

## **India: Russia's key partner**

(main points)

### **1. India is one of the world leaders in economic and demographic growth**

The Indian economy is one of the fastest growing in the world among the largest countries. In general, for the entire 2023 fiscal year (from April to March), the economy may grow by 7.2%, as it did a year earlier. In the last two years, the economy has been growing faster than the average annual growth rate over the past 10 years (5.7%). In the medium term, India's outperformance of global economic growth will increase.

The population has exceeded 1.43 billion people, and the country has become ranked 1st in the world by this indicator.

Despite the significant growth in real GDP per capita, for every resident of India there are about 2 thousand dollars of annual nominal GDP at the market rate, and in the last four years this indicator has hardly changed.

### **2. High economic growth rates, low per capita consumption and the largest population among all countries create prerequisites for import growth**

India has a high dependence on imports of fuel, machinery and equipment. Imports are steadily higher than exports, while the trade deficit in the last two years exceeds \$200 billion per year, and the volume of foreign trade turnover is more than \$1 trillion annually.

The structure of foreign trade is dominated by mineral products and engineering products. The deficit is noted in most of the enlarged commodity groups (the largest is in mineral products), with the exception of light industry and food products.

India's main trading partners in 2023 were the United States, China, the United Arab Emirates, Russia and Saudi Arabia. Russia moved into the top 4 in India's imports in 2023 from 5th in 2022, while in 2021 it occupied only the 20th position. The main importers of Indian goods were the United States, the United Arab Emirates and the Netherlands.

### **3. The reversal of Russian foreign trade flows to the "East" has led to a sharp increase in trade with India**

According to the preliminary results of 2023, exports of goods from Russia to India reached the historical level of \$62 billion, which is about one and a half times higher than in 2022. This is mainly due to an increase in the supply of mineral

products, the cost of which increased by 63% to \$54 billion. In addition, exports of food and metals increased by 2 times and by almost 40% (to \$1.9 and \$0.6 billion, respectively). The contribution of the other product groups was insignificant.

According to preliminary estimates, imports of goods to Russia from India in 2023 exceeded \$4 billion, exceeding the level of last year by 42%. The largest contribution was made by the supply of chemical industry goods (+15% with a share of 32%), mechanical engineering (+86% with a share of 26%), food (+24% with a share of 21%) and metals (+86% with a share of 11%).

As a result, the trade surplus with Russia in 2023 reached \$58 billion, compared with \$37 billion in 2022. The largest surplus is noted in mineral products – \$55 billion

#### **4. The growth of the share of foreign trade settlements in national currencies**

Most of the payments for Russian exports in 2023 were made in national currencies. There has been a sharp increase in the share of the Indian rupee and the Chinese yuan in payments for Russian exports. In 2023, settlements in rubles began to recover, which had fallen sharply a year earlier. However, they are still well below the record level of 2019. Fears of secondary sanctions led to a sharp drop in payments in dollars and euros for Russian hydrocarbon exports – only a quarter of all import payments were made in these currencies.

The role of the ruble has increased in the calculations for the import of Indian goods in the last two years. In 2023, more than half of all import payments were paid in Russian rubles. Payments in Indian rupees have also increased significantly. Calculations in dollars and euros in 2023 accounted for just over a third of imports, whereas during 2014-2021 this share exceeded three quarters of all shipments from India.

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#### **5. Indian Rupee: High risks and barriers with a promising future**

Russia's significant surplus in foreign trade with India and restrictions on conversion increase the cost of using the rupee in settlements and deter its use as a means of payment. This is largely due to infrastructure problems. Their elimination will require an increase in the number of branches of Russian banks in India and accounts of Russian banks in Indian banks, the integration of payment systems in Russia and India, the introduction of full-fledged exchange trading in the currency pair "rupiah-ruble".

Solving infrastructure problems and using the rupee in cross-border settlements will increase the attractiveness of mutual trade and investment. In the current situation, it is necessary to consider the possibility of reinvesting export proceeds into the Indian economy (through the "daughters" of large Russian companies and the creation of joint licensed productions). One of the possible measures to temporarily "unwind" the foreign trade imbalance is the conclusion of an agreement on a currency swap in rubles between the Bank of Russia and the Reserve Bank of India.

## **6. Mutual investments – low start with growth prospects**

The volume of accumulated Russian FDI in the Indian economy (at the beginning of 2022) was only about \$128 million.

To increase the volume of FDI from Russia, it is necessary to conclude an intergovernmental agreement on investment protection, as well as to form an investment risk insurance system using REC tools.

Promising areas of cooperation:

- modernization of India's transport infrastructure
- cooperation in the field of IT and high technologies
- joint production of different types of aircraft
- education, professional development of personnel
- energy efficiency, new materials
- battery production, transition to cleaner technologies
- modernization of coal-fired power plants
- expansion of cooperation in the field of nuclear energy
- participation in the development of India's gas transportation infrastructure
- smart cities, digital sphere
- agriculture, food products