in India's other exchanges (in Ahmedabad, Chennai, Kochi, Kolkata and the national capital, New Delhi).

Established in 1875, the BSE is the oldest stock exchange in Asia and is India's largest platform for SMEs, with more than 250 listed companies. In 2017 the BSE made a US$220m initial public offering (IPO).

However, the NSE continues to outperform the BSE in terms of both reach and trading volumes. The NSE filed an initial prospectus for its public listing in 2016. The IPO was supposed to take place in 2017, but has been delayed owing to investigations by SEBI into the NSE and some of its executives; the regulator had accused the company of providing preferential access to some trading members for its co-location facility. The NSE is likely to try to launch the IPO again in the forecast period.

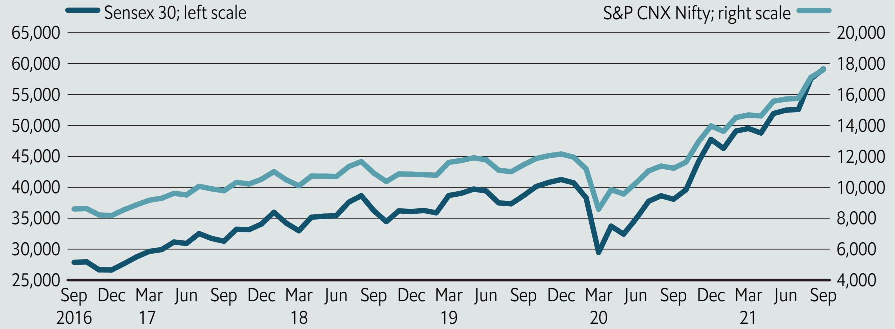
In 2020, 18 firms opted to list on the NSE, down from 31 IPOs a year earlier and 97 in 2018. Meanwhile, the BSE hosted only 31 listings in 2020, including 17 on its SME segment board, following 49 IPOs in 2019 and 88 in 2018. Equity fundraising has gained strong momentum in 2021, with a total amount of Rs265bn raised in August at the NSE, marking the highest level in the past 15 months. In January-September 2021 there were 41 and 59 IPOs on the NSE and the BSE respectively. Companies are also raising resources using other methods, including a preferential allotment of shares and private placement of debt securities.

Turnover at the NSE across segments was strong in fiscal year 2020/21 (ending March 2021), aided by abundant liquidity in the market following supportive measures from central banks around the world. The ongoing economic recovery, dropping numbers of new virus cases and normalisation of business activities have supported growth in the markets and turnover during the current fiscal year.

The NSE had 2,005 listed companies, with total market capitalisation of Rs258.1trn, at end-September 2021, whereas the BSE had 5,504 listed companies, with total market capitalisation of Rs266.3trn. As a result of a declining trend in new virus cases and supportive monetary and fiscal policies, Indian equities rebounded in May, recovered strongly in June-July and climbed to record levels in August-September. Retail and foreign participation both improved, contributing to the record rally.

Sensex 30, the benchmark index of the BSE, ended September 2021 at 59,126, up from 48,782 at end-April and a low of 29,468 in March 2020. Meanwhile Nifty 50, the benchmark index of the NSE, climbed to 17,618 at end-September 2021, up from 14,631 in end-April 2021 and 8,597 in end-March 2020.

Monthly close of stockmarket indices
(September 2016-September 2021)



Source: Haver Analytics.

Average daily turnover (ADT) at the NSE capital markets came in at Rs688.3bn for April-August 2021, up by 20% year on year. Meanwhile ADT in equity derivatives was Rs1.3trn for the same period (up by 21%), and it stood at Rs250.5bn for currency derivatives (up by 22%). The share of retail participation has gone up in the recent years, thanks to strong urbanisation and the creation of technology-driven brokerage start-ups such as Zerodha and Upstox. Retail participation at the NSE capital markets rose from 33% in fiscal year 2015/16 to 45% of turnover in fiscal year 2020/21.

Top ten stockbrokers in India
(as at end-March 2021)

Broker	Active clients
Zerodha Broking	909,008
ICICI Securities	843,975
HDFC Securities	672,044
Sharekhan	509,787
Kotak Securities	437,822
Axis Securities	419,455
Angel Broking	412,809
Motilal Oswal Financial Services	319,138
Karvy Stock Broking	266,287
IIFL Securities	214,149
National totals	**8,782,207**

Source: National Stock Exchange.

Government securities will continue to dominate India's bond market, which is smaller than peers such as China. Among corporate debt issues, private placements with banks and other financial firms will remain far more common than public issues. Other common debt securities in the country include state development loans. By the end of September 2021 there were 7,030 listed bonds on the NSE, up from 6,995 in end-2020 but below the all-time high of 8,179 in January 2018, according to the World Federation of Exchanges. The market has primarily been led by the domestic public sector, whose number of listed bonds reached an all-time high of 5,408 in September 2021, up from 4,940 in the end of 2020. Meanwhile domestic private-sector bond listings have been on a steady decline for the past few years, falling from 3,741 at end-2017 to 2,055 at end-2020 and 1,622 at end-September 2021.

India has a relatively broad derivatives market, led by Bank Nifty options (the option contract for Nifty Bank index on the NSE), especially for speculative trading. According to the Futures Industry Association, an industry body, the NSE remains the world's largest derivatives exchange, trading about 8.8bn contracts in 2020, up by 48% year on year. The exchange is followed by the Brazil exchange, which recorded 6.3bn contracts during the same period, and the US-based CME Group, which traded about 4.8bn contracts.

In September 2020 the NSE and the Singapore Exchange (SGX) agreed to end a two-year tussle related to derivatives trading. The exchanges have agreed to launch a scheme (SGX-NSE Connect) that will permit trading of the SGX's NSE Nifty 50 index futures and options at GIFT City, a financial centre in Gujarat. A conflict between the exchanges started in 2018, when NSE stopped providing data to foreign index providers, as exchange operators in India feared that a large proportion of the derivative trading volume was taking place abroad, especially in Singapore. Details of the SGX-NSE Connect scheme have not been disclosed, but the scheme is supposed to go live by the final quarter of 2021.

In global terms India remains a small market for foreign exchange. Trading stood at an average daily volume of US$39.9bn in April 2019, or about 0.5% of total worldwide trading, according to the triennial survey conducted by the Bank for International Settlements. Daily volumes in India had stood at US$34.3bn in April 2016. Spot trades were the most popular type of transaction, accounting for 47% of the total by value, followed by foreign-exchange swaps (39%) and outright forwards (12%). India also has a small but rapidly growing market for interest-rate derivatives: average daily trading leapt to US$4.8bn in April 2019, from US$1.9bn in April 2016. Almost all activity in this market is in swaps.

Financial regulation

Overview

The Reserve Bank of India (RBI, the central bank) regulates money supply, credit and interest rates. It controls the basic cost of money by regulating liquidity and issuing directives on bank lending and deposit rates. The central bank supervises the activities of all banks (domestic and foreign) and non-banking financial companies (NBFCs) through the powers vested in it by the Reserve Bank of India Act (1934) and the Banking Regulation Act (1949, with an amendment passed in December 2012). The Board for Financial Supervision, under the aegis of the RBI, supervises banks and all other financial institutions, including NBFCs.

The Securities and Exchange Board of India (SEBI, the country's markets regulator) oversees all aspects of the markets for stock, debt securities and derivatives. It supervises exchanges, securities issuers and market intermediaries such as foreign portfolio investors, mutual funds, trustees, and brokers of securities and derivatives. Meanwhile, the Insurance Regulatory and Development Authority of India (IRDAI), which was constituted in 1999, is the statutory regulatory body for managing and regulating insurance and reinsurance industry.

The country's first credit bureau, the Credit Information Bureau of India (CIBIL), was incorporated in 2001. It is charged with collecting data on consumer and commercial credit and selling credit reports. CIBIL launched its consumer credit bureau operations in 2004 and its commercial bureau in 2006. CIBIL Score, the country's first generic risk scoring model for banks and financial institutions, was introduced in 2007. TransUnion (US) holds a 92.1% stake in CIBIL. Other existing credit bureaus are Equifax, Experian and CRIF High Mark.

The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act of 2002 allows secured creditors to enforce their interests without the intervention of a court or tribunal, and permits them to take possession of secured assets if the borrower defaults. It also addresses the reconstruction and securitisation of financial assets, allowing banks and other financial institutions to set up asset-restructuring companies for their non-performing assets and to turn loan books into marketable securities.

India is fully compliant with the capital requirements for banks laid out in the Basel II accord (as well as Basel 2.5, for measuring banks' risks in securitisation and trading-book positions). According to the latest progress report issued by the Basel Committee on Banking Supervision in October 2021, India was in compliance with most Basel III capital, leverage and liquidity requirements, but has fallen behind on deadlines for the implementation of reforms related to disclosure. Under the capital requirements, the country missed deadlines related to total loss-absorbing capacity; and under disclosures, it had missed deadlines related to several metrics, including liquidity, leverage ratio and prudential valuation adjustments and composition of capital.

In 2016 the RBI issued its Large Exposures Framework, under which it capped the limit of large exposures at 20% of the counterparty's capital base and allowed certain exemptions from sovereign-exposure requirements for banks. Following recent scandals in the co-operative banking sector, the central bank revised the exposure limit for single and group borrowers to 10% and 25% respectively for (urban) co-operative banks.

The Banking Laws Amendment Bill, which was passed in 2020, brought co-operative banks under the supervision of the RBI. The Act controls the functioning of the banking sector and provides details of important aspects such as the licensing, management and operations of banks. The amendment bill allows the RBI to initiate a scheme for reconstruction or consolidation of a bank without placing it under moratorium. When banks are put under moratorium, they are not allowed to grant any loans or to make investments in any credit instruments. The co-operative banks are now allowed to issue equity, preference or special shares to its members, or to any other person residing within their area of operations. These banks may also issue unsecured debentures or bonds with maturity of ten or more years to them, provided the RBI consents to such issuances.

In December 2019 SEBI passed a circular, allowing asset-management companies (AMCs) to provide management and advisory services to foreign portfolio investors. AMCs can provide such services to pension funds, insurance and reinsurance firms, banks, mutual funds, and government-related players such as central banks and sovereign wealth funds.

In a bid to improve transparency and protect clients' securities, new margin rules, introduced by SEBI, came into effect in September 2020. Under the system, customers cannot extend power of attorney to brokers, who will now have to collect margins from clients upfront for any purchase of sale of equities. In December 2020 "peak margin" rules came into effect, under which brokers use intraday peak positions instead of end-of-day positions to calculate margin requirements.

The IRDAI passed a notice withdrawing long-term insurance schemes on complete vehicle policies, covering third-party and own-damage insurance policies for three- and five-year terms, effective from August 2020. The regulator noted that actuarial pricing had been a challenge for insurers for long-term own-damage cover and that affordability factors hindered the sale of package policies. The policy change is expected to bring down premium prices for third-party vehicle insurance schemes and enlarge the market, as a larger section of vehicle users will find the policies affordable.

In 2016 the Rajya Sabha (the upper house of parliament) ratified the Insolvency and Bankruptcy Code (IBC), which was designed to reduce the time that it takes to resolve bankruptcy cases legally from more than four years to just 12 months.

The code mandates the creation of a database for debtors and a bankruptcy regulatory board. In 2017 the Ministry of Finance amended the Banking Regulation Act to give the central bank greater power in enforcing foreclosure proceedings against specific non-performing loan accounts under the provisions of the IBC. For accounts greater than Rs1bn, creditors are required to set up a joint lenders' forum to oversee the restructuring process. In 2018 the IBC Amendment Bill was ratified by parliament. Whereas an ordinance implemented in November 2017 prohibited wilful defaulters from taking part in the resolution process, the later law allows their participation if they clear all their dues within a month.

In 2020 the Supreme Court lifted a ban imposed by the central bank on lenders dealing in cryptocurrencies. However, the government is again reportedly considering legal means to impose a blanket ban on all cryptocurrencies.

Regulatory watchlist

The ruling Bharatiya Janata Party government is committed to introducing the Indian Financial Code (IFC), drafted by the Financial Sector Legislative Reforms Commission. The IFC would be a single unified law that would replace most of India's existing financial laws. It addresses nine areas that require reform: consumer protection; microprudential regulation; resolution mechanisms; systemic risk regulation; capital controls; monetary policy; public-debt management; development and redistribution; and contracts, trading and market abuse.

In November 2020 an internal working group of the RBI suggested sweeping recommendations to transform the country's banking sector, including allowing large non-financial companies or industrial houses to run private-sector banks. The RBI is likely to decide on the recommendations in 2021, but as at early October had not done so.

In September 2020 the IRDAI chairman, SC Khuntia, remarked that the regulator was planning to introduce capital adequacy rules under a new risk-based solvency system in 2021. The regulator appointed a ten-member group to aid the transition to a risk-based capital system for assessing the strength of insurance companies, as opposed to the existing solvency principle system. However, it is likely that the new system will be introduced only in 2022.

In a bid to bring down compliance costs and simply the rules, the government has proposed the development of a unified Securities Markets Code, which could rationalise several laws that regulate capital markets and securities, such as the SEBI Act, 1992; the Depositories Act, 1996; the Securities Contracts (Regulation) Act, 1956; and the Government Securities Act, 2007. The proposal was announced during the annual budget presentation in February 2021, but no further details or a timeline are yet available.

Monetary and currency policy

Monetary policy

EIU expects the Reserve Bank of India (RBI, the central bank) to embark on a gradual policy tightening cycle from 2022, as an improving economic outlook allows it to wind down its emergency accommodative stance. It will help to contain demand-side inflationary pressures and manage currency swings from the anticipated liquidity tapering by the Federal Reserve (Fed, the US central bank) in early 2022. We expect the RBI to normalise the difference between the repo rate (the benchmark policy rate) and the reverse repo rate in its February meeting, followed by a 25-basis-point rise in the second quarter and another similar rise in the second half of the year. We expect the repo rate to stand at 5.75% by end-2026 (4% presently), with real interest rates rising to about 2%.

The RBI has already begun to taper excess liquidity by increasing the volume of revere repo operations and increasing the cash reserve ratio, which was eased by 100 basis points in 2020. This will lead to a rise in borrowing costs by end-2021, although the central bank will maintain easy credit and debt restructuring facilities for the vulnerable sectors of the economy in the interim.

To facilitate large government borrowings in 2021/22, the RBI will continue its Government Securities Acquisition Programme (G-SAP; purchase of government debt in the secondary market). It has committed to purchases worth Rs2.2trn (US$29.8bn) in the first half of the fiscal year and an unspecified amount in the second half, compared with Rs3.1trn in the whole of 2020/21. The programme is aimed at limiting government debt yields to support credit-fuelled expenditure, but could risk crowding out private-sector borrowing. An easing of secondary-market purchases in 2022/23 will ensure that the RBI's actions do not make a significant contribution to inflation.

Exchange rates

We forecast the rupee, the local currency, to resume depreciating from 2022, on the back of India's relatively high inflation rate and its ongoing current-account deficit. In the interim the rupee is expected to remain stable over the remainder of 2021 as strong foreign investment inflows and large foreign-exchange reserves support the currency against a volatile US dollar. We forecast that the rupee will stand at about Rs77:US$1 at the end of 2022—2.6% below its year-earlier level.

We expect a stronger depreciation in 2023, when the Fed is forecast to raise rates, boosting the US dollar's strength further. In real terms, we expect the rupee to appreciate moderately until 2022, only easing from 2023 as portfolio investment flows are partly depressed by a tightening of monetary policy in developed markets.

Exchange and interest rates

	2016[a]	2017[a]	2018[a]	2019[a]	2020[a]	2021[b]	2022[c]	2023[c]	2024[c]	2025[c]
Exchange rate Rs:US$ (av)	67.20	65.12	68.39	70.42	74.10	74.19	76.49	79.21	80.73	82.33
Exchange rate Rs:US$ (end-period)	67.95	63.93	69.79	71.27	73.05	75.14	77.44	80.77	81.08	83.08
Lending interest rate (av; %)	9.7	9.5	9.5	9.5	9.2	8.7	8.7	8.9	9.3	9.4
Deposit interest rate (av; %)	7.5	6.9	7.0	7.2	6.0	5.5	5.7	6.0	6.4	6.5

[a] Actual. [b] EIU estimates. [c] EIU forecasts.

Source: EIU.

India at a glance

Elections: Elections to the Lok Sabha (the lower house) were conducted in April-May 2019 and saw the Bharatiya Janata Party (BJP), led by the prime minister, Narendra Modi, return to power for a second term. The BJP and its allies control 352 of the 543 elected seats in the lower house.

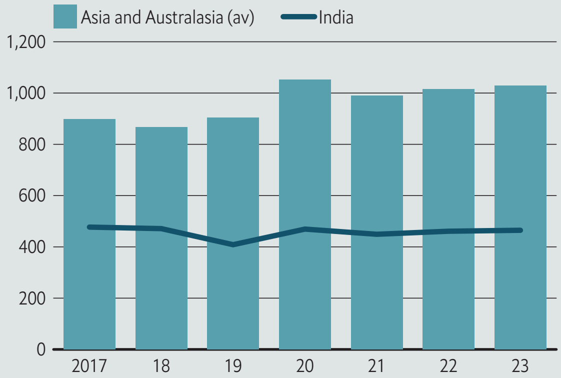
Government: Narendra Modi is the head of the executive branch of government. He heads the Council of Ministers, members of which are chosen from elected members of the country's bicameral parliament. The president, who is indirectly elected for a five-year term by the national and state legislatures, is head of state. Ram Nath Kovind was elected president in July 2017.

Major political parties: Bharatiya Janata Party, Indian National Congress, Dravida Munnetra Kazhagam, YSR Congress Party, All India Trinamool Congress, Shiv Sena, Janata Dal (United), Biju Janata Dal, Bahujan Samaj Party.

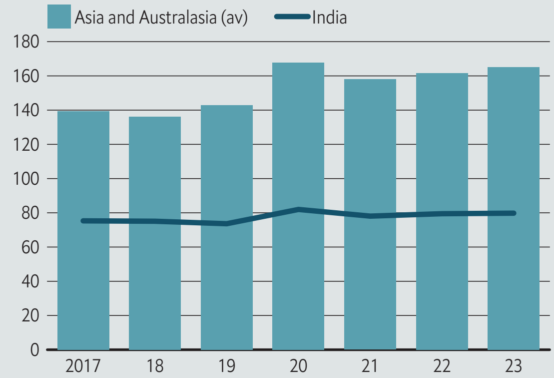
Fiscal year: April-March

Fundamental indicators

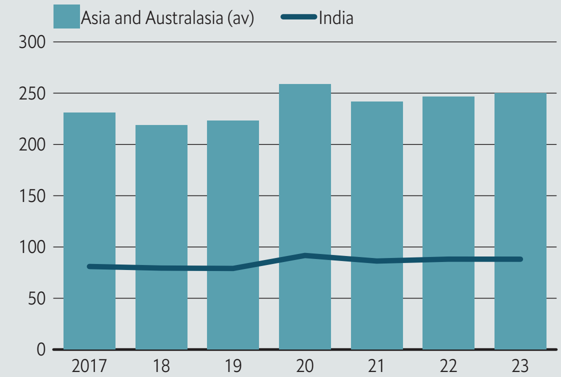
Financial assets
(% of GDP)



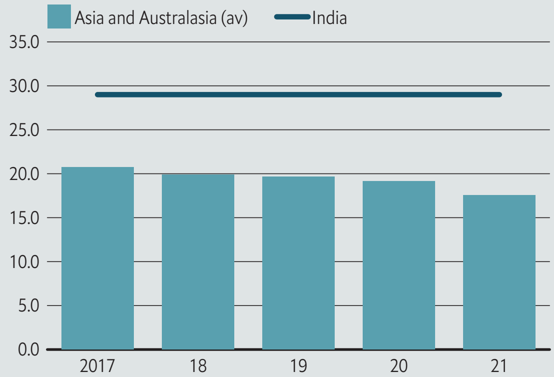
Private-sector credit
(% of GDP)



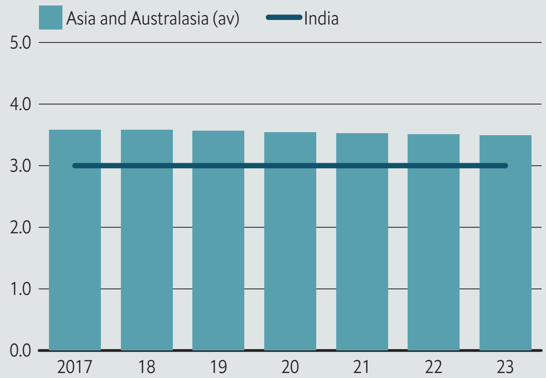
Deposits
(% of GDP)



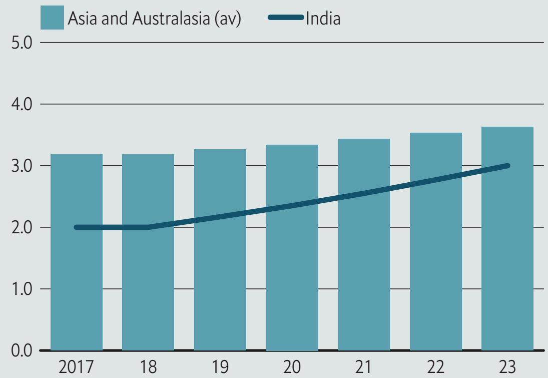
Financial risk
(100=high risk)



Banking system openness
(5=good)



Financial regulatory systems
(5=high quality)



Source: EIU.

Key contacts

- Association of Mutual Funds in India: www.amfiindia.com
- Bombay Stock Exchange: www.bseindia.com
- Clearing Corporation of India: www.ccilindia.com
- Credit Information Bureau of India: www.cibil.com
- Employees' Provident Fund Organisation: www.epfindia.com
- Export-Import Bank of India (Exim Bank): www.eximbankindia.in
- Foreign Exchange Dealers' Association of India: www.fedai.org.in
- Indian Banks' Association: www.iba.org.in
- Indian Venture Capital and Private Equity Association: www.ivca.in
- Insurance Regulatory and Development Authority of India: www.irdai.gov.in
- Ministry of Finance: www.finmin.nic.in
- National Stock Exchange: www.nseindia.com
- Pension Fund Regulatory and Development Authority: www.pfrda.org.in
- Reserve Bank of India: www.rbi.org.in
- Securities and Exchange Board of India: www.sebi.gov.in

Industry publishing schedule

Our financial services reports cover the following 60 countries and are updated quarterly, semi-annually or annually, depending on the country.

Quarterly	Semi-annual	Annual
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China	Australia	Azerbaijan
France	Canada	Bahrain
Germany	Chile	Belgium
India	Colombia	Bulgaria
Indonesia	Czech Republic	Denmark
Japan	Egypt	Ecuador
Mexico	Hong Kong	Finland
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South Korea	Italy	Hungary
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	Thailand	Sweden
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	Vietnam	Ukraine
		Venezuela

