

India Outlook

Modi on the right track

PM Narendra Modi, who started his first 5-year term in May 2014 facing an upper house controlled by the opposition Indian National Congress (INC), has steadily improved his position. His BJP now rules – or is in coalition government – in 18 of India’s 29 states. While that has shifted political momentum in Mr Modi’s favour, he is unlikely to gain a federal upper house majority until after 2019, due to the 6-year term for upper house legislators, who are elected by the state legislators. Meanwhile, he can continue to improve his position by gaining ground in elections in southern states in 2018 where the BJP has traditionally been weak. Karnataka is the biggest prize, as it is one of the last INC strongholds (nationwide support for INC has collapsed to 8 per cent and it holds sway in just eight states). If the INC lost Karnataka in next spring’s election, it would be a fatal blow. Other polls to watch in the south are Andhra Pradesh, Kerala, Telangana and Tamil Nadu. The BJP should win a second term in the 2019 federal election and gain control over the upper house soon after.

GST implementation dominates

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the policy outlook. The latest reports indicate that collection targets set for July, the first month of operation, were slightly exceeded, although one third of those registered have not yet paid any tax. Teething problems with the online GST network are likely the main problem.

A new industry policy that covers developments like AI will be announced in October. The focus will be on moving up the value chain and facilitating technology transfer with the help of stronger inflows of foreign direct investment (FDI).

India’s growth outlook has improved based on better global growth prospects and a better start to the GST than previously expected. However, there is a risk that GST’s teething problems over the next few

months may undermine cash flows and deter spending. It is also clear that consumers were hit hard by last November’s demonetisation and are still recovering.

One negative apparent for the June quarter was a stock rundown across the consumer sector, with many of India’s big FMCG firms reporting weak or falling sales and profits, as their channel partners sought to minimise lost GST offset opportunities on pre-GST stock. That problem should disappear quickly, as new stock intake from July 1 should be covered by GST. July auto sales show the demand gyrations. Passenger vehicle sales fell 5.9 per cent yoy in June, but then jumped 13.6 per cent yoy in July as the tax burden on midsize and larger cars fell under the GST and dealers slashed prices (however, the government will now lift the tax on such vehicles). Commercial vehicle sales plunged 12.5 per cent yoy for the June quarter (the first fall in 11 quarters) before climbing 5.7 per cent yoy in July. Real consumer growth may have slowed to 6 per cent this year from an unusually strong 9 per cent last year (the decade average to 2015 was 7.5 per cent). Next year, we expect a return to 7 per cent growth.

India has released a new – and apparently more accurate – industrial production index (IPI, 2011-12 base year), which shows 2016 manufacturing output up 5.1 per cent (the old index showed a fall of 0.6 per cent). However, the new IPI shows growth slumping to 1.8 per cent yoy for the June quarter. For 2017, we expect 2.5 per cent growth with 4-5 per cent in 2018.

July CPI inflation of 2.4 per cent yoy was in line with a declining trend over the last year, which allowed the RBI to make its first policy cut (of 25 bp to 6 per cent) in almost a year. Another rate cut is likely before end 2017 to help revive local demand. The Rupee is likely to remain firm in 2017 but in 2018 should see a return to a 2-3 per cent fall. ■

Fiscal year starting 1 April	2013-14	2014-15	2015-16	2016-17	2017-18
GDP mp (FY12 series), real growth, %	6.6	7.2	7.9	7.1	7.0
Inflation - CPI, yr avg (FY12 series), %	9.0	6.0	4.9	4.5	3.8
RBI lending (repo) rate, year end, %	8.0	7.5	6.75	6.25	6.00
Rupee to US\$, RBI Ref Rate, yr end	60.1	62.5	66.2	64.8	66.0

Sources: 2013-2016 data from the government (NCI, RBI) and CEIC. 2017-2018 forecasts.