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The Indian story, rebooted

Posted By *Heidi Richardson* On July 19, 2016 @ 6:00 am In Investing | [No Comments](#)

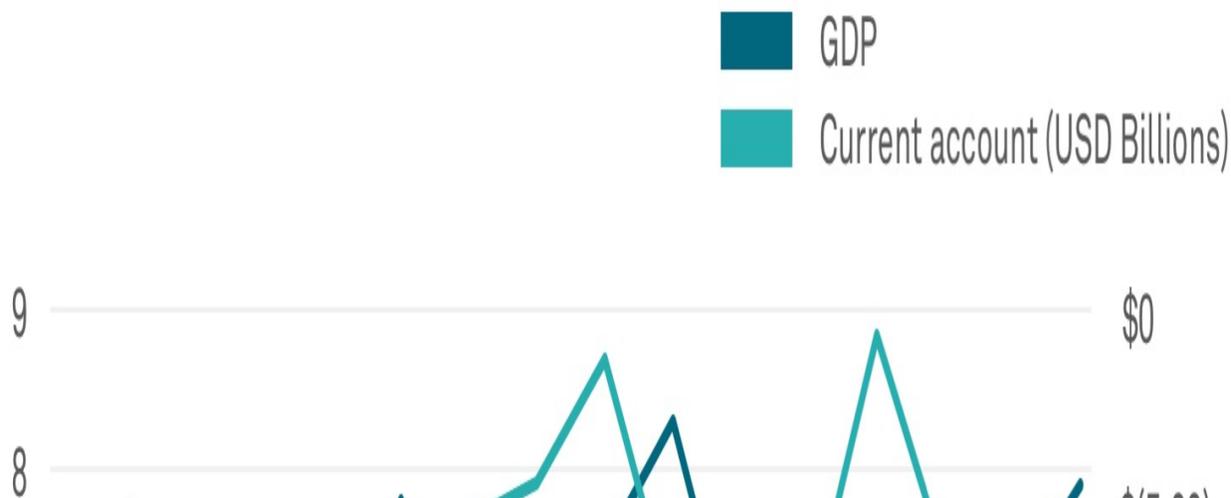
India has long tantalized investors, with enormous potential stemming from a large population, growing middle class, and global, world class companies. But India went from being a key member of the leading emerging market “[BRICs](#) ^[1]” (Brazil, Russia, India and China) to a less august club, the so-called “[Fragile Five](#) ^[2].”

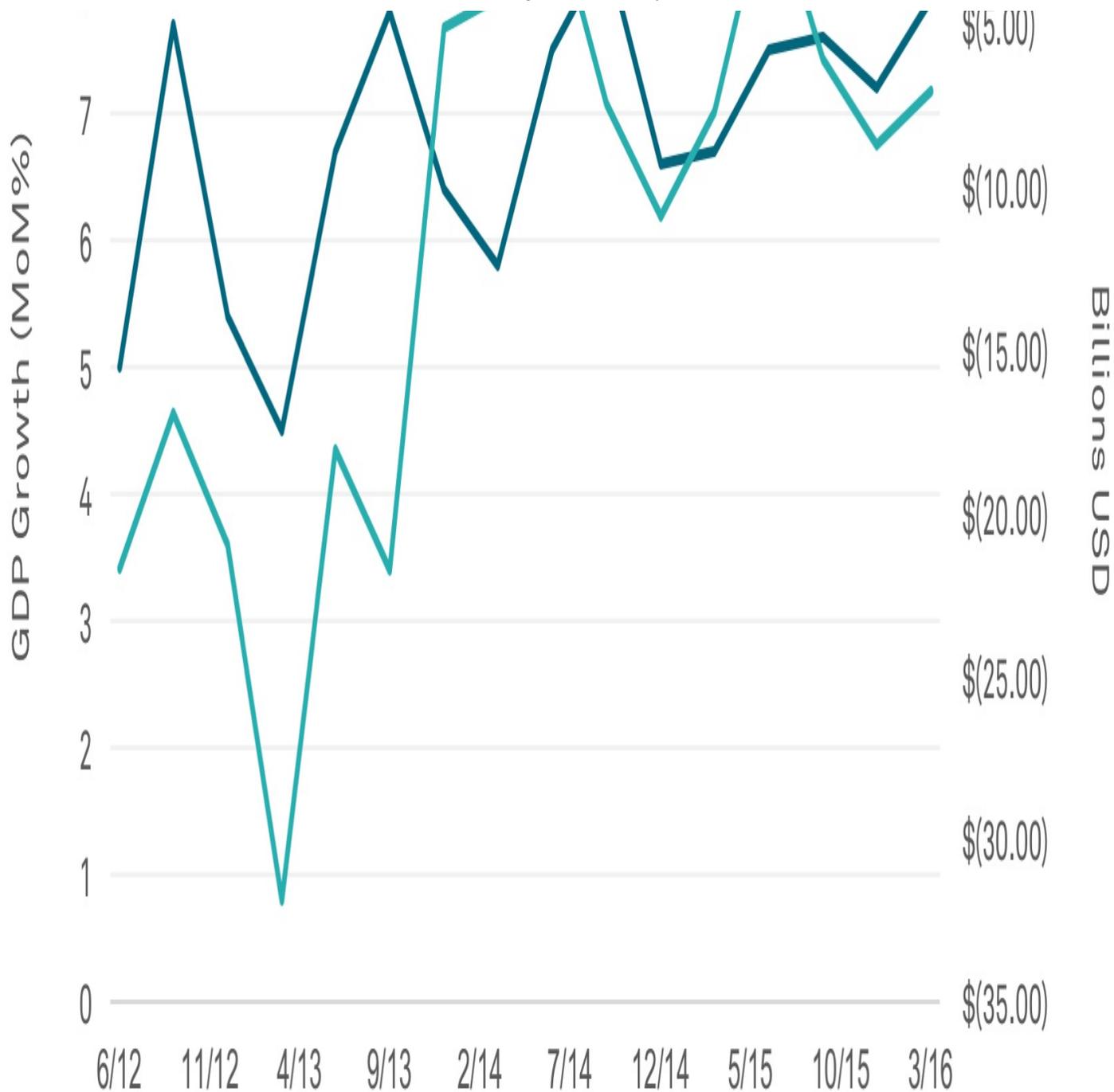
However, India is beginning to restore some of its luster. A significant catalyst has been low energy prices: As India imports nearly 75% of its oil (source: Central Statistical Office, India), sustained low crude prices over the past two years have been a tailwind for the Indian economy.

Looking better

This has enabled improvements on several fronts. According to the Reserve Bank of India, the [current account balance](#) ^[3] has improved, and inflation has eased, which enabled the central bank to cut interest rates by 2.5% since early 2015. The country’s fiscal position has similarly progressed, leading to the ability to increase public spending, including \$32 billion on infrastructure over the next year, as Bloomberg data shows. Moreover, sentiment towards the country has been buoyed by these improvements and the election of a new government committed to reform, which helped drive capital inflows. These trends together have contributed to impressive economic growth, as the chart below illustrates.

Current account deficit narrows while economy advances





Sources: Bloomberg, Reserve Bank of India, India Central Statistical Office, as of 3/31/2016.



[4]

Perhaps most importantly from an investor’s perspective, we’re seeing encouraging signs from companies’ revenues and earnings. After quarters of negative adjustments, corporate revenues are showing the first signs of improvement, according to Morgan Stanley. With earnings, we expect a recovery to start gathering momentum over the year as corporations benefit from fiscal spending, margin expansion and tailwinds to consumption.

Risks remain

To be sure, there are many risks with investing in India. It is important to see domestic consumption pick up, given that external demand is weak. And continued controlled inflation is central to the Indian story, as is progress on reform. Efforts to improve India's regulatory framework continue, albeit slowly. Progress on key policy matters is crucial not only to boosting the productivity of the Indian economy, but also to supporting investor sentiment.

India is not cheap, but nor is it expensive; equity valuations are trading close to historical averages, as Bloomberg data shows. All in all, we believe India has laid the foundation for long-term sustainable growth and is worth considering as a longer-term investment.

Investors interested in India may want to consider the iShares MSCI India ETF ([INDA](#) ^[5]), iShares India 50 ETF ([INDY](#) ^[6]) or the iShares MSCI India Small-Cap ETF ([SMIN](#) ^[7]).

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[1] [BRICs](http://www.investopedia.com/terms/b/bric.asp): <http://www.investopedia.com/terms/b/bric.asp>

[2] [Fragile Five](http://internationalinvest.about.com/od/Important-Concepts-To-Know/fl/What-Are-the-Fragile-Five.htm): <http://internationalinvest.about.com/od/Important-Concepts-To-Know/fl/What-Are-the-Fragile-Five.htm>

[3] [current account balance](http://www.investopedia.com/terms/c/currentaccount.asp): <http://www.investopedia.com/terms/c/currentaccount.asp>

[4] Image: <https://1401364973.rsc.cdn77.org/content/uploads/2016/07/chart-account-narrowing2.jpg>

[5] [INDA](https://www.ishares.com/us/products/239659/ishares-msci-india-etf?cid=blog:india:blackrockblog:heidi): <https://www.ishares.com/us/products/239659/ishares-msci-india-etf?cid=blog:india:blackrockblog:heidi>

[6] [INDY](https://www.ishares.com/us/products/239758/ishares-india-50-etf?cid=blog:india:blackrockblog:heidi): <https://www.ishares.com/us/products/239758/ishares-india-50-etf?cid=blog:india:blackrockblog:heidi>

[7] [SMIN](https://www.ishares.com/us/products/239660/ishares-msci-india-smallcap-etf?cid=blog:india:blackrockblog:heidi): <https://www.ishares.com/us/products/239660/ishares-msci-india-smallcap-etf?cid=blog:india:blackrockblog:heidi>

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