

India Outlook

A crucial Assembly election in Karnataka will set the tone for the months ahead

P rime Minister Narendra Modi's BJP-led government has served almost four years of its first 5-year term and seeks a second term in 2019. Its main opponent, the Congress Party, is weak by itself but hoping to cobble together a coalition that could help put up a better fight. A bigger issue is when the BJP will gain control of the 245-seat upper house, where many of its bills have been blocked previously. Seats in that house are determined by India's state legislatures, and it is here that India's political landscape is shifting. A string of state assembly poll wins has put the BJP or its allies in power in 21 of India's 35 states and territories, the highest score ever achieved in India's history. As upper house MPs serve out 6-year terms with one third retiring every two years, that swing in power will only happen over time. The BJP on its own will not reach upper house majority until 2020 but it has acquired enough strength to at least obtain issue-based victories. It currently has 69 seats, while its NDA coalition has 86 seats after biennial upper house polls in March. Opposition parties control another 103 leaving 52 members across multiple minor parties that the BJP can try to negotiate with on a bill-

G DP growth rebounded in Oct-Dec, and both investment and consumer demand are picking up



by-bill basis.

Assembly polls in three north-eastern states in March highlight the swing to the BJP. In Tripura, the BJP trounced Congress and the incumbent Left front to win 43 out of 59 seats. In Nagaland, its coalition NDPP 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. Its wins reflect popular support for Mr Modi's promise of reform-driven growth as well as the organisational skills of BJP Party President Amit Shah. Yet, March also saw the Telugu Desam Party (TDP) leave the BJP-led coalition after its demand for special treatment for its state of Andhra Pradesh was rejected by the BJP as unconstitutional.

For now, the focus is on assembly elections in Karnataka next week

where the incumbent Congress seeks to retain one of only four states under its fold. For the BJP a victory would a big confidence-builder as it has historically been weak in South India whereas for the latter it is almost a question of survival. The election is scheduled on May 12 with results to be declared on May 15.

Underlying growth picked up faster than expected in the December quarter with GDP expenditure lifting by 7.2 per cent yoy from 6.1 per cent ytd in the first three quarters of calendar 2017. The big gain was in fixed investment, which surged 12 per cent yoy after a gain of just 4.8 per cent ytd in the first three quarters. Full year GDP (expenditure) growth was 6.4 per cent, with fixed investment up 6.6 per cent (slowing from 10.5 per cent in 2016) and consumer demand up 5.7 per cent (slowing from 8.3 per cent in 2016). As the factors that slowed domestic demand growth in 2017 (demonetisation and GST) fade, GDP growth should lift above 7 per cent in 2018 and 2019.

The investment surge is reflected in strong rebounds in the industrial production indices for cement (up 11.4 per cent ytd in the December quarter from a 5-year average quarterly rate of 3.3 per cent) and steel (up 9 per cent yoy from a 5-year average quarterly rate of 5.6 per cent). That matched a recovery in construction GDP, up 6.8 per cent yoy after no growth in the first three quarters of calendar 2017. For 2018 and 2019, we expect construction growth to lift to 4-5 per cent from 1.8 per cent in 2017 and a 5-year average to 2016 of 3.4 per cent. That should help lift overall investment growth to 7-8 per cent over the next two years from 6.6 per cent in 2017.

India's rupee is at risk in 2018 and 2019 from the combination of higher inflation and trade deficits and an end to net quantitative easing by advanced markets. After a 3.2 per cent rise in 2017 on the US\$, we expect the Rupee to fall 1-3 per cent pa in 2018-19. ■

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 - 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	65.1	67.5

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

Indicators and forecasts at a glance

	Annual			Quarterly			Monthly		
	FY17	FY18*/ YTD#	FY19*	Q2 FY18	Q3 FY18	Q4 FY18*	Jan 2018	Feb 2018	Mar 2018
GDP growth (%) ^ ^	7.1^	6.5-6.7*	7-7.5*	6.5	7.2	6.7-7.4*	NA	NA	NA
Agriculture (% growth)^^	6.3^	3-3.1*	3.0*	2.7^	4.1^	2.0-2.1*	NA	NA	NA
Industrial growth (% growth)^^	6.8^	5.5-6.0*	6.7-7.0*	5.9^	6.8^	6.5-7.0*	NA	NA	NA
Services (% growth)^^	7.5^	8.5-9.0*	8.5-9.0*	7.1^	7.7^	9.0-9.5*	NA	NA	NA
Industry and corporate									
IIP (% growth)^^	4.6	4.1 (Jan)	NA	3.3	5.9	NA	7.5	NA	NA
IIP – capital goods (% growth)^^	3.2	4.4 (Jan)	NA	4.9	9.4	NA	14.6	NA	NA
IIP – ‘core’ sector (% growth)^^	4.8	4.3 (Jan)	NA	4	5.5	NA	6.7	NA	NA
IMA’s Business Confidence and Performance Index (BCPI)	63.6	63.9 (Dec)	NA	59.1	63.9	NA	NA	NA	NA
Nikkei Purchasing Managers Index (>50 expansion; <50 contraction) - Manufacturing ^a	52.5	51.0 (Mar)	NA	51.2	54.7	51.0	52.4	52.1	51.0
Nikkei Purchasing Managers Index (>50 expansion; <50 contraction) ^a - Services ^a	51.5	50.3 (Mar)	NA	50.7	50.9	50.3	51.7	47.8	50.3
Passenger car and utility vehicles sales (% growth)^^	9.7	8.0	8-10%**	13.7	5.5	7.5	8.5	8.7	5.5
Two wheelers sales (% growth)^^	6.9	14.5 (Feb)	11-13%**	12.3	15.7	NA	33.4	23.8	NA
Commercial vehicles sales (% growth)^^	4.2	19.3 (Feb)	14-15%**	21	33.7	NA	39.7	31.1	NA
Monetary indicators									
Wholesale price inflation (% , average)^^	1.8	3.5-4.0*/ 2.9 (Feb)	3.5-4.0*	2.8	3.8	NA	2.8	2.5	NA
Consumer price inflation (CPI) (% , average)^^	4.5	3.6	4.7-5.0*	3.0	4.6	4.6	5.1	4.4	4.3
Repo rate (%) ^a	6.25	6.0	6.0-6.5*	6.00	6.00	6.00	6.00	6.00	6.00
Non-food credit growth (%) ^^	8.4	NA	NA	NA	NA	NA	9.5	9.8	NA
Fiscal indicators									
Government borrowings in Rs trillion [% of full-year target]	5.8 [100.1]	6.0**/ 5.0 [83.2](Feb)	6.1**	1.6 [29.1]	0.8 [12.8]	NA	0.4 [6.1]	0.05 [0.8]	NA
Total receipts in Rs trillion	14.2	22.2**/ 12.8 (Feb)	24.4**	4.4	4.3	NA	0.8	1.2	NA
Total expenditure in Rs trillion	20.1	22.2**/ 20 (Feb)	24.4**	5	5.5	NA	1.4	1.6	NA
Fiscal deficit (as % of GDP)	3.5	3.5**	3.3**	1.8	3.7	NA	NA	NA	NA
Fiscal deficit (as % of target)	100.1	120.3 (Feb)	NA	9.6	20.5	NA	9.3	6.6	NA
External account									
Exports in USD billion [% growth]^^	275.7 [5.1%]	301.9 [9.4%]	325-330 [8-10%]*	74.2 [12.4]	76.0 [12.7]	76.0* [-0.3]	24.4 [9.1]	25.8 [4.5]	29.1 [-0.7]
Imports in USD billion [% growth]^^	384 [0.8]	462.1 [20.2%]	530-555 [15-20%]*	109.1 [20.6]	119.8 [16.8]	118.6* [11.7]	40.7 [26.1]	37.8 [10.4]	42.8 [7.3]
Trade deficit in USD billion	108.4	160.3	200-230*	34.8	43.7	42.7*	16.3	12.0	13.7
Current account deficit in USD billion	15.3	35.6 (Dec)	NA	7.2	13.4	NA	NA	NA	NA
Current account deficit (% of GDP)	0.7	1.5-2.0	1.9-2.1*	1.1	2.0	2-2.2*	NA	NA	NA
Net FII inflows in USD billion	7.6	22.5 (Mar)	NA	2.6	5.5	2.1	3.5	-1.7	0.4
Inbound FDI in USD billion	42.2	33.4 (Jan)	NA	14.7	6.2	NA	2.2	NA	NA
Foreign Reserves in USD billion ^a	346.3	422.5 (Mar)	NA	375.2	385.1	422.5	397.2	420.7	422.5

*IMA India forecasts; **Government/private agency forecasts; #Dates in parentheses refer to the month until which data is reported; ^ GVA at basic prices (2011-12 base); ^^YoY for all periods stated; ^aEnd of month/quarter/year data values; Source: CSO, RBI, DGCIS, Ministry of Finance and CEIC.