

Economic Prospects following Elections

The Narendra Modi led Bharatiya Janata Party (BJP) registered the biggest mandate for a single-party since 1984. This augurs well for the country as it means we are going to have a stable government which will not be fully dependent on its allies for pushing through with an economic agenda, though would still require support when legislative action is required.

The table below provides the details of the number of seats acquired across various parties:

Party	Total
Bharatiya Janata Party	282*
Indian National Congress	44
All India Anna Dravida Munnetra Kazhagam	37
All India Trinamool Congress	34
Others	146
Total	543

Source: Election Commission of India

*: With its pre-poll Allies, the number is 336

Key features of BJP's Manifesto

- **Price rise:** BJP proposed to lower inflation by taking steps such as; special Courts to stop hoarding and black marketing, setting up a Price Stabilization Fund, evolving a single 'National Agriculture Market, leveraging on technology to disseminate real time data, area specific crops and vegetables linked to food habits of the people.
- **Employment and Entrepreneurship:** Accord high priority to job creation and opportunities for entrepreneurship. For the same, it has talked about steps such as labor-intensive manufacturing, focus on traditional employment bases of agriculture, up gradation of infrastructure and housing, steps for self-employment opportunities.
- **Corruption:** Eliminate the scope of corruption, emphasize on technology enabled e-Governance. Apart from that public awareness, policy-driven governance and simplification of the tax regime have also been cited as solutions to the problem of corruption.
- **Decentralization and People's Participation:** The manifesto proposed a People-Public-Private Partnership (PPPP) model to involve the people in Governance as functionaries and facilitators.
- **E-Governance:** There is a special mention of e-governance and IT as an enabler of empowerment, focus on increasing the penetration and usage of broadband across the country, leverage technology for e-Governance, generate IT based jobs in rural and semi-urban areas, use mobile and e-Banking to ensure financial inclusion.

- **Rural and Urban development:** Major thrust area for rural development would be to improve village level infrastructure in terms of roads, potable water, education, health, supply chain, electricity, broadband, job creation, security in rural areas and linkage to markets. Apart from that, BJP has advocated for urban development as its priority. Major steps will be undertaken in Transport and Housing for 'Urban Upliftment' in India.
- **Economic Revival:** Fiscal discipline, re-visiting the policy framework, Banking reforms, encouraging savings and re-energizing the engines of growth are some of the solutions cited to ensure economic growth.
- **Taxation & FDI:** BJP had said that it will rationalize and simplify the tax regime. It also said that it will bring on board all State governments in adopting GST, addressing all their concerns. Barring the multi-brand retail sector, FDI will be allowed in sectors wherever needed for job and asset creation, infrastructure and acquisition of niche technology and specialized expertise.
- **Agriculture, Industry, MSMEs and services sector:** For each of these sectors in the economy, the manifesto promised measures for better productivity and job creation.
- **Other salient points:** Science and Technology, focus on flora and fauna, health services, education sector, women safety, social security, equal opportunities for minorities are among the other salient points that the manifesto focused on.

What can we expect the government to do?

- **Accountable Administration** – As mentioned in the manifesto, administrative reforms would be a priority of the BJP. The measures would include digitization of government records, opening up government to draw expertise from the industry, academia and society into the services. The governance would be more people centric and policy driven. ***This will help in increasing efficiency across the board.***
- **Clearing of investments** – The BJP had promised that, if elected, he would take decisive action to unblock stalled investments in power, road and rail projects to revive economic growth. This would also result in easing of doing business. ***This will help in reviving the investment cycle.***
- **Infrastructure spending** - The BJP government can start infrastructure spending particularly on roads and power based on the Budget allocations which is to be around Rs 1 lakh crore. ***This will provide impetus to spending and forge strong backward linkages with industry.***
- **NREGA** - NREGA has been unsuccessful in producing meaningful public assets. The new government is expected to devote time towards how the scheme should be reformed and redesigned to generate assets. ***This will address the issue of rural capital formation as well as employment.***
- **Subsidy** – The new government is also expected to provide better targeting of the existing subsidy bill. ***Therefore, while absolute levels of subsidy are unlikely to go down, targeting the beneficiaries and improving the delivery mechanism will make the scheme more effective.***
- **Inflation control** – Controlling of inflation would require a coordinated monetary policy. The BJP's economic cell had provided recommendations such as reforms of the APMC Act, liberalization of agri-markets, along with an unbundling of FCI operations of procurement, storage and distribution to cater to supply side bottlenecks causing inflation. However, this will work in the medium term. ***For the short term***

when monsoons could be adverse or sub-optimal a stand-by import plan is necessary to ensure that supplies are augmented in case there are specific crop failures.

- **Gold Imports** – BJP could ease the gold-import restrictions in the country as the foreign reserves and the current account deficit have improved in the past few months. This will tend to put pressure on trade deficit as well as CAD. However, ***CAD will remain around 2.5% for the current fiscal year.***
- **Raise Tax exemption limit**- BJP could raise the basic tax exemption limit as it has promised this and more in its 2009 manifesto.
- **Poverty**: Alleviating poverty will also be key a challenge for the Modi government in the 21st century. Various state BJP governments have fared well on these issues and Modi is expected to implement their policies nationally.

Other Issues that need clarity

- **Investment stance** - The BJP's said no to FDI in multi brand retail in its manifesto. However it has made it clear that it would allow FDI across sectors wherever there is a need for job and asset creation, infrastructure, and acquisition of niche technology and specialized expertise. ***Therefore, it is unlikely that there would be any major changes in stance towards FDI in general.***
- **Interest rates** – The interest rates would continue to be monitored and decided by the RBI based on their inflation targeting. ***The government is not likely to exert direct influence on monetary policy.***
- **Legislative reforms**: any reforms which require going through Parliament like enhancing FDI limits beyond 50%, would need to go through the regular channels.
- Government may try and rework the present **dispensation on environment and land procurement** to aid industrial growth though it would be calibrated.
- **Tax reforms**: The DTC and GST clearance would be expedited, though it is unlikely to take place this fiscal.

Will Indian Economy FY15 look different?

CARE's economic projections for FY15 remain unchanged as of now. The affirmative set of actions would be felt in terms of sprucing up the administrative processes which will provide a boost industry. However, translation into higher growth would be seen only after a lag as there is need for concomitant increase in demand conditions for investment to pick up as industry is operating with surplus capacity today. A lot will depend on the specific steps taken within the ambit of the government to directly increase spending to enhance GDP growth. But any action in terms of clearing hurdles and making it easy to do business will definitely bring in investment.

The forex market has shown remarkable enthusiasm to the Elections outcome. However, it is expected to be mean reverting and move towards the levels justified by fundamentals in the next month or so. Foreign investment taking a long term call would be positive while FDI would still follow a wait-and watch approach before moving in.

While a sub-optimal monsoon is possible this year, the government should be cautious on increasing MSPs as that would add to inflation.

On the whole, there would be a gradual recovery in the economy with sharp attention paid on inflation and its movement.

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