KPMG

cutting through complexity

India

High Growth Markets country profile

India is the second most populous country in Asia and the world and the fourth largest global economy. Its diverse economy encompasses traditional village farming, modern agriculture, handicrafts, a wide range of modern industries and a multitude of services. Following the launch of economic reforms in 1991, India has enjoyed high economic growth, emerging as a regional and global power with a huge, young population. This success has been achieved despite pressing problems such as significant overpopulation, environmental degradation, extensive poverty and widespread corruption. The annual rate of increase in gross domestic product (GDP) is projected at 6.4 percent from 2014–2018.

Country overview

Geography and climate

- **Location:** Southern Asia, bordering the Arabian Sea and the Bay of Bengal, between Burma and Pakistan
- **Climate:** varies from tropical monsoons in the south to temperate in the north
- **Regions:** 28 states and 7 union territories
- **Major cities:** New Delhi (21.72 million), Mumbai (19.70 million), Kolkata (15.30 million), Chennai (7.42 million), Bangalore (7.08 million)
- **Tier two cities:** Hyderabad, Pune, Ahmedabad, Coimbatore, Patna

Political system

- **Type of government:** federal republic
- **Capital:** New Delhi

Population, language and religion

- **Population:** 1,236 billion
- **Urban population:** 31.3%
- **Demographics:** 0–14 years: 28.5%; 15–24 years: 18.1%; 25–54 years: 40.6%; 55–64 years: 5.8%; 65 years and over: 5.7%
- **Median annual household income:** 3,750 US dollars (US$)
- **Official language:** Hindi
- **Prominant religions:** Hindu, Muslim, Christian and Sikh

Currency and central banking

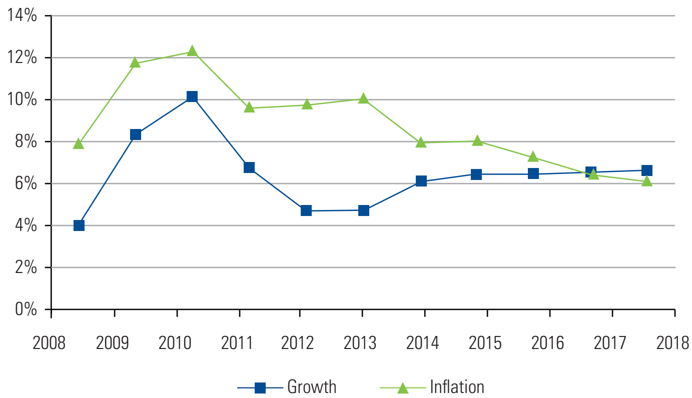
- **Local currency:** Rupee (Rs), Rs1 = 100 paisa
- **Exchange rate:** Rs1 = US$0.0167 (1 April 2014)
- **Interest rate (average annual rate):** 7.75% (2013); 8.00% (2012); 8.50% (2011); 6.25% (2010); 4.75% (2009)
- **Foreign exchange reserves:** US$295 billion
- **Total debt:** external US$412.2 billion; internal public debt: 51.8% of GDP (2013 estimate)

Business environment

Economic environment

- **GDP in 2013 was US$5.1 trillion and is expected to grow by 6.4 percent annually** from 2014–2018, partly owing to acceleration in investment spending. The median household income is expected to increase to US$5,978 by 2017.
- **Foreign direct investment (FDI) (billions):** inbound: US$47.5 (2008); US$28.2 (2013); US$120 (2018); outbound: US$19.3 (2008); US$1.8 (2013); US$17.5 (2018–forecast)
- **Exports free on board (FOB) (billions):** US$301.9 (2012); US$319.7 (2013); US$641.5 (2018)
- **Imports FOB (billions):** US$503.5 (2012); US$482.2 (2013); US$964.3 (2018)
- **Sector breakdown:** service: 57.4%; industrial: 25.2%; agriculture: 17.4%
- **Trade balance (billions):** deficit of US$201.7 (2012); US$162.6 (2013); US$322.7 (2018)
- **Stock exchanges:** NSE, BSE, CSE, DSE, MCX

GDP growth and inflation (average consumer price index (CPI))



Investment climate

Key considerations

- **Fiscal and monetary policy:** The United Progressive Alliance (UPA) administration has undertaken a series of reforms to tackle the burgeoning fiscal deficit, improve the business environment and create jobs. These include initiatives to revive foreign direct investment and fast-track the approval of stalled infrastructure projects. Average inflation should remain high at 7.9 percent in 2014. However, price pressures may be contained to some extent, due to modest measures to alleviate supply-side inefficiencies, a recent tightening of monetary policy and more favorable weather conditions. Annual average consumer prices are expected to rise by 6.9 percent between 2015–2018.
- **Competition policy:** Monopolies are not illegal and no longer subject to special regulations. In accordance with the Competition Act 2002, unfair trading practices are illegal. The new Competition Commission of India (CCI) has the power to vet amalgamations, mergers and demergers. The CCI issued new, final regulations on mergers and acquisitions (M&As) under the Competition Act, with effect from 1 June 2011. The new regulations stipulate that, after this date, mergers exceeding combined assets of Rs15 billion (US$250 million) or combined turnover of Rs45 billion (US$750 million) need the approval of the CCI.
- **FDI policy:** The country continues to score poorly in the infrastructure category and there is a recognized need to improve all aspects of infrastructure. However, with a huge backlog resulting from decades of under-investment, the government's weak fiscal position limits its ability to fund capital projects. Bureaucratic regulatory processes are a major obstacle to investment projects, and India's infrastructure will remain poor until radical governance reforms are made. From being one of the least attractive investment destinations in Asia and Australasia, India is expected to rise to the top half in the region within the next 5 years.
- **Foreign trade and exchange controls:** During 2014–2015, the number of tariff bands should be reduced. Restrictions on outward investment will be relaxed further, so long as no balance-of-payments difficulties emerge. By 2016–2018, liberalization is expected to continue, although some regulatory restrictions on capital mobility will remain.
- **Financing policy:** In 2014–2015, the government should retain significant control over banking, although the sector will be opened further to private investment. Conservative regulation should prevent a banking industry collapse. During the period 2016–2018, competition from private sector banks is expected to increase, while the regulatory structure should improve.
- **Taxes**: The effective tax rate on corporate income is 30 percent for domestic companies and 40 percent for branches of foreign companies. The 2011/12 budget reduced the income tax surcharge on domestic corporations with total incomes exceeding Rs10 million (US$167,000), from 7.5 percent to 5 percent, and from 2.5 percent to 2 percent for branches of foreign companies with total incomes exceeding Rs10 million (US$167,000). The budget also retained an additional 3 percent contribution for education on all taxes, including indirect and service taxes. The effective tax rate is now 32.44 percent for domestic companies (30.9 percent where the income is Rs10 million (US$167,000) or less), and 42.02 percent for branches of foreign companies (41.2 percent where the income is Rs10 million (US$167,000) or less). The 2011/12 budget raised the minimum alternative tax (MAT) rate to 18.5 percent. Hence, if a company's tax liability is less than 18.5 percent of book profits, then book profits are deemed to be total income and are levied tax at 18.5 percent. In addition to income tax, all companies must pay a 1 percent wealth tax on the aggregate value of specified assets, net of debt secured on, or incurred in relation to, those assets. This tax applies to amounts that exceed Rs1.5 million (US$25,000) of specified assets.

  By 2016–2018, rules should be introduced to clamp down on corporate tax-avoidance schemes. A goods and services tax (GST) is expected to replace all existing central and state indirect taxes. Tax administration should improve slowly and the government will rely more on direct taxes.

KPMG in India

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Sources: Economist Intelligence Unit, 2014; Central Intelligence Agency, 2014; McKinsey, 2014; Securitites and Exchange Board of India, 2014

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