



German- Indian Business Outlook 2024



Foreword

Dear Readers,

Despite persisting global economic uncertainties, the outlook for German companies operating in India remains positive. Bilateral trade between Germany and India reached a new record high of EUR 30.8 billion in 2023. The direct and indirect investment stock held by German companies in India also reached a new record high of EUR 23.9 billion in 2022.

The recent re-election of India's government has brought the country into international focus and has further raised hopes among German businesses for a more streamlined regulatory environment, reduced corruption, and improved infrastructure.

German companies' optimism with regard to India's development potential is undiminished. The companies surveyed are planning to expand their investments in India in the coming years, attracted by the country's low labor costs, political stability, and availability of skilled workers. Investment intentions have also increased significantly compared to the previous year.

Respondents to the survey view India as being of particular interest for the production of goods for the local market as well as a sales market and a location for setting up a global capability center or shared service center. The importance of the country will continue to grow in the coming years across all areas.

However, German businesses also continue to face challenges in India, including bureaucratic hurdles, corruption, and a complex tax system. Cyber-attacks, high levels of air pollution in cities and rising protectionism pose the greatest exogenous risks in the eyes of business leaders. In particular, the risks resulting from the consequences of climate change will continue to rise over the next five years.

Despite these challenges, German companies are confident about their long-term prospects in India. The Indian economy is expected to grow strongly in the coming years, and German companies are well-positioned to capitalize on this growth.

We are confident that this study will be a valuable resource for your operations in India, and for those considering entering the Indian market. We would like to thank the German and Indian companies that contributed to the German-Indian Business Outlook 2024.

Yours truly,



Andreas Glunz
Managing Partner
International Business,
KPMG in Germany



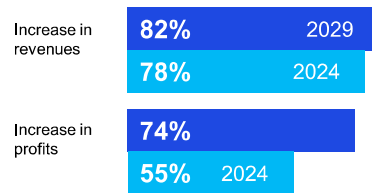
Stefan Halusa
Director General,
Indo-German Chamber
of Commerce



Executive Summary (1/2)

Growing revenues and profits expected

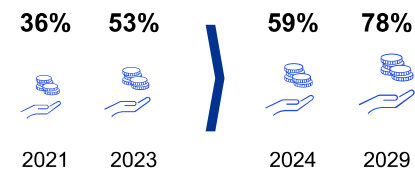
German companies in India overwhelmingly expect their revenues and profits to increase in 2024. Even more companies expect growth of revenues and profits over the next five years.



Source: KPMG in Germany and AHK India, 2024

Strong trend toward rising investments in India

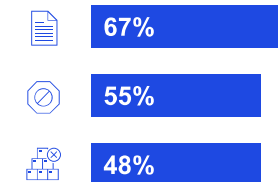
In 2024 more than half of the companies surveyed (59%) plan to expand their investments in India compared to 36% in 2021 and 53% in 2023. That number is expected to climb further to 78% within the next five years



Source: KPMG in Germany and AHK India, 2024

High expectations of the newly elected government

The companies surveyed hope that the newly elected government will simplify regulations, combat corruption and strengthen the legal system (67%). The expansion and modernization of infrastructure as well as the liberalization and strengthening of trade are also key concerns for 55% and 48% of the companies, respectively



Source: KPMG in Germany and AHK India, 2024

German companies are continuing to diversify and regionalize their operations throughout the world. Within Asia they increasingly see India as a key destination for new investments. Although German companies are generating growing revenues and profits in India, they face challenges. They therefore expect India's newly elected government to remove the considerable regulatory obstacles and infrastructure deficits and promote trade liberalization and exports.



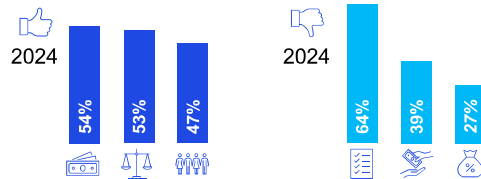
Andreas Glunz
Managing Partner
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Executive Summary (2/2)

Strong location advantages, but also significant challenges

The three best-rated location factors cited by German companies are India's relatively low labor costs (54%), the country's political stability (53%), and the availability of highly qualified employees (47%).

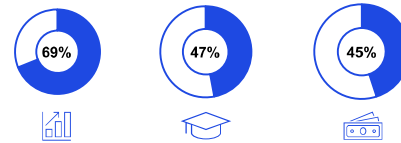
Bureaucratic hurdles (64%), the high level of corruption (39%) and the tax system (27%) pose the biggest challenges for German companies in India



Source: KPMG in Germany and AHK India, 2024

India's advantages in comparison with other Asian countries

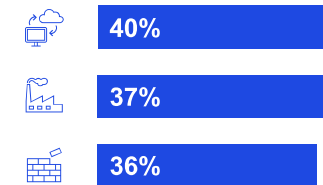
Consistently strong economic growth (69%), the availability of well-educated English-speaking specialists (47%), and low labor costs (45%) represent India's top three advantages within the Asian region.



Source: KPMG in Germany and AHK India, 2024

Risks for future development

Cyber-attacks (40%), high levels of air pollution in cities (37%) and rising protectionism, fragmentation, and trade bloc-building (36%) are perceived as being the biggest exogenous risks in 2024.



Source: KPMG in Germany and AHK India, 2024

India provides a unique combination of market size, market potential and talent pool for German companies. Bureaucratic and regulatory hurdles remain the biggest concern. Improved administration and less corruption in the country would make India even more attractive for German companies.



Stefan Halusa
Director General,
Indo-German
Chamber of Commerce

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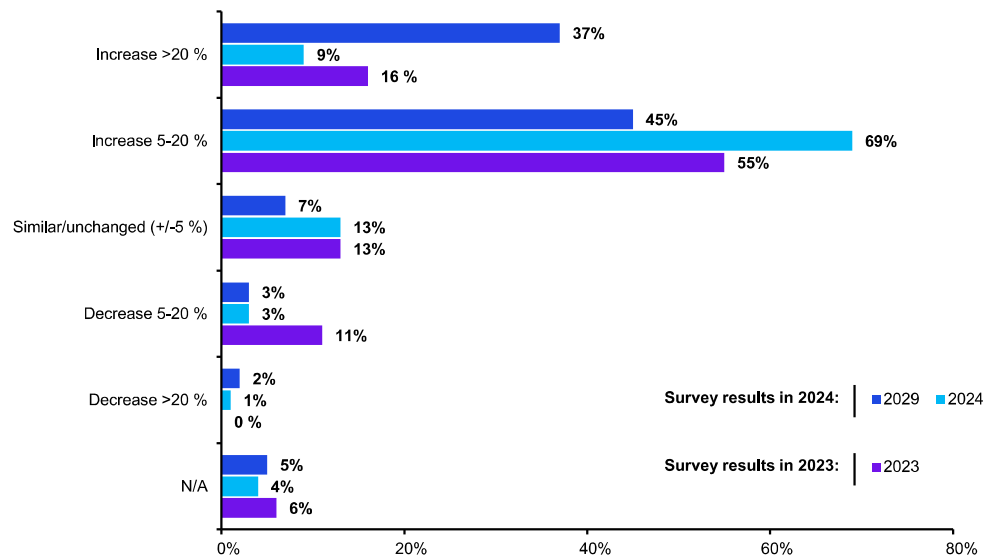
01

Business development and outlook



Revenues in India expected to rise

Figure 1: Development of revenues in India

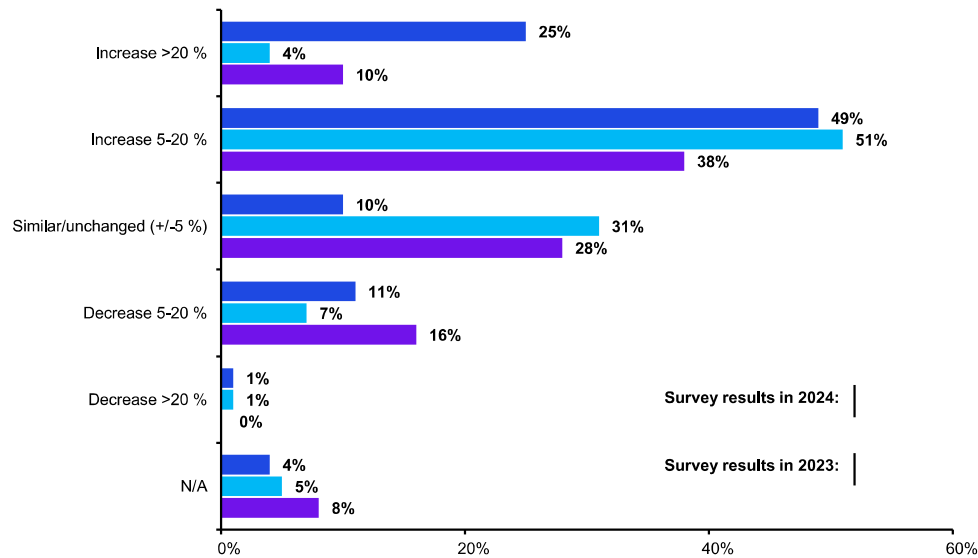


Source: KPMG in Germany and AHK India, 2024 (n=85) ;2023 (n=55)

- 78% of the companies surveyed expect their revenues to increase in 2024, 7%-points more than in 2023
- Only 4% expect their revenues to decline in 2024
- Over the next five years, the outlook is even more positive: 82% of the companies surveyed expect an increase in revenues, more than one-third of the companies (37%) even expect to increase their revenues by more than 20%
- A decline over the next five years is only expected by 5% of the companies surveyed

Profits expected to improve strongly

Figure 2: Development of profits in India

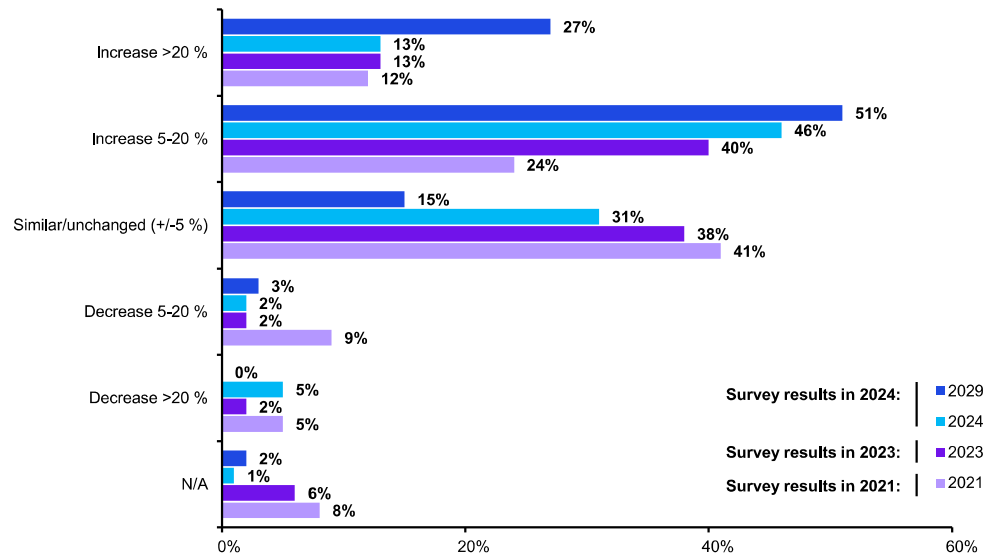


Source: KPMG in Germany and AHK India, 2024 (n=83); 2023 (n=50)

- The companies surveyed are also optimistic about the future in terms of profit. More than half of the companies (55%) expect to increase their profits by at least 5% this year
- Over a five-year period, the proportion of companies expecting a very strong rise in profits increased sixfold, from 4% to 25%
- 12% of respondents, however, expect their profits to decline over a five-year period, while only 8% expect this in 2024

Growing investments in India expected

Figure 3: Development of investment activities in India



Source: KPMG in Germany and AHK India, 2024 (n=84); 2023 (n=55); 2021 (n=99)

- For the current year, more than half of the companies surveyed (59%) plan to expand their investments in India and more than three-quarters (78%) plan to do so over the next five years
- Only 7% of the companies surveyed expect investments in India to decrease in 2024. Only 3% expect this to be the case over the next five years
- Compared to previous years, German companies want to invest significantly more in India. Whereas in 2021 only 36% wanted to increase their investments, this year the figure is already 59% (+23%-points). Over a period of five years, this share has more than doubled from 36% to 78%
- The results confirm India's emerging role as an attractive investment location for German companies



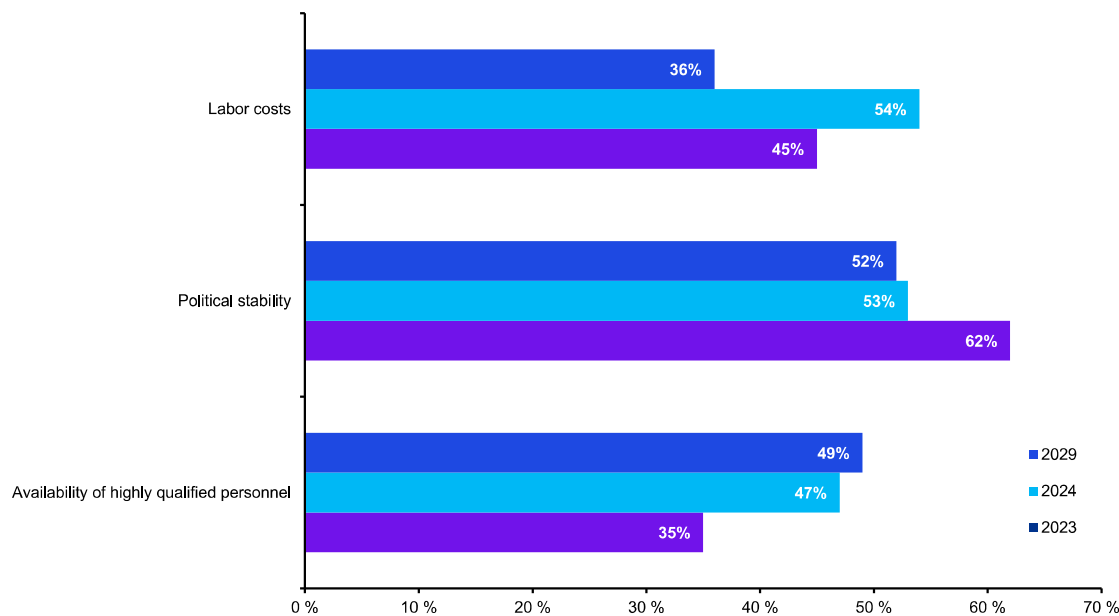
02

Location factors



Political stability and availability of skilled employees at low cost are highly valued

Figure 4: Assessment of the 3 most positive location factors for India over time

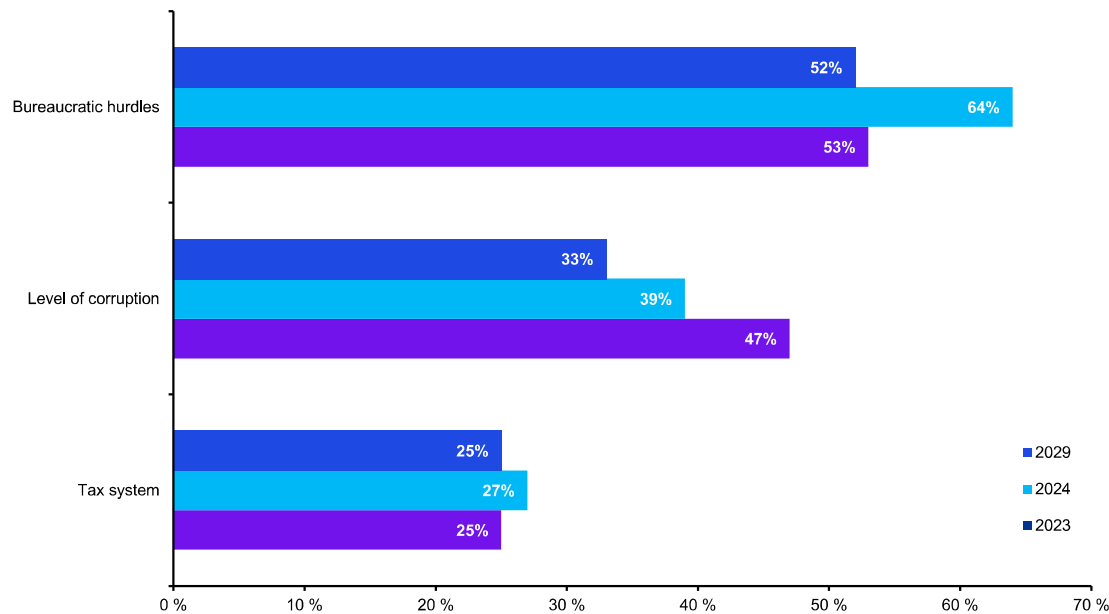


Source: KPMG in Germany and AHK India, 2024; (n=83); 2023 (n=55)

- In 2024 India's most important location factor for German companies is low labor costs: 54% value this most, but only 36% expect this to still be the case in five years. Insofar companies anticipate that labor costs will rise significantly over the next five years
- Almost the same percentage of companies (53%) continues to value political stability in India, although that percentage decreased by 9%-points as compared with last year. Prime Minister Narendra Modi has now been in office for 10 years and was recently re-elected in June 2024. The assessment regarding political stability remains nearly on the same level (52%) when looking at the situation in five years
- The availability of highly qualified personnel also makes India an attractive place to do business for 47% of German companies (+12%-points compared to 2023). In terms of population, India is a very young country (average age: 28.2 years) and thus boasts a large workforce. IT specialists are of particular interest to German companies

Bureaucratic hurdles and level of corruption pose the greatest challenges

Figure 5: Assessment of the 3 most negative location factors for India over time

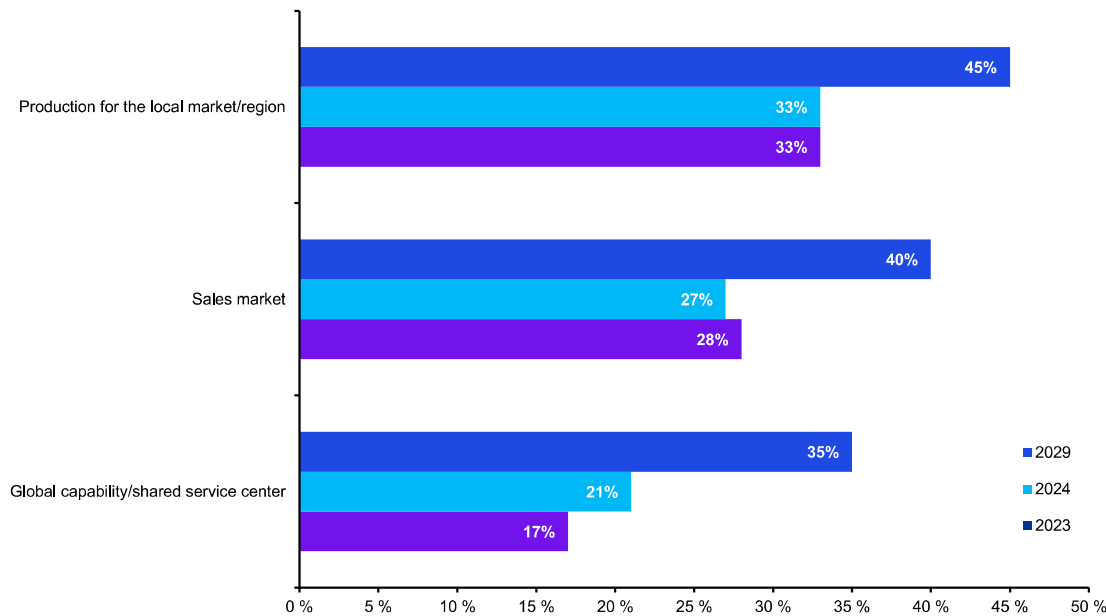


Source: KPMG in Germany and AHK India, 2024; (n=83); 2023 (n=55)

- Almost two-thirds of the companies surveyed (64%; +11%-points compared to 2023) cite bureaucratic hurdles (e.g. protectionist measures, procurement rules that limit competition and Indian-specific standards that are not in line with international standards) as the most negative factors for India as a place to do business. This is perceived as an increasing burden compared with the previous year. On a five-year horizon, the expectation is that this will improve slightly (52% in 2029) but it will remain the number one challenge
- The high level of corruption, which is also reflected in India's low corruption index score (see p. 13), is perceived by 39% of the companies surveyed as the second most relevant negative location factor – albeit slightly less serious than in the previous year (-8%-points)
- India's tax system is seen as the third most important negative location factor by about one-quarter of the companies surveyed (27%)

Growing importance of India as a sales market as well as a location for production and shared service centers

Figure 6: Role of India for German companies over time



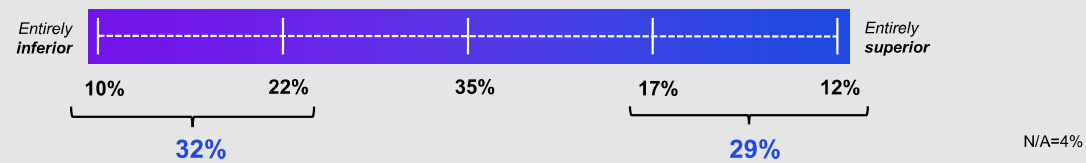
Source: KPMG in Germany and AHK India, 2024; (n=80); 2023 (n=54)

- For 45% of the companies surveyed, production for the local market in India will be the most important factor in five years' time (2029: +12 %-points)
- India is also already cited as a sales market today by more than one-quarter of respondents (27%). In the next five years, this will increase further by 13%-points to 40%
- India as a location for global capability centers or shared service centers is also becoming increasingly interesting for survey respondents. While one in five companies (21%) already makes use of India for this purpose today, more than one-third of companies (35%) expect to do so in the next five years. In 2023, only 17% of the companies surveyed made use of their Indian location for this purpose

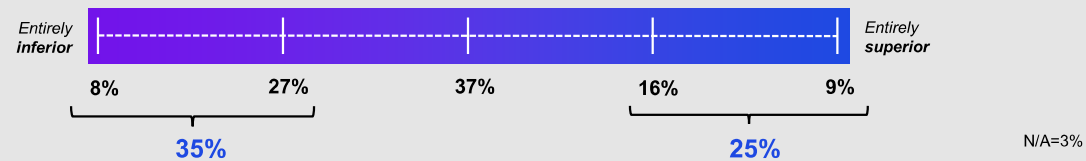
Local competitors not expected to make up ground

Figure 7: Local competitors in own industry

In the current year



In five years

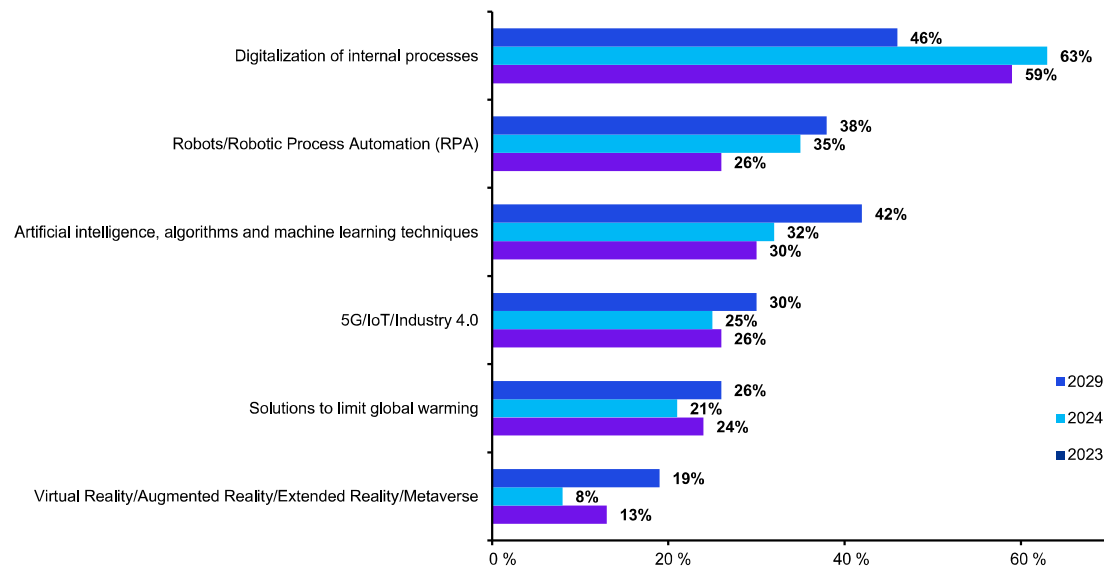


Source: KPMG in Germany and AHK India, 2024; (n=82)

- 29% of the companies surveyed consider local competitors in their own industry in India are superior to their own company, while 32% consider them to be inferior
- Over the next five years, 25% of the companies surveyed expect Indian competitors will be better positioned than their own company, while 35% still expect German companies to perform better than their Indian competitors
- The results indicate that respondents doubt that India's industry will catch up with German companies over the next five years

Digitalization in the short term and Artificial Intelligence in the long term are main areas for investment

Figure 8: Investment field “Future-oriented technologies”



Source: KPMG in Germany and AHK India, 2024; (n=84); 2023 (n=54)

- Almost two-thirds of the companies surveyed (63%) consider the digitalization of internal processes to be the most important technology field for investments in India in 2024. Although this will still be the most important area in five years' time, its relevance will decrease significantly (-17%-points)
- Artificial intelligence, algorithms and machine learning are clearly gaining in importance over the long term. For almost one-third of the companies surveyed (32%), these advancements already represent an important future technology to invest in today; 42% believe these technologies will be the second most important future investment field in five years' time (+10%-points)
- Strong growth rates over the next five years are also expected for investments in virtual/augmented reality (+11%-points)



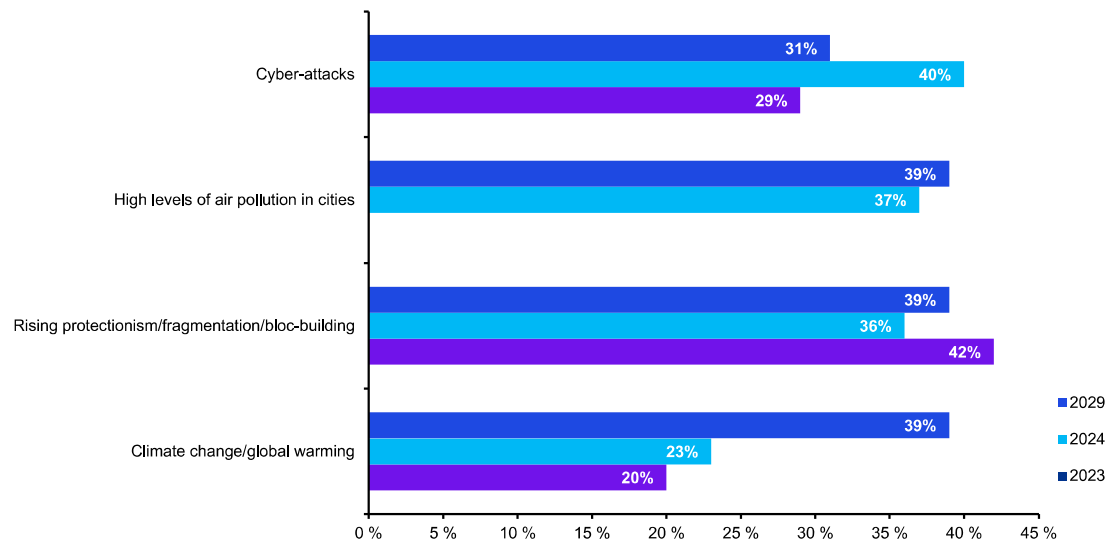
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Risks



Cyber-attacks, air pollution and protectionism are the biggest risks

Figure 9: Investment field “Future-oriented technologies”

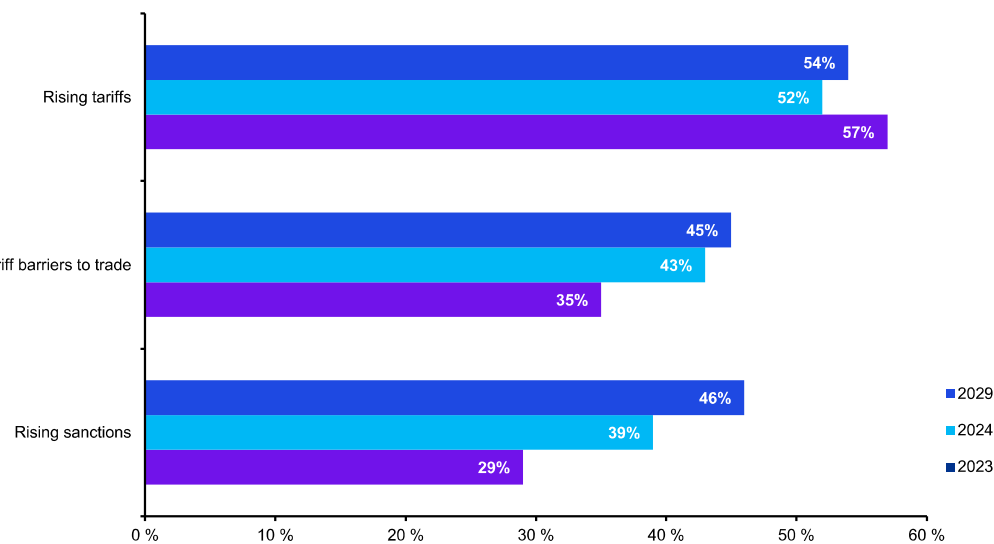


Source: KPMG in Germany and AHK India, 2024; (n=84); 2023 (n=54)

- Respondents consider cyber-attacks (40%) as well as the high levels of air pollution in cities (37%) as being the biggest exogenous risks in 2024. However, the risk of cyber-attacks is likely to become less critical over the next five years, while the burden of air pollution in cities will increase further
- Rising protectionism, fragmentation and bloc-building present the third critical risk for 36% of the companies surveyed. This risk will also increase in the future
- The risk of climate change in general will also increase significantly over the next five years (+16%-points) and will become a key risk for 39% of the companies surveyed

Decoupling-related trade restrictions adversely impact companies

Figure 10: Most adverse decoupling measures



Source: KPMG in Germany and AHK India, 2024; (n=80); 2023 (n=55)

- As in the last survey in 2023, the most adverse decoupling measure for companies today (52%) are rising tariffs
- Around four in ten companies also perceive rising non-tariff barriers to trade (43%) and rising sanctions (39%) are adversely impacting their business
- It is particularly striking that the companies surveyed expect all of the three measures to worsen over the next five years (+2%-points, +2%-points and +7%-points, respectively), reflecting the ongoing trend for decoupling



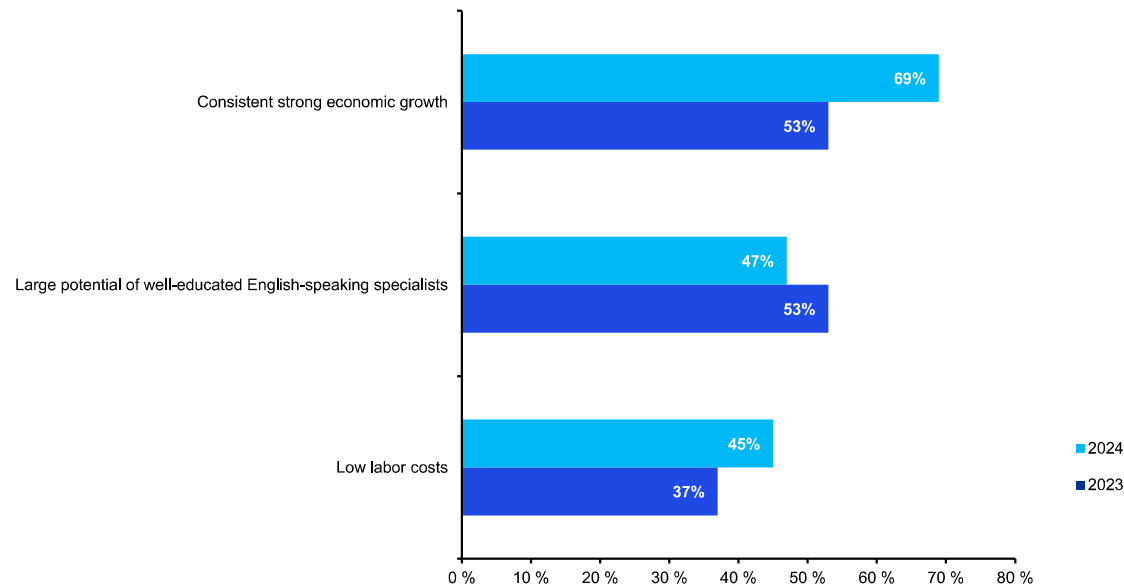
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Spotlight on selected topics



Consistent growth, low cost and English-speaking workforce make India attractive

Figure 11: Top 3 advantages of India as a business location in comparison with other Asian countries



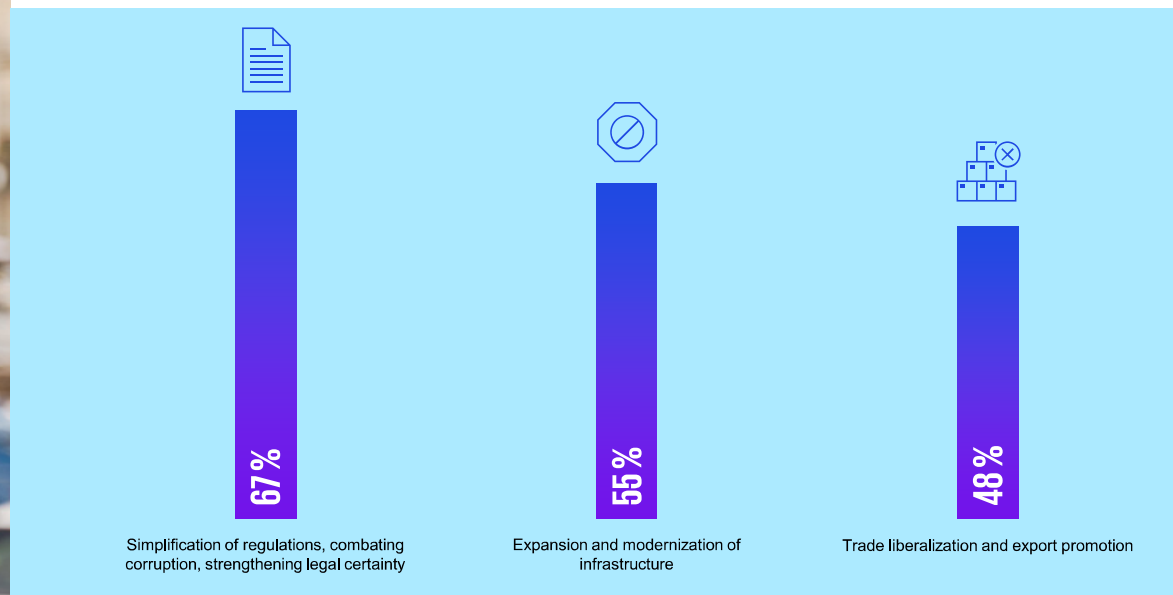
Source: KPMG in Germany and AHK India, 2024; (n=75); 2023 (n=51)

- India's consistently high economic growth is rated as the greatest advantage by 69% of respondents (+16%-points compared to 2023). With a GDP growth rate of 7.8% in 2023^(a), economic growth is higher and more stable than the officially stated growth rate in China (5.2%)^(a)
- Almost unchanged from the previous year, around half of the companies surveyed (47%; +6%-points) perceive the availability of well-educated, English-speaking specialists as India's second most important advantage
- Relatively low labor costs are rated as the third most important advantage by an increasing percentage of respondents (45%; +8%-points)
- The growing population and the resulting increase in the availability of young workers, which was stated as a key advantage for 47% of companies in 2023, only represents an advantage for 36% this year (-11%-points)

Notes: (a) IMF

High expectations of the newly elected government

Figure 12: Areas for action by the newly elected Indian administration



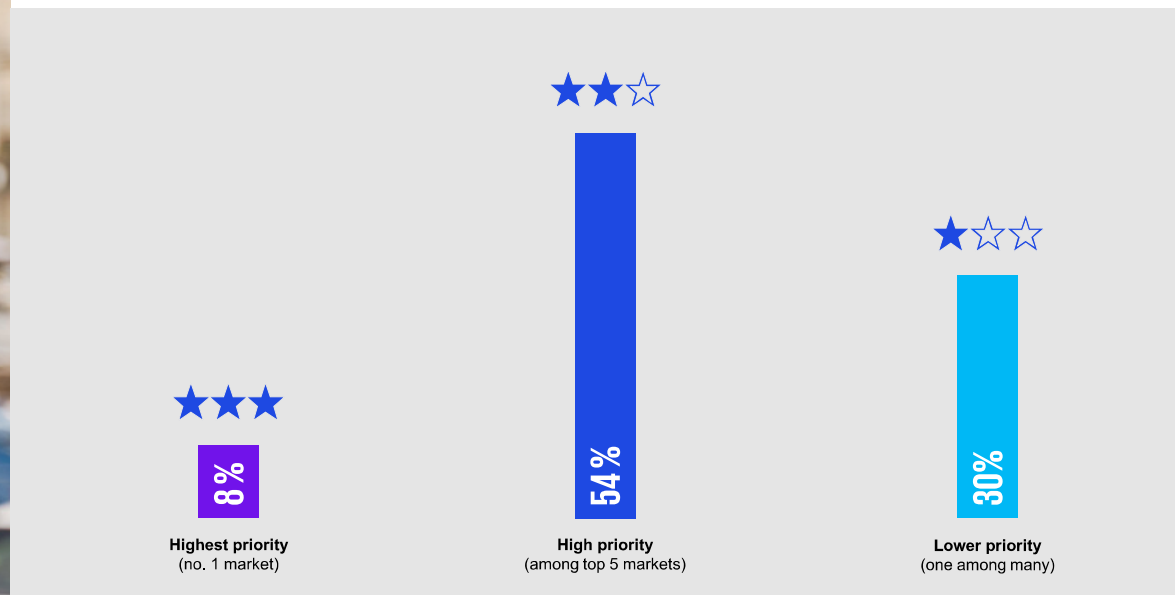
Source: KPMG in Germany and AHK India, 2024; (n=75)

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- Two-thirds of the companies surveyed (67%) hope that the new government, elected in June, will particularly simplify existing regulations, continue to combat corruption and generally strengthen legal certainty in the country
- Expansion and modernization of infrastructure are also a concern for more than half of the companies surveyed (55%)
- Liberalizing trade and promoting exports of Indian goods and services are hoped for by 48% of the respondents

Relevance of India for the overall group

Figure 13: Priority of operations in India for overall group



N/A= 8 %

Source: KPMG in Germany and AHK India, 2024; (n=85)

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- For more than half of the companies surveyed (54%), India is one of the top 5 markets
- For around one in twelve companies (8%), the country even has the highest priority
- For just under one-third of the companies surveyed (30%), India plays a limited role in their business activities



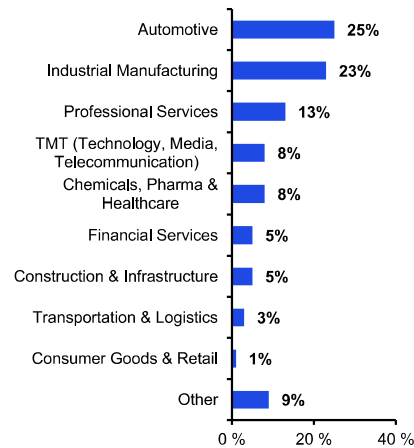
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Profile of the companies surveyed



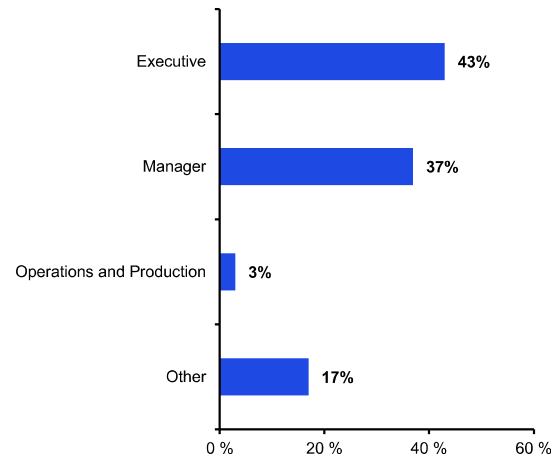
Profile of the companies surveyed

Figure 14: Breakdown by sector of the companies surveyed



Source: KPMG in Germany and AHK India, 2024; (n=85)

Figure 15: Role in company



Source: KPMG in Germany and AHK India, 2024; (n=85)

The Indo-German Chamber of Commerce and KPMG in Germany approached Indian subsidiaries of German groups and German companies with activities in India for this survey. A total of 85 companies participated in the survey (2023: 99 companies), which was conducted between 9 April and 20 May 2024.

The questions focused on the economic outlook for German companies in India and the challenges and opportunities for their businesses.



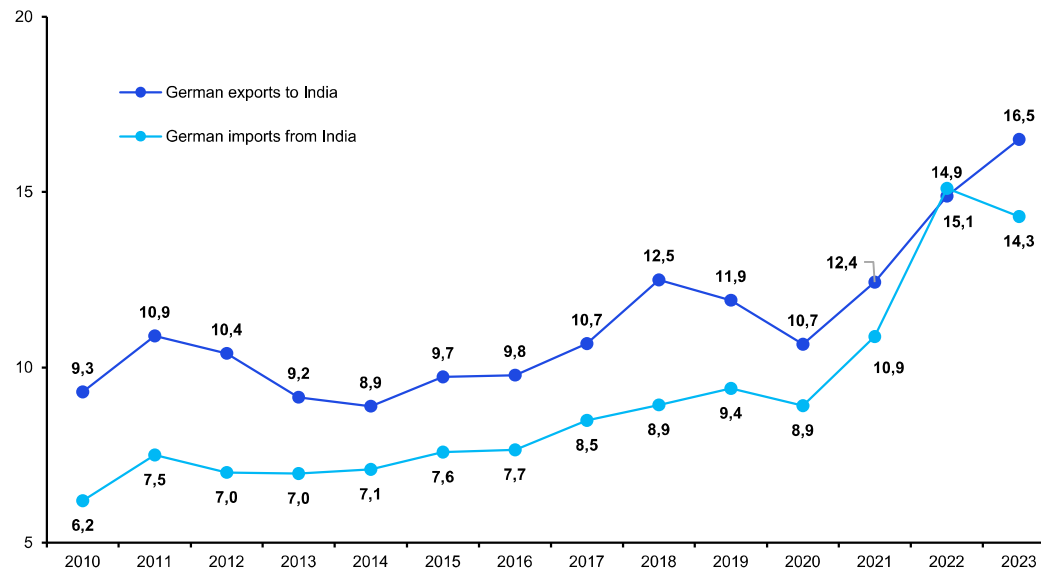
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Macroeconomic overview



Foreign trade grows substantially

Figure 16: Foreign trade (in EUR billion)

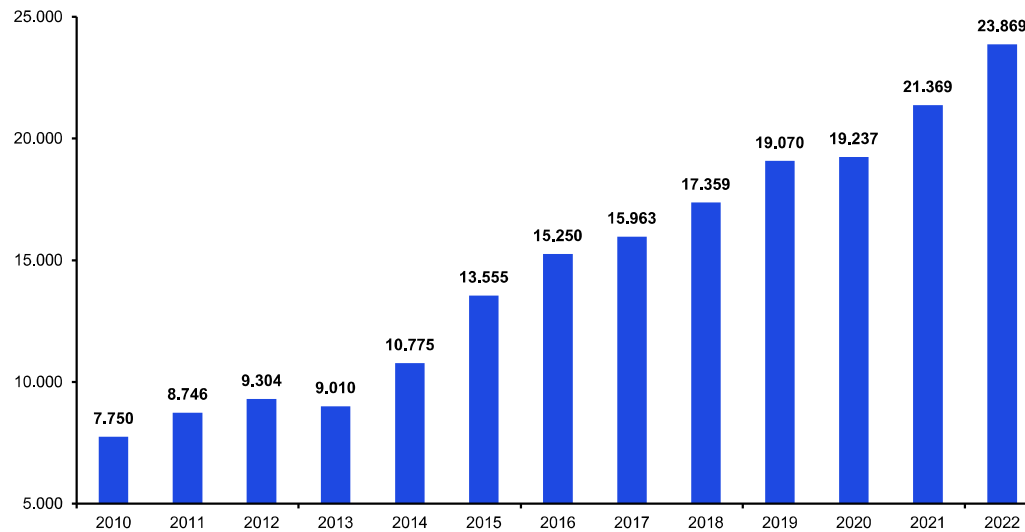


Source: Federal Statistical Office (Destatis)

- Bilateral trade in goods between Germany and India in 2023 exceeded the record figure of the previous year. Trade volume increased by 5% compared to 2022 and amounted to EUR 30,8 billion
- While German exports to India continued to grow in 2023, imports from India fell for the first time in past 13 years
- After a slight trade deficit with India of just EUR 0.2 billion in the previous year – for the first time ever – Germany again reported a trade surplus in 2024 of EUR 2.2 billion
- This places India 23rd among Germany's largest trading partners. As a sales market for German goods the subcontinent ranked 22nd (2022: 22nd) and as a procurement market India ranked 23rd (2022: 24th)

Investment in India is growing (1/2)

Figure 17: Direct and indirect investment stocks of German companies in India (netted^(a); in EUR million)

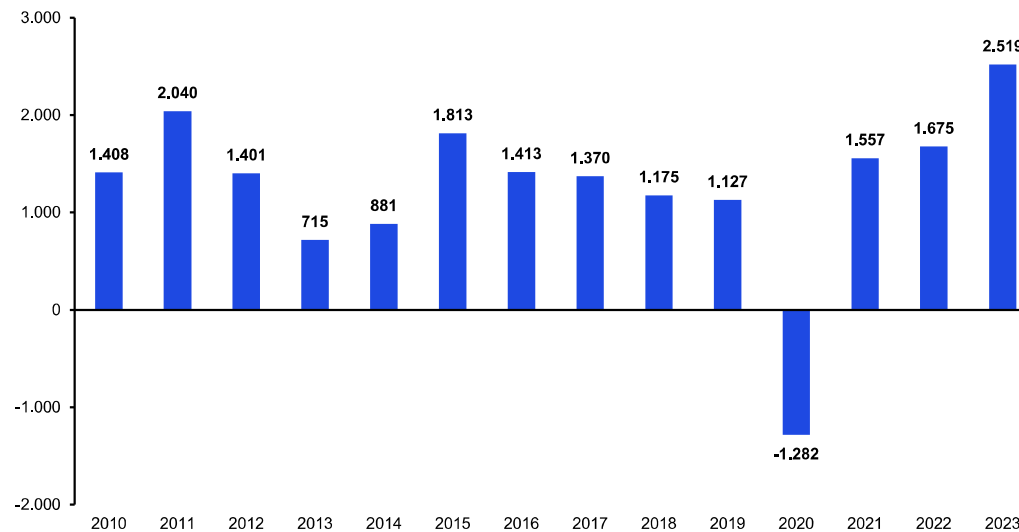


Notes: (a) receivables-payables most recent figures available for 2022 only
Source: Deutsche Bundesbank, AHK India

- The net stock of German direct and indirect direct investment in India rose by almost 12% to EUR 23.9 billion in 2022
- Germany is the 7th largest foreign direct investor in India
- In 2022, more than 2,000 German companies were present in India, especially in the automotive, machinery and chemical sectors

Investment in India is growing (2/2)

Figure 18: Transaction values for direct investment – German net investment in India (in EUR million)

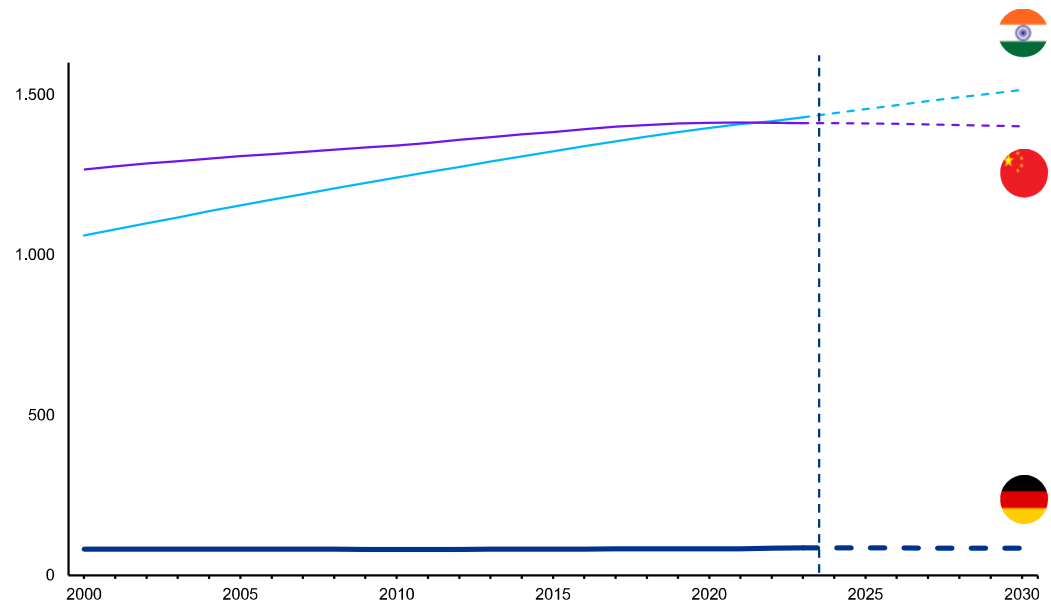


Source: Deutsche Bundesbank

- Investment flows from Germany to India were consistently positive, with the exception of the 2020 pandemic year
- In the past year 2023, the transaction volume increased by 50% compared to 2022 to reach EUR 2.5 billion, a new record level
- According to India's Department for Promotion of Industry and Internal Trade, Germany was the 10th largest foreign investor in India in FY 2023

India is the most populous country in the world

Figure 19: Population (in million)













Source: IMF

- In April 2023, India officially surpassed China as the most populous nation on Earth with 1.41 billion inhabitants
- While the country's young population is often seen as an asset, India struggles with high youth unemployment rates due to infrastructure deficits, skills shortages, and a lack of jobs and other basic indicators of human resource development
- China and Germany, on the other hand, are struggling with ageing societies and declining populations, and therefore with intensifying labor and skills shortages over the long term

India is fifth largest economy

Figure 20: The world's five largest economies – a comparison

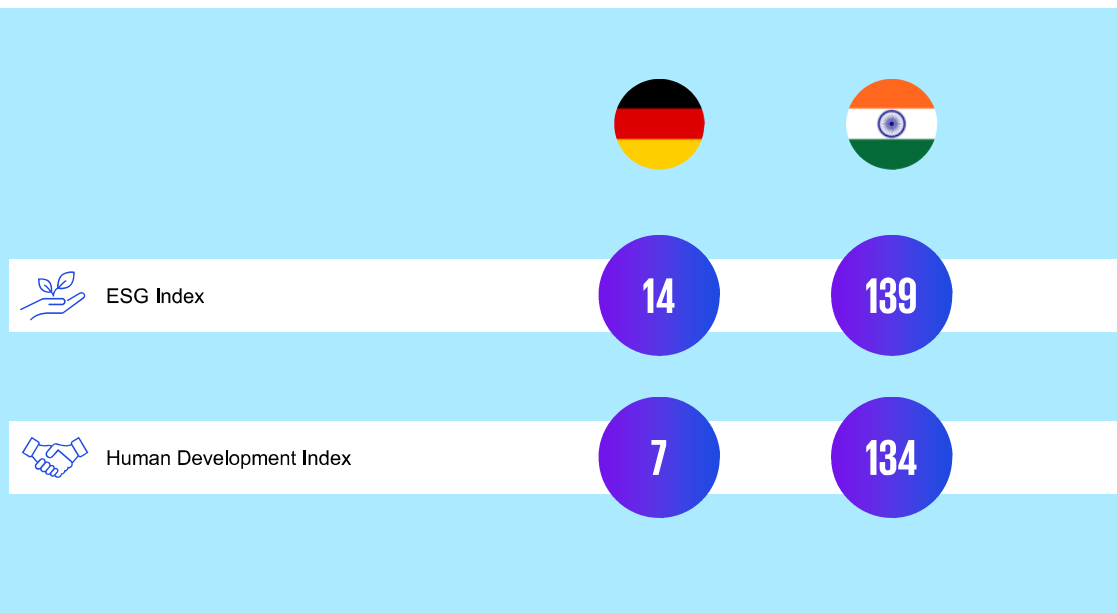
	 U.S.	 China	 Germany	 Japan	 India
 GDP 2023 (in USD billion)	28,783	18,536	4,730	4,112	3,942
 GDP per capita 2023 (in USD)	81,632	12,514	52,727	33,806	2,500
 Population 2023 (in millions)	335	1,411	85	123	1,429
 Unemployment rate 2023	3.6%	5.2%	3.0%	2.6%	3.1%
 Public debt to GDP 2023	122.1%	83.6%	64.3%	252.4%	82.7%

Source: IMF, National Statistical Office (NSO)

- Already in 2022, India overtook the United Kingdom in terms of size to become the fifth largest economy in the world
- GDP per capita, however, remains low compared to the other top 5 nations
- In April 2023, India surpassed China to become the world's most populous country
- With the exception of China, the world's largest economies have unemployment rates of less than five percent
- In terms of public debt as a percentage of GDP, India ranks in the middle of the field

Ranking of Germany and India in comparison (1/3)

Figure 21: ESG Index/Human Development Index



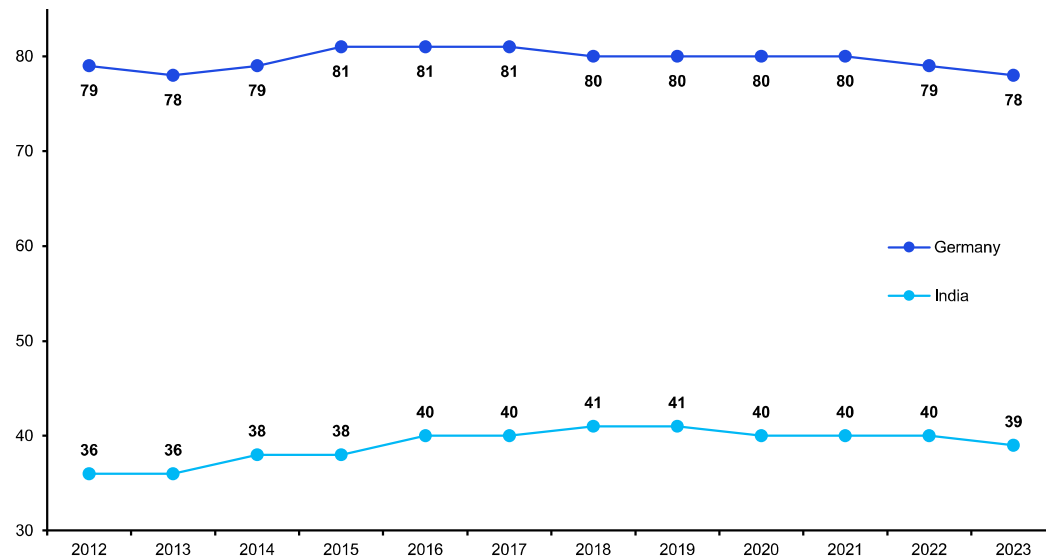
Source: Global Risk Profile, United Nations Development Programme (UNDP)

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- In 2023, Germany ranked 14th and India 139th out of 183 economies in the Global Risk Profile's ESG index. The index encompasses three sub-indices (environment, human rights and health & safety) based on 65 variables to measure ESG risk exposure
- In 2022, Germany ranked 7th and India 134th out of 193 economies in the United Nations' Human Development Index (HDI)
- In 2022, India saw improvements across all HDI indicators – life expectancy rose from 67.2 to 67.7 years, expected years of schooling reached 12.6, and Gross National Income (GNI) per capita recorded an increase from USD 6,542 to USD 6,951

Ranking of Germany and India in comparison (2/3)

Figure 22: Corruption Perception Index (CPI) (0 = highly corrupt/100 = very clean)





Source: Transparency International

- In 2023, Germany ranked 9th and India 93rd out of 180 economies in Transparency International's Corruption Perception Index (CPI)
- Germany, with its low level of everyday corruption, ranks relatively favorably compared to its international peers
- Globally, the average CPI score remains unchanged at 43. India's score is therefore slightly below average. Against the backdrop of the general election in June 2024 the issue of corruption returned to focus

Ranking of Germany and India in comparison (3/3)

Figure 23: KPIs in respect of renewable energies

		
Electricity consumption per capita (2023, in kWh)	6,160	1,327
Share of renewable energies in electricity generation (2023)	56%	21%
Electric vehicle charging points (Jan./Feb. 2024)	106,431	12,146
Wind installed capacity (2023, in megawatts)	69,459	44,700

Source: Ember, CEA India, Our World in Data, Federal Statistical Office (Destatis), Press Information Bureau India, Nationale Leitstelle Ladeinfrastruktur, IRENA, Mercom

- In 2023, per capita electricity consumption in Germany was more than four times higher than in India
- The share of renewable energies in the volume of electricity generated is greater in Germany (56%) than in India (21%)
- In 2023, India ranked 4th globally in renewable power capacity, Germany ranked 5th
- At the start of 2024, India had 12,146 public electric vehicle charging stations to cater for a total of 3.5 million EVs, compared to Germany with 106,431 stations for 1.4 million EVs
- Both countries are far ahead in terms of installed wind power capacity in a global comparison, with Germany in third and India in fourth place

About us

AHK India

AHK India or the Indo-German Chamber of Commerce was incorporated in 1956. Today, it has over 4,500 members, making it both the largest Chamber of Commerce in India and the largest AHK worldwide. We have built up a strong local presence with our head office in Mumbai and branch offices in Delhi, Bangalore, Kolkata, Chennai and Pune, as well as a liaison office in Düsseldorf.

As the primary contact for Indian and German companies who want to start and grow their business in the other country, our role is to foster bilateral economic relations between the two economic giants. As a highly regarded and respected institution in India and Germany – with our qualified team and our innumerable contacts and connections familiar with the particularities and regulatory environment of the respective markets – the Indo-German Chamber of Commerce has played a major role in advancing corporate and cultural understanding between India and Germany for over 65 years.



www.indien.ahk.de

KPMG

KPMG is a network of independent member firms with around 273,000 employees in 143 countries. In Germany, KPMG is one of the leading auditing and consulting companies and has around 14,000 employees at 27 locations. Our services include Audit, Tax, Consulting and Deal Advisory. Legal advice services are provided by a legally independent company.

KPMG in Germany has set up Country Practices for all relevant business corridors between Germany and other countries/regions. All Country Practices are staffed by country experts who know the special characteristics and the regulatory environment of these markets, regularly work in these countries and provide German and global multinational companies with advice on their country/corridor-related questions on a daily basis.



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