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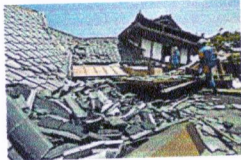
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June 2, 2016 12:00 pm JST

Modi's third year in power could be his best yet

CHAITANYA KALBAG



Supporters wave the flag of India's ruling Bharatiya Janata Party as they wait for Prime Minister Narendra Modi to address a campaign rally in Kolkata on April 17. © Reuters

The past few weeks in India have been like drinking from a fire hose. Full-page newspaper advertisements, huge rallies and hosannas from giddy supporters have poured forth as the ruling Bharatiya Janata Party celebrates two years in power. There has also been a deluge of interviews with senior government ministers, a rarity given how Prime Minister Narendra Modi tends to keep the press at arm's length, communicating chiefly through social media and frequent speeches.

Last month, the BJP won a morale-boosting victory over the fading

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Indian National Congress party in the northeastern state of Assam, papering over a poor showing in four other provincial polls. The government is basking in the glow of India's status as the world's fastest-growing economy; GDP growth in fiscal 2015, which ended in March, was 7.6%. The previous year, too, India's 7.2% growth outpaced China's 6.9%. Modi boasts that he has put the "I" at the top of the BRICS grouping of countries.

There is no question that Modi's government is far more purposeful than its predecessor. In its last few years in power, Congress and the coalition it led were mired in corruption scandals, policy logjams and hubris. But Modi did not inherit a crippled economy. GDP grew an average of 7.5% during the Congress decade, despite a sharp slowdown between 2011 and 2013. Growth had begun to pick up in Congress's last year: GDP grew 6.9% in 2013-14.

TWO VIEWS Modi claims that when he took over, everybody wanted him to unveil "big bang" economic reforms but that nobody could tell him what exactly that term meant. But while he claims that he wants to "reform to transform," his critics say he has not moved fast enough. Which view is right?

Most visibly, the Modi government has cracked down on corruption, speeded up decision-making, ended a diesel subsidy and set up more than 219 million bank accounts for the poor for the direct transfer of benefits. It has also continued the Congress party's massive rural employment guarantee scheme and is strengthening the food and education welfare measures introduced by the former ruling party. Modi also embraced Congress's Aadhaar program under which more than 1 billion Indians now have a unique identification number that is linked to everything from cooking-gas connections to ration cards.

The truth is that economic reform has spread slowly but incrementally across India. A Congress government launched the economic liberalization of 1991. The BJP has ruled India for a third of the quarter-century since then, and no major reform has been reversed.

The results are significant. The World Bank notes that between 1994 and 2012 the share of India's population living in poverty halved from 45% to 22%. In 2005, a year after the Congress-led United Progressive Alliance defeated a BJP-led coalition, 37% of Indians were poor, showing there had been good progress. Worryingly, though, about half of Indians continue to be vulnerable, precariously balanced between poverty and the "relative stability of the middle class."

Poverty's toll is telling. Modi's Swachh Bharat (Clean India) campaign aims to end open defecation, but according to U.N. data, about 600 million Indians still do not have toilets. Or take rural electrification. Modi vowed to bring power to 18,542 villages without it (about 3% of India's total villages), by 2018. However, roughly 300 million Indians, or nearly one-fourth of the population, are still too poor to buy electricity.

Modi, who heads the first single-party government since 1984, has arguably the strongest mandate for change in recent history. But he has failed to build a political consensus that would get his biggest pending

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reform, a goods and services tax, through parliament.

Among several positives, however, a bankruptcy code has been enacted, and state governments are being encouraged to amend stifling labor laws that discourage any layoffs. India has climbed four notches to 130 out of 189 countries in the World Bank's Ease of Doing Business ranking. Foreign direct investment ceilings have been raised in 15 sectors, including defense production, insurance and construction. FDI inflows have shown a healthy increase in 2015-16.



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June 2, 2016 12:00 pm JST

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CHAITANYA KALBAG

About 1,200 companies have so far declared full-year results for 2015-16, averaging top-line growth of 3.7% in the quarter through March after an 8% decline over the three preceding quarters. But poor corporate health is reflected in the staggering write-offs of bad loans by state-owned

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banks. Punjab National Bank, the country's third-largest, reported a net loss of \$593 million for the year and gross nonperforming assets of \$8.3 billion.

Exports fell in April for the 17th straight month. The Reserve Bank of India has cut interest rates five times to a five-year low, but the manufacturing sector shrank 1.2% in March, and investment and capital formation are moribund.

A good monsoon this summer after two years of drought may boost consumer sentiment and spending, and revitalize manufacturing. In another good sign, sales of tractors, light commercial vehicles and two-wheelers are rising, indicating that the vast rural economy is waking up again. Modi's third year could be his best yet.

Chaitanya Kalbag is a former Reuters Asia editor and editor-in-chief of The Hindustan Times.



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