

## 2016, the year to unlock “Incredible India”?

2015 ended on a bittersweet note for India. Indeed, the Indian economy has demonstrated her resilience in comparison with other BRIC countries in spite of international turmoil and the decline of oil prices which has impacted domestic economies: inflation is kept, the national currency is stable, and economic growth is around 7,2%. Nevertheless, Indian companies have important debt exposure, the price of credit remains high, private investments are low, and several economic reforms are still ongoing.

The last year has even more reinforced the idea that Indian politics is more similar to chemistry than mathematics that between unforeseen electoral results, tricky political struggles, and blocked parliament works. The Prime Minister's and his party's (BJP) defeat in Bihar (Nov. '15) is a severe slowdown for Narendra Modi's ambition to reach the majority at the Upper House, which remains a hurdle for implementing economic reforms, and constitutes a failure in his own political agenda. For example, Modi's pet projects, Good & Services Tax and Land acquisition Bill, are subject to massive attacks from the opposition led by Congress and its two leaders from the Gandhi family who are involved in scandals (National Herald scam).

India continues to be crossed by several trends and waves, which are hammering her society and social checks and balances. She remains a rough and sensitive country where identifying backdrop stakes and sketching the unforeseen are two requirements in order to decipher her deep-rooted logic which is really far from European ones.

Thus, to manage Indian chaos, it is important to keep in mind the current national context and next milestones.

### 2016 is a key year for political change

Several important polls are scheduled in 2016. After its setback in Bihar, BJP will be opposed to both regional parties and Congress in Assam, Tamil Nadu, Kerala and West Bengal (important states for economy and tourism). They are governed by strong Chief Ministers who belong to regional parties driven by powerful cultural identities and high regional expectations. Because BJP is not really well settled in these states, the Prime Minister party will be forced to strike alliances with them. Such talks are, for example, under process in Bengal and Tamil Nadu.

Narendra Modi continues to be supported by a strong legitimacy saying that he is the right person at the right place at the right moment. Modi appears to be above the fray of political campaigns and he prefers not only to deal with foreign partners to finance infrastructures but also to build up a strong Indian leadership on the international scene. During Q4-15, he travelled to Singapore, the UAE, Europe, and Russia to create and deepen partnerships in financial services, infrastructure, and defense. These international steps do not have specific impacts on the national scene but they contribute to empowering Modi

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in his Statesman's position, enabling him to leverage Indian growth and incarnate the Indian identity.

At the domestic level, Modi is focused on implementing national schemes to industrialize the country (Make in India), to empower Indian workforce (Skills in India), to fight against corruption (Black Money), and to clean the “Mother Land” (Swachh Bharat).

Nevertheless, these slogans should result in concrete and operational flagships. But, a few of them could be agitated.

The Corporate sector continues to support him but the time is playing against him. Indeed, his economic reforms, which are needed to open the economy and liberalize exchanges, are postponed parliament session after parliament session because of the BJP's minority position at the Upper House and Congress obstruction. Economic and corporate decision-makers believe in the Indian dream because the middle class is growing, economic indicators are greener than in other countries and India is driven by a leader. But, they will demand concrete outcomes soon.

From the opposition point of view, regional party leaders (Jayaalitha in Tamil Nadu, Mamata Banerjee in West Bengal or Akhishlesh Yadav in Uttar Pradesh...) do not have a national agenda and they prefer to focus on their homeland where they are strongly settled. Moreover, the Congress' leadership transition is a reliable question. The transition between the Italian-born Congress President Sonia Gandhi and his son, Rahul, is always ongoing and it is difficult to understand who drives the party. There is lack of lieutenants who will be able to support and advise the Gandhi family but also could also play a role in the future as the new political generation. For several commentators, these questions are only speculations because the Gandhi family is Congress and Congress is the Gandhi family and only a scam, like the National Herald case, could possibly hurt this equilibrium.

Modi could have an avenue in front of him without substantial opponents but he has to deal with Congress. Still weakened by the last 2014 General election and its governance problems, the Gandhi's party has a deep influence in several spheres and uses it effectively. Moreover, Modi has to deal with regional opponents who are audible to disturb his national agenda.

This year will be also crucial because of the 2017 poll in Uttar Pradesh, the Indian “Swing State”. A new Chief Minister will be elected as well as 31 MPs (200 million hab.) at the Upper House. This milestone will be strategic for the end of Modi's mandate and, unofficially, the election is already ongoing.

2016 is an important year for Modi because he has to demonstrate how his policy supports his country's development and is attractive to foreign investors.

### India at a glance...

- 1,29 Bn people – 32% living in urban areas
- 7,2% GDP growth rate in 2016 (World Bank)
- 2 049 Bn USD of GDP in 2014 between Italy and Russia
- 0,7 bed per 1000 hab – 4% of GDP dedicated to health exp.
- 1 child on 11 works

## 2016, a year to remove constraints on the Indian economy

The empowerment of the **Indian administration** is a valuable question in India's current economic reform context. Civil servants from the Indian Administrative Service (IAS - top administration executives) are just a few to-deal-with complex problems within an overpowering and old-fashioned administration. To support business, the IAS numerus clausus needs to be open to better skilled officers who can execute and ensure business projects' follow-up. Modi's government is trying to pressure them but this subject is still pending.

The transformation from a planned to a liberalized economy is slow-going. Its competitiveness is dented by poor infrastructure (electricity, roads, energy), an under-productive workforce, and mature technologies. The current legal/fiscal framework hampers investors because of frequent changes and patchy contents which create uncertainty. Since April 2014, administrative constraints are decreasing but not sufficiently to have serious impacts on business.

Two flagships symbolize this transformation: The **Good & Service Tax (GST)** and the **Land acquisition bill**.

- **The first** one would be a comprehensive indirect tax on manufacture, sale and consumption of goods and services throughout India, to replace taxes levied by the Central and State governments.
- **The second** deals with facilitating, by several legal and fiscal means, the acquisition of land required to develop the country but also to ensure the farmers' welfare.

These two topics are subject to strong parliament struggles and it seems very difficult to find a trade-off between Indian political parties as they decided to seize this opportunity not only to setback Modi's ambition but also to make it a casus belli to create political division. For the moment, it is difficult to give a get out of jail free card.

This transformation process is also dependent on both private and public investments. Because the Indian government does not have enough tax revenues to finance India's investment spending in spite of the decline of oil prices, Modi is following several strategies to spur the Indian economy.

**Foreign Direct Investment** is a key tool to finance infrastructure and development. According to official statements released at the end of Dec '15, FDI into India has grown by 35% in the last 17 months while at the same time it has fallen by 16% worldwide. FDI has come into manufacturing, consumer goods, logistics, and food processing sectors. These figures will be an important signal to assess India's openness.

Unfortunately, a contraction in **Indian manufacturing** has been witnessed in Jan '16 for the first time in more than 2 years. Moreover, domestic financial resources continue to be low because of the high levels of interest rate and corporate debt, in spite of the recent Reserve Bank of India's (RBI) movements. The RBI Director's actions are recognized by the business community and, after declining the policy rate 4 times in 2015 at 6.75 basis points, a consensus will forecast a 6.5 pts mid-2016. Moreover,

questions are being raised about the quality of doubtful accounts detained by Public banks.

To compensate the lack of foreign and private resources against development needs, **Arun Jaitley**, Union Minister of Finance, indicated recently that the **public expenditure** forecasting for the next annual budget 2016-17 will be increased. Government spending has underpinned India's growth, which the Finance Ministry forecasts at 7% to 7.5% in this year through March '17.

At the end of Feb. '16, the **Parliament's Budget session** will open and this will be a new opportunity to clear the GST Bill. Aware of what is at stake, **Arun Jaitley** has just said he is "reasonably optimistic" in reaching this objective as he knows it will be difficult to find a consensus with the opposition and there are too many expectations from the private sector.

### Real GDP Growth (% - World Bank)

	2013	14e	15f	16f	17f
<b>Aggregates</b>					
World	2,5	2,6	2,8	3,3	3,2
South Asia, excl. India	5,7	5,8	5,7	5,8	5,9
South Asia	6,3	6,9	7,1	7,3	7,5
Developing economies	5,1	4,6	4,4	5,2	5,4
<b>Economies</b>					
Sri Lanka	7,3	7,4	6,9	6,6	6,5
Pakistan	4,4	5,4	6	3,7	4,5
Nepal	3,8	5,5	4,2	4,5	5,5
India	6,9	7,3	7,5	7,9	8
Bangladesh	6,1	5,6	6,3	6,7	6,7

### Next steps...

**François Hollande** is the Chief Guest of Republic Day, Jan 26<sup>th</sup>. In 2015, **Barack Obama** had the same honor just after Modi's election. France has the distinction of being the guest of honor for the maximum (5) number of times. Last French Presidents invited were Jacques Chirac (1976), Valéry Giscard d'Estaing (1980), Jacques Chirac (1998), and Nicolas Sarkozy (2010).

This Indo-French visit will be mainly focused on strategic issues: terrorism, civil nuclear power, and **armament**. The COP21 outcomes will be mentioned on this occasion because India was a rough negotiator and Modi released the Solar Alliance initiative. Several points might also be raised such as the fiscal reform (beverages), FDI regulation process in several sectors, economic partnerships in the fields of infrastructure because of **Smart Cities** programs in Pondicherry, Nagpur and Chandigarh but also in tourism attractiveness.

During the 1S16, Narendra Modi will launch the "**Startup India**" program to emphasize Indian entrepreneurship (16<sup>th</sup> Jan.). "**Make in India week**" is being organized from February 13 to 18 in Mumbai.

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The Indo-French strategic partnership was concluded in **1998** between Chirac and Vajpayee (BJP) just after military nuclear testing. Hollande paid a visit in 2013 and Modi in 2015.

**Depending on its outcome (armament), this visit will start a new era for the Indo-French partnership and will definitively establish France as one of India's historical trustworthy partners along with the USA and Japan.**