

Economic Analysis

Modi Government's first month: A flying start with quick quality moves

Sumedh Deorukhkar / Alicia Garcia Herrero

As India's Modi Government completes its first month in office, we take stock of the changes observed in governance style, policy focus, the pace of project execution and the Center's thrust on strengthening India's trade and investment ties with other economies. The new government's decisive victory in national elections last month rode a wave of anti-incumbency fervor and popular dissatisfaction over India's flagging growth, high inflation, policy inaction, administrative bottlenecks and red tape. Amid high expectations, Mr. Modi and his team has hit the ground running with quick quality moves to boost the efficacy of nationwide policymaking and expedite infrastructure and investment reforms.

Walking the talk - 10-point agenda focused on effective governance, delivery and execution

Within days of assuming power, Mr. Modi outlined a 10-point agenda, which places as much emphasis on the quality of governance as on lasting policy reforms for reviving India's economic growth (Table-1). Creating the right executive and legislative environment for growth is central to the government's agenda.

As such, the past month has seen a perceptible transformation in work culture across government offices, marked by punctuality, adherence to a time-line and a new found zeal among bureaucrats to actively contribute towards nation-building. Walking his talk of 'minimum government, maximum governance', Mr. Modi rationalized the number of ministries, to 45 from 51 previously; in a way that would boost synergies (e.g. clubbing coal and power together; as also law and telecom and Mines and Steel). Furthermore, to expedite policy implementation, the number of inter-ministerial groups created under the earlier regime was trimmed and additional responsibilities such as dealing with general price situation, especially on food prices, were given to the cabinet committee on economic affairs (CCEA). The CCEA oversees important decisions including infrastructure project clearances and approval of foreign direct investments. Unlike the previous regime, the CCEA would not just facilitate project clearances but also closely track them and ensure that they takeoff successfully. The Government's thrust on technology to ensure transparency in project allocation (e-auctioning in tenders), speedier project clearances (online environmental clearances), and the use of social media to keep the public in constant loop of its achievements as well as challenges, bodes well for investor confidence and consumer sentiment in India. Projects worth around USD 8.5 bn across steel and mining, defense, roads, railways and power are already cleared by the new Government (See Table-2).

Modi's focus on cementing external ties would boost trade and investments

Cementing existing bilateral and regional trade and investment agreements as also inking new ones is a key priority for Mr. Modi, who holds a series of talks with Japan, China and US over the coming months. Talks with Japan in the first week of July are expected to explore Japanese investment opportunities across India's infrastructure sector, defense cooperation and a civil nuclear accord to help bridge India's burgeoning power deficit.

All eyes on the Budget in July – Time to swallow the bitter pill

Faced with a tough task of reviving investment activity while maintaining fiscal prudence, we expect the new government's first budget in July to include 1) a concrete roadmap on fiscal consolidation, 2) time-bound implementation of taxation reforms – the good and services tax, direct tax code and efforts to make India's tax regime non-adversarial - 3) an aggressive cut back in non-merit subsidies and 4) Easing limits on foreign direct investment across most sectors including defense, railways and e-commerce. In a move towards making India's loss making railways financially viable, last Friday, the authorities raised railway freight and passenger fares by a steep 6.5% and 14.2% respectively, a move that also reflects Mr.Modi's commitment to long lasting reforms.

Table-1

Modi Government's 10 Point Agenda

- 1) Build confidence in bureaucracy
- 2) Welcome innovative ideas
- 3) Interact with public through social media to improve efficiency and responsiveness
- 4) Treat education, health and water as priorities
- 5) Set up a mechanism for inter-ministerial issues
- 6) Put a people oriented system in place, address concerns of the economy
- 7) Implement reforms in infrastructure
- 8) Implement policies in a time-bound manner
- 9) Bring in stability and sustained ability in government policies
- 10) Usher a new era in centre-state relations

Source: Government of India, BBVA Research

Table 2

Key infrastructure projects cleared by Modi Government in its first month at office

Project	Issue resolved	Investment (USD mn)
1) Hospet Chitradurga Highway	Stage-1 Forest Clearance	USD 172 mn
2) NMDC Iron Ore Plant	Environmental Nod	USD 266 mn
3) Dallirajhira Jagdalpur Railway Line	Forest Clearance	USD 184 mn
4) KVK Nilachal Power	Financing Problem	USD 932 mn
5) RKM Powergen	Corporate Guarantee, Financing	USD 1497 mn
6) Essar Power	Environmental Clearance Delay	USD 209 mn
7) Jorethang Loop Hydro Electric Project	Loan Sanction	USD 197 mn
8) Karwar Naval Base Expansion Project	Environmental Nod	USD 2200 mn
9) 12 Steel and Mining projects	Environmental Nod	USD 5000 mn

Source: BBVA Research, News media, Government of India

DISCLAIMER

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes. BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents. This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.