India's transition – opportunities for Germany

Dr. Vincent Stamer AC

Charlie Lay AC

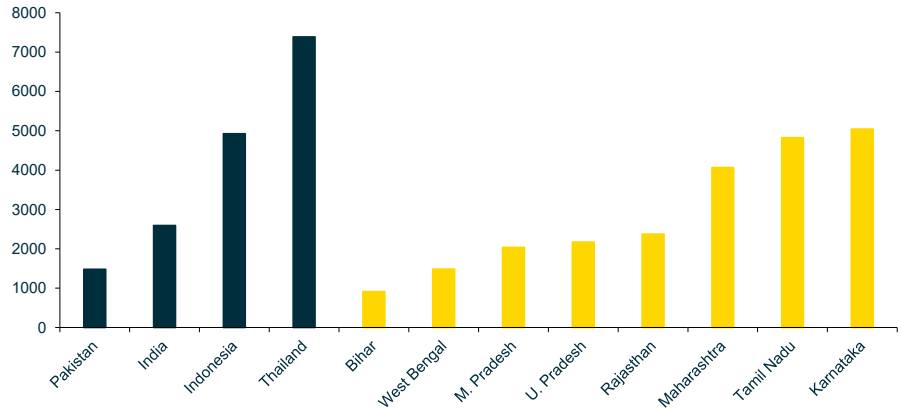
India has been the fastest-growing major economy since 2023, significantly outperforming China and most other emerging economies. It is increasingly viewed as a potential complement to China in global supply chains. We assess the reforms already achieved and the reforms needed to propel growth to another level and outline the implications for German corporates. Some headwinds for the Indian economy remain.

India grows rapidly

India has been the fastest-growing major economy since 2023, with real GDP growth averaging around 7.3% compared to 5% for China and the ASEAN economies. Of course, India is starting from a much lower income base than China and several Southeast Asian economies. But its population of more than 1.4 billion, rising household incomes, and substantial infrastructure needs offer considerable opportunities for European exporters ranging from premium consumer products and healthcare to capital goods, electrical equipment and transport technology.

At the same time, India is far from a uniform market. Income levels, industrial clusters, logistics, workforce skills, and administrative capacity differ sharply across states (Chart 1). These differences help explain why foreign investment is concentrated in a relatively small number of locations. For European companies, choosing the right state, city and distribution network can be as consequential as the decision to enter India in the first place.

Chart 1 - Indian states show different development levels
Gross domestic product per capita in 2024, current US Dollars; largest Indian states by population



Source: World Bank, Ministry of Statistics and Programme Implementation via StatisticsTimes, Commerzbank-Research

Past reforms have laid the foundations

India's improved economic performance has been underpinned by a first wave of institutional and policy reforms a decade ago that strengthened macroeconomic stability and improved the investment climate. Policy continuity under Prime Minister Narendra Modi, who has been in power since 2014, has also been a positive. This may have contributed to India's growth rate climbing beyond 7% – a value slightly above the average before the pandemic (title chart).

Concrete reforms already implemented include:

1. The Insolvency and Bankruptcy Code (IBC) – enacted in 2016, it created a more coherent process for resolving corporate distress, although delays and the volume of recoveries remain key concerns.

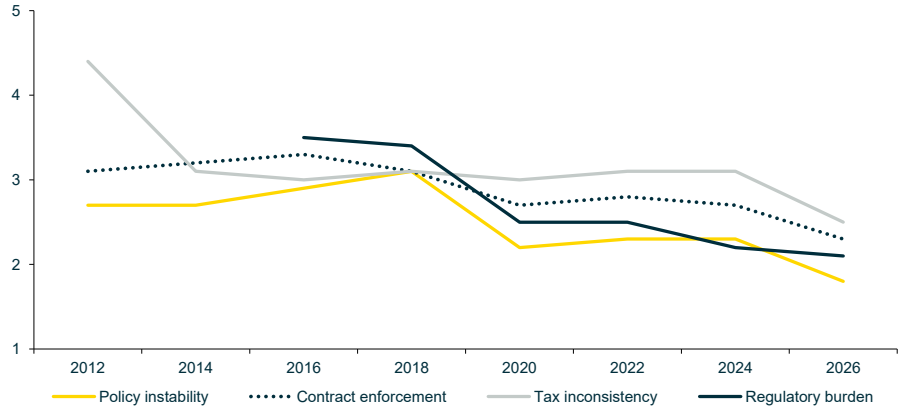
2. The nationwide goods and services tax (GST) – introduced in 2017, it replaced a fragmented system of indirect taxes. In September 2025, the GST structure was simplified to two main rates of 5% and 18%, alongside a special 40% rate for luxury and 'sin' goods.

3. Infrastructure – Sustained public spending on transport and logistics has also improved connectivity, creating demand for construction equipment, signaling systems and industrial technology.

4. Monetary Policy – A flexible inflation-targeting framework for the Reserve Bank of India, formally adopted in 2016, has anchored inflation expectations.

It is important to recognise, however, that these reforms are now a decade old and apart from the labour codes (see below), few comparably large reforms have been completed since the pandemic. Nonetheless, the policy environment still appears to be on a positive trajectory. Risk factors tracked by S&P such as a lack of contract enforcement, tax inconsistency and regulatory burden have eased slowly, but consistently over the last years (Chart 2).

Chart 2 - India's institutions improve
Country risk scores by S&P Global for India, Scale from 0 (very low) to 10 (extreme) risk

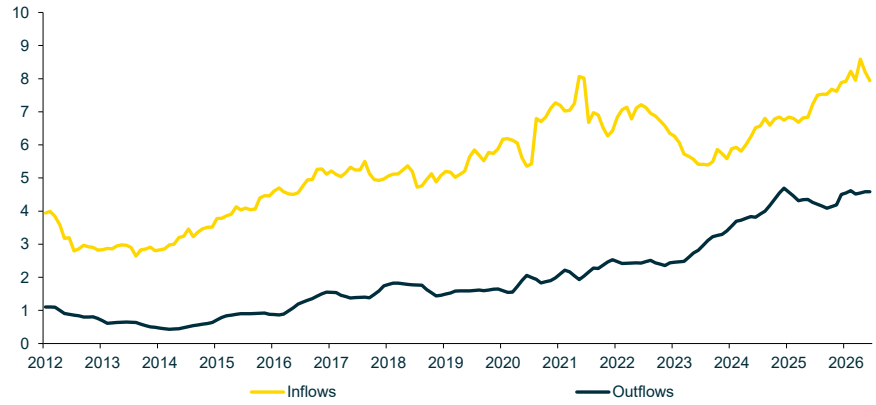


Source: S&P Global, Commerzbank-Research

... but headwinds remain

Despite the progress, several headwinds remain. The investment position over time exemplifies this: While investment flows by foreign firms into India have increased over the past 15 years (Chart 3), many of these firms have also pulled out funds at an increasing volume. The outflows are also larger than reinvested earnings. In other words, many firms find it more profitable to pull out of India and invest elsewhere. This shows that some headwinds persist despite the structural improvements. However, at least partly responsible for this trend are short-term problems such as the declining value of the Indian Rupee as a result of India's dependence on foreign oil and gas. Indeed, a weaker Rupee reduces the US dollar value of foreign companies' earnings in India and leads to outflows. For the coming quarters, we expect the Indian currency to stabilize and the pressures from high energy prices to ease.

Chart 3 - Outflows of invested funds are also increasing
Gross foreign direct investments into and out of India by foreign firms, monthly data in billion US Dollars, 12-months rolling average



Source: Reserve Bank of India, Commerzbank-Research
Asked about hurdles to doing business in India in a survey by the Chamber of Commerce Abroad, 58% of responding German companies cited bureaucratic hurdles, 34% corruption and 27% certification or Quality Control Orders among the most negative location factors. Judicial delays and periodic labour disputes can further raise costs. This is very important for Germany's Mittelstand, since not every company is large enough to easily absorb legal, tax and compliance costs. Also, tariffs on imports into India remain high, which makes it expensive to source intermediate goods from abroad for production in India.

Recently, there has been some progress, ...

To ensure that economic growth does not slow down, these and other structural issues would need to be addressed. However, the necessary reforms are significantly more difficult than those already implemented, as they initially entail cutbacks for many people, and

the economic benefits will only become visible gradually or in the long term. India's federal structure and frequent state-level elections further complicate the implementation of these reforms.

A major step forward, for example, is the simplification of labor laws: 29 existing laws were replaced by four. However, after the laws were passed by parliament, it took about five years for the new regulations to actually come into force on November 21, 2025. And it is not yet certain how widely they will be implemented across all federal states.

It is also a positive sign that India is increasingly moving away from its protectionist stance. More open trade will expose domestic companies to stronger competition, foster productivity gains, and support India's integration into global value chains. For instance, negotiations on the free trade agreement between the EU and India were concluded on January 27, 2026; the agreement is expected to enter into force in 2027. But here, too, the economic benefits will depend on the duration of implementation, rules of origin, and remaining non-tariff barriers to trade.

... but some things are still pending

In addition to simpler labor laws and reduced protectionism, several other measures are also urgently needed:

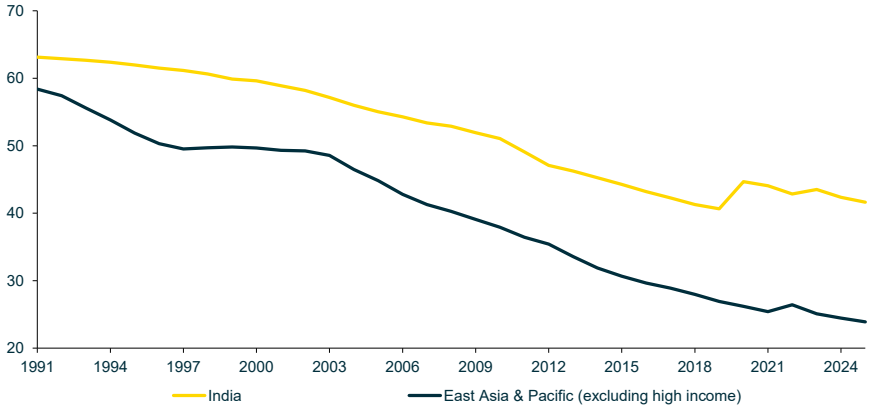
1. Land – Land acquisition can still be slowed by ownership disputes, approvals and compensation negotiations. More consistent administration would make it easier for European manufacturers to establish and expand factories.

2. Human capital – A demographic dividend must be earned through productive employment. Greater female labour-force participation could expand the effective labour supply, while improvements in education, vocational training and technical skills would support higher-value manufacturing and services. Additionally, 42% of the employed population is tied up in agriculture – a high value in comparison to around 24% in low and middle income countries of East Asia (Chart 4). A reduction of high agricultural subsidies could free up labour here and allow faster job creation in manufacturing and services.

3. Energy infrastructure – India's reliance on imported crude oil and natural gas exposes its external balance, inflation and INR to global price shocks. Renewable power can improve energy security over time, but lower generation costs do not automatically mean cheaper or more reliable industrial electricity: grids, storage, distribution losses and backup capacity also matter. This creates opportunities for European suppliers.

Progress is likely to be gradual and uneven. Investors should therefore evaluate state-level industrial ecosystems, infrastructure, market access, supplier quality and administrative reliability rather than treating India as a single investment location.

Chart 4 - A large share of the Indian population works in agriculture
Employment in agriculture, % of total employment; modeled ILO estimate



Source: World Bank, International Labour Organization, Commerzbank Research

Implications for Germany: Growth potential

A major economy growing at an annual rate of 7% holds several promises for German businesses: Indeed, the KPMG-AHK survey found that 68% of respondents rank India among their five most important global markets and 92% expect revenue to increase by 2031. The EU–India FTA could reinforce business opportunities: 26% of respondents plan to expand local production in response to the agreement and 25% to increase exports from India. Not every German company is moving at the same speed, though. Large-cap German industrial groups are furthest along, while smaller Mittelstand firms often face higher relative compliance and market-entry costs.

India's strongest appeal to European corporates is the combination of a large, relatively underpenetrated market for final goods and sustained demand for industrial capital goods. Rising incomes and urbanisation can support demand for automobiles, healthcare

products, household equipment and other consumer goods. At the same time, infrastructure construction, factory investment and energy modernisation create opportunities for German manufacturing and engineering services.

Conclusion: An opportunity for 'China plus India'

India is overall on a positive path when it comes to the institutional framework for German investors. The country has achieved important reforms in the form of tax harmonization and a coherent bankruptcy code. India has also achieved important policy stability under Modi and several risk factors such as the regulatory burden and contract enforcement have decreased under the prime minister's tenure. Trade openness and labour code reforms are being implemented. The harder task ahead is to lift productivity through more effective land administration, judicial reform and human-capital development.

Success for German companies investing in India will depend on sector, state and partner selection. At the same time, it is clear that China remains difficult to replicate given its scale, supplier density, logistics and industrial capabilities. India offers a different proposition: Growth of 6–7% would still generate substantial additional demand for consumer goods, industrial equipment, infrastructure and services. This offers an opportunity for a 'China plus India' strategy.

Analysts

Dr. Jörg Krämer AC
Chief Economist
+49 69 136 23650
joerg.kraemer@commerzbank.com

Bernd Weidensteiner AC
Senior Economist
+49 69 9353 45625
bernd.weidensteiner@commerzbank.com

This report was completed 6/11/2026 07:23 CET and disseminated 6/11/2026 07:23 CET.

This document has been created and published by the Group Research department (GM-R) within the Group Management division of Commerzbank AG, Frankfurt/Main or Commerzbank's non-US branch offices mentioned in the document.

Analyst Certification (AC): The author(s), denoted by AC at the beginning of this report, individually certifies that the views expressed in this report accurately reflect their personal views about the subject securities and issuers; and no part of their compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or views expressed by them contained in this document.

It has not been determined in advance whether and in what intervals this document will be updated. Unless otherwise stated current prices refer to the most recent trading day's closing price or spread which may fluctuate.

Conflicts of interest

Disclosures of potential conflicts of interest relating to Commerzbank AG, its affiliates, subsidiaries (together "Commerzbank") and its relevant employees with respect to the issuers, financial instruments and/or securities forming the subject of this document valid as of the end of the month prior to publication of this document*:

Please refer to the following link for disclosures on companies included in compendium reports or disclosures on any company covered by Commerzbank analysts: **https://commerzbank.bluematrix.com/sellside/Disclosures.action***

*Updating this information may take up to ten days after month end.

Disclaimer

This document is for information purposes only and has been prepared for recipients who, like professional clients according to MiFID II, have the experience, knowledge and expertise to understand information related to the financial markets. The document does not take into account specific circumstances of any recipient and the information contained herein does not constitute the provision of investment advice. It is not intended to be and should not be construed as a recommendation, offer or solicitation to acquire, or dispose of, any of the financial instruments and/or securities mentioned in this document and will not form the basis or a part of any contract or commitment whatsoever. Investors should seek independent professional advice and draw their own conclusions regarding suitability of any transaction including the economic benefits, risks, legal, regulatory, credit, accounting and tax implications.

The information in this document is based on public data obtained from sources believed by Commerzbank to be reliable and in good faith, but no representations, guarantees or warranties are made by Commerzbank with regard to accuracy, completeness or suitability of the data. Commerzbank has not performed any independent review or due diligence of publicly available information regarding an unaffiliated reference asset or index. The opinions and estimates contained herein reflect the current judgement of the author(s) on the date of this document and are subject to change without notice. The opinions do not necessarily correspond to the opinions of Commerzbank. Commerzbank does not have an obligation to update, modify or amend this document or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

In order to address potential conflicts of interest Commerzbank's Research department operates independently of other business units of the bank. This is achieved by way of physical and administrative information barriers and separate reporting lines as well as by written internal policies and procedures.

This communication may contain trading ideas where Commerzbank may trade in such financial instruments with customers or other counterparties. Any prices provided herein (other than those that are identified as being historical) are indicative only, and do not represent firm quotes as to either size or price. The past performance of financial instruments is not indicative of future results. No assurance can be given that any financial instrument or issuer described herein would yield favourable investment results. Any forecasts or price targets shown for companies and/or securities discussed in this document may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information and/or the subsequent transpiration that underlying assumptions made by Commerzbank or by other sources relied upon in the document were inapposite.

Commerzbank and or its affiliates may act as a market maker in the instrument(s) and or its derivative that has been mentioned in our research reports. Employees of Commerzbank and or its affiliates may provide written or oral commentary, including trading strategies, to our clients and business units that may be contrary to the opinions conveyed in this research report. Commerzbank may perform or seek to perform investment banking services for issuers mentioned in research reports.

Neither Commerzbank nor any of its respective directors, officers or employees accepts any responsibility or liability whatsoever for any expense, loss or damages arising out of or in any way connected with the use of all or any part of this document.

Commerzbank may provide hyperlinks to websites of entities mentioned in this document, however the inclusion of a link does not imply that Commerzbank endorses, recommends or approves any material on the linked page or accessible from it. Commerzbank does not accept responsibility whatsoever for any such material, nor for any consequences of its use.

This document is for the use of the addressees only and may not be reproduced, redistributed or passed on to any other person or published, in whole or in part, for any purpose, without the prior, written consent of Commerzbank. The manner of distributing this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves about and to observe such restrictions. By accepting this document, a recipient hereof agrees to be bound by the foregoing limitations.

Additional notes to readers in the following countries:

Germany: Commerzbank AG is registered in the Commercial Register at Amtsgericht Frankfurt under the number HRB 32000. Commerzbank AG is supervised by both the German regulator, Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), Graurheindorfer Strasse 108, 53117 Bonn, Marie-Curie-Strasse 24-28, 60439 Frankfurt am Main and the European Central Bank, Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany.

United Kingdom: This document is not for distribution to retail customers and has been issued or approved for issue in the United Kingdom by Commerzbank AG, London Branch, which is authorised and regulated by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and the European Central Bank. Authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request.

United States: This research report was prepared by Commerzbank AG, a company authorized to engage in securities activities in Germany and the European Economic Area (EEA). Commerzbank AG is not a U.S. registered broker-dealer and is therefore not subject to U.S. rules regarding the preparation of research and associated rules pertaining to research analysts. This document is not for distribution to U.S. retail customers. Any distribution of this research report to U.S. investors is intended for “major U.S. institutional investors” in reliance on the exemption from registration provided by Rule 15a-6(a)(2) of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”). Any U.S. recipient of this research report seeking to effect transactions to buy or sell securities, or related financial instruments based upon the information provided in this research report, may only do so through a Financial Industry Regulatory Authority (FINRA) registered broker-dealer. Commerz Markets LLC (CMLLC) is a U.S. registered broker-dealer and wholly owned subsidiary of Commerzbank AG. Commerzbank AG is a registered derivatives swap dealer with the Commodity Futures Trading Commission (CFTC), in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act. U.S. Person(s) and related Dodd-Frank relevant investors seeking to effect transactions in non-security based swaps based upon the information provided in this research report, may only do so through a CFTC registered swap dealer.

Canada: The information contained herein is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering, an offer to sell securities described herein, solicitation of an offer to buy securities described herein, in Canada or any province or territory thereof. Any offer or sale of the securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. Under no circumstances is the information contained herein to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. In Canada, the information contained herein is intended solely for distribution to Permitted Clients (as such term is defined in National Instrument 31-103) with whom Commerzbank AG and/or Commerz Markets LLC deals pursuant to the international dealer exemption. The information contained herein is not permitted to reference securities of an issuer incorporated, formed or created under the laws of Canada or a province or territory of Canada, as Commerzbank AG and Commerz Markets LLC operates under the international dealer exemption pursuant to National Instrument 31-103. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon these materials, the information contained herein or the merits of the securities described herein and any representation to the contrary is an offence.

European Economic Area: Where this document has been produced by a legal entity outside of the EEA, the document has been re-issued by Commerzbank AG, London Branch for distribution into the EEA. Commerzbank AG, London Branch is authorised and regulated by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and the European Central Bank. Authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request.

Switzerland: This document is generally not for distribution to retail clients. Neither this research report nor the information contained herein should be regarded as personal recommendations for transactions in financial instruments within the meaning of the Financial Services Act.

Singapore: This document is furnished in Singapore by Commerzbank AG, Singapore branch. It may only be received in Singapore by an institutional investor, an accredited investor or an expert investor as respectively defined in section 4A of the Securities and Futures Act, Chapter 289 of Singapore (“SFA”) pursuant to section 274 or section 275 (as applicable) of the SFA. Nothing in this document constitutes accounting, legal, regulatory, tax, financial or other advice and/or recommendations to the recipient of this communication. Further, the communication/information provided herein does not constitute a “financial advisory service” within the meaning of the Financial Advisers Act, Chapter 110 of Singapore (“FAA”) and therefore, the regulatory requirements and duties that may be owed to a client pursuant to or in connection with the FAA are not applicable to the recipient in connection with this communication. Recipients are advised to seek independent advice from their own professional advisers about the information contained discussed herein.

Japan: This information and its distribution do not constitute and should not be construed as a "solicitation" under the Financial Instrument Exchange Act (FIEA) of Japan. This information may be distributed from Commerzbank international branches outside Japan solely to "professional investors" as defined in Article 2(31) of the FIEA and Article 23 of the Cabinet Ordinance Regarding Definition of Article 2 of the FIEA. Please note that Commerzbank AG, Tokyo Branch has not participated in its preparation. Not all financial or other instruments referred to in this document are available within Japan. Any instruments referred in this report cannot be introduced by the Branch. You should contact the Corporate Clients division of Commerzbank AG for inquiries on availability of such instruments.

Australia: Commerzbank AG does not hold an Australian financial services licence. This document is being distributed in Australia to wholesale customers pursuant to an Australian financial services licence exemption for Commerzbank AG under Class Order 04/1313.

Commerzbank AG is regulated by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) under the laws of Germany which differ from Australian laws.

People's Republic of China (PRC): This document is furnished by Commerzbank AG and is only intended for eligible entities in the PRC. No-one else may rely on any information contained within this document. The products and services in this document only apply to entities in the PRC where such products and services are permitted to be provided by PRC laws and regulations. For any person who receives this document, the information in this document shall neither be regarded as promotion or solicitation of the business nor accounting, legal, regulatory, tax, financial or other advice and/or recommendations to the recipient of this communication, and the recipient is advised to seek independent advice from its own professional advisers about the information contained herein and shall understand and abide by PRC laws and regulations while conducting any related transactions.

© Commerzbank AG 2026. All rights reserved. Version 26.04

Frankfurt
Commerzbank AG
DLZ - Gebäude 2, Händlerhaus
Mainzer Landstraße 153
60327 Frankfurt
Tel: + 49 69 136 21200

London
Commerzbank AG
PO BOX 52715
30 Gresham Street
London, EC2P 2XY
Tel: + 44 207 623 8000

New York
Commerz Markets LLC
225 Liberty Street, 32nd floor,
New York,
NY 10281-1050
Tel: + 1 212 703 4000

Singapore
Commerzbank AG
128 Beach Road
#17-01 Guoco Midtown
Singapore 189773
Tel: +65 631 10000