

India Outlook

The BJP continues to expand its political footprint while the economic recovery gathers steam

The BJP achieved more victories in recently concluded assembly elections in 3 north eastern states. In Tripura, it trounced the Congress and the incumbent Left front to win 43 out of 59 seats. In Nagaland, its coalition NDDP won 29 out of 60 seats while in Meghalaya it partnered the winning NPP coalition. Historically, the BJP has been non-existent in the three states and it is Narendra Modi's mass appeal and Party President Amit Shah's organisational skills that have brought about the change in fortunes. On another count, the party suffered a blow as one of its partners, the Telugu Desam Party (TDP), exited the National Democratic Alliance (NDA). The dispute stemmed from the TDP's demand for special treatment for its state of Andhra Pradesh which the BJP maintained would breach constitutional propriety.

The BJP is in power, individually or in coalition, in over 20 states and its influence in the Rajya Sabha will increase in the coming years. The shift began last week with elections to 58 upper house seats. The BJP raised its tally from 54 to 69 while the Congress' count dropped from

Upper House arithmetic is set to change in the BJP's favour but the opposition continues to obstruct Parliamentary proceedings



54 to 50 and other parties witnessed smaller changes. As an alliance, the NDA now has 85 seats, not including the TDP's 6, while the opposition has just over 100. The rest are shared by other regional parties from whom the BJP would seek issue-based support. However, opposition parties still have enough sway to derail proceedings and are in fact upping the ante. The ongoing Budget session has seen almost every sitting washed out, even in the Lower House.

The Cabinet Committee on Economic Affairs approved what is equivalent to the opening up of India's coal mining sector to the

private sector through its decision to auction coal blocks to the highest bidder without restrictions on end use, quantity or pricing. Any player, private Indian or foreign, can now bid and mine coal on a commercial basis. Coal mining was nationalised in 1973; subsequently, private mining was allowed only for captive consumption by power, steel and cement companies.

GDP growth for Q3 (October-December) 2017 came in at 7.2 per cent yoy against 6.8 per cent yoy last year and 6.5 per cent yoy in Q2, confirming the ongoing recovery in the economy. Encouragingly, investment provided the main impetus to growth with capital formation rising 12 per cent yoy against 8.7 per cent yoy last year. This is corroborated by IIP growth which increased to 6 per cent yoy in Q3 from 3.9 per cent yoy last year, led by an 11 per cent increase in capital goods production (-1.8 per cent last year). From a sector point of view, GVA growth at 6.7 per cent yoy in Q3 was driven by 8.1 per cent growth in manufacturing, 6.8 per cent in construction and 7.7 per cent in services.

Nevertheless, there are reasons for markets to worry. In January, the fiscal deficit for FY18 stood at 114 per cent of the revised target of 3.5 per cent of GDP and even if budget cuts are made, a further slippage is possible. Further, with inflation sticky at over 5 per cent, markets are anticipating a rate hike with 10-year treasury yields moving up from 7.3 per cent to 7.7 per cent through February. ■

Fiscal year starting 1 April	2014-15	2015-16	2016-17	2017-18	2018-19
GDP mp (FY12 series), real growth, %	7.2	7.9	7.1	6.5	7.0
Inflation - WPI, year average (FY12 series), %	1.3	-3.6	1.8	3.0	4.5
Inflation - CPI, yr avg (FY12 series), %	6.0	4.9	4.5	3.5	5.0
RBI lending (repo) rate, year end, %	7.5	6.75	6.25	6.00	6.50
Rupee to US\$1, RBI Ref Rate, yr end	62.5	66.2	64.8	64.5	67.0

Sources: 2015-2017 data from the government (NCI, RBI) and CEIC.