

Summary

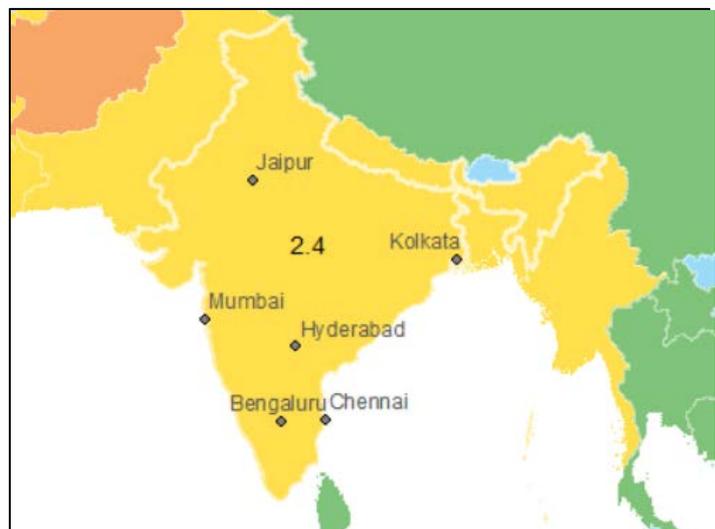
- Indian Prime Minister Narendra Modi remains popular but a steadily strengthening opposition coalition increases the likelihood of a fractured Parliament post-elections in Q1 2019
- In the run-up to elections, the government is likely to focus on increasing public investment to boost agricultural income, and to create new jobs for the youth
- The government’s focus on developing manufacturing projects reduces risk of licenses being revoked, but energy and infrastructure sectors remain vulnerable to delays

Risk scores

Overall

2.4 ↘
HIGH

▶ Political	2.5	High	↔
▶ Economic	1.4	Moderate	↔
▶ Legal	2.4	High	↘
▶ Tax	2.6	High	↘
▶ Operational	3.1	High	↔
▶ Security	2.6	High	↘
▶ Individuals	2.3	Elevated	↘
▶ Cargo and transport	2.0	Elevated	↘



Structure and calculations

Analysts determine scores based on qualitative guidance. Each score represents the average expected level of risk over the coming year, and each outlook represents the projected direction of risk trends after that 12-month period. Overall risk scores are calculated as equally-weighted averages of the six aggregate categories – Political, Economic, Legal, Taxation, Operational and Security. Risk is scored on a 0.1-10 scale. The scale is logarithmic, with intervals of 0.1 magnitude. This range is split into seven bands, ranging from Low to Extreme risk.

Business environment - strengths and weaknesses

Strengths	Weaknesses
India is the world's fastest-growing major economy, despite delays in passing key legislation targeted at improving investor confidence and facilitating business.	There is often a wide gulf between the commitments made by governments, and the measures that the fractious legislature and bureaucracy can implement.
The government generally adopts a positive attitude towards foreign direct investment (FDI), and intends to push through a series of economic reform measures across sectors.	The Indian bureaucracy is likely to be an impediment to business.
Ceilings on foreign investment in individual sectors are gradually being raised. Many sectors now permit foreign investment without government approval.	Limits on foreign ownership remain, particularly given opposition from local business communities.
Labour rates are likely to be competitive compared with regional neighbours.	Legislation is complex and implementation is often delayed as politicians seek to appease different voter groups.

Country risk - overall statement

India's Bharatiya Janata Party-led government holds a parliamentary majority with 273 of 543 seats in the lower house, and Prime Minister Narendra Modi continues to enjoy popular support. A steadily-strengthening coalition of opposition parties, however, increases the likelihood of a fractured Parliament following the next general elections (scheduled for Q1 2019), leading to a possible slowdown in reforms in the post-election outlook, particularly land acquisition, other economic reforms or those focused on encouraging FDI across sectors. As of 2018, India has overtaken China as the world's fastest-growing major economy, primarily owing to robust performance in the construction and manufacturing sectors.

Detailed analysis

The Indian government led by Prime Minister Narendra Modi remains popular, but a coalition of opposition parties increases the likelihood of a fractured Parliament post elections in Q1 2019

The Bharatiya Janata Party (BJP) has held 273 of the 543 seats in the Lok Sabha (lower house) since the 2014 general election, which is the first absolute majority in the lower house in 30 years. With its coalition parties in the National Democratic Alliance (NDA), it holds 334 seats in total. While the NDA enjoys majority support in the lower house, it holds only 83 of the 250 seats in the Rajya Sabha (upper house), as of January 2018.

The BJP has been presenting strong electoral campaigns for state assembly elections, the results of which would have a direct bearing on the composition in the upper house. In March 2018, the BJP won in the state assembly elections of Tripura and Nagaland. Following this victory, BJP and its allies now govern 21 of India's 29 states. This will have a positive impact on the BJP's strength in the upper parliamentary house in the one-to-two-year outlook. The main opposition Indian National Congress (INC) party suffered its worst electoral defeat in independent India's history in the 2014 general elections. It is therefore limited in its ability to oppose the government's legislative agenda and it is more likely to stall the government's legislative agenda in the Rajya Sabha (upper house).

The December 2017 Gujarat state assembly election results indicated a resurgence in popularity for the INC and for Rahul Gandhi. It was under Rahul's leadership that the INC improved its vote and seat share in Gujarat, reducing the BJP's majority to less than 100 seats for the first time in 15 years. The April 2018 Karnataka state assembly elections,

following which the INC formed a coalition government with regional party Janata Dal (Secular), is very likely to offer opposition parties a template at the national level, suggesting that a "federal front" of parties is required to counter the BJP – and particularly Modi's popularity – in the general election, thus increasing the likelihood of a fractured Parliament.

In the run-up to Parliamentary elections, Prime Minister Modi will most likely increase public investment to boost agricultural income, and undertake efforts to create new jobs for youth in India.

With five state assembly elections scheduled for November-December 2018 and the general election scheduled for Q1 2019, the Bharatiya Janata Party (BJP) government's policy agenda is highly likely to prioritize sectors that directly affect its key voter bases. These include upper-caste members of the Hindu community, rural Indians, and young voters aged 18–35 years.

The results of the April 2018 Karnataka state assembly elections indicated that although Prime Minister Narendra Modi remains popular, an alliance of opposition parties is likely to combine seats to present a strong electoral front against the BJP. The December 2017 Gujarat state assembly elections indicated that while the BJP still enjoyed support among urban voters, it lost many seats in rural areas. This anti-incumbent voting pattern is attributed to rural concerns about poor irrigation and a low minimum support price for agricultural produce. It is therefore highly likely that the Modi government will encourage policies to ease the pressure on the farm sector and to boost agricultural income through loan waivers to farmers and financial support in the form of better prices. In conjunction, the BJP is also likely to increase state investment in linked social sectors such as rural infrastructure, and improved access to energy, education, and public health.

Following the demonetization and implementation of the Goods and Services Tax, India's GDP outlook for fiscal year 2018 is pegged at a 7.22%, but this is combined with a high unemployment rate. To stabilize the economy while creating more jobs, the BJP is thus highly likely to pursue reform in the capital-goods industry to encourage more private investment, as well as through the "Make in India" initiative in high-growth, high-potential sectors like automotive and defense.

The BJP is unlikely to pursue reforms that increase the risk of anti-incumbent sentiment among rural communities and trade unions. Simplification of land acquisition norms and easing labor compliance requirements will therefore probably be delayed until after the 2019 elections. In the December 2017–January 2018 winter session of India's Parliament the government had initially listed two labor reform bills for discussion, the thrust of which was to allow businesses increased flexibility in labor contracts and factory closures. However, following a two-day protest by India's largest trade union – Bharatiya Mazdoor Sangh – earlier in November, the BJP withdrew the bills from its Parliamentary agenda without offering a timeline for reconsideration.

The government's focus on developing manufacturing projects reduces risk of licenses being altered or revoked unilaterally, but energy and infrastructure sectors remain vulnerable to severe delays.

Unilateral contract alterations by the state are highly unlikely under the BJP-led central government, which has placed attracting foreign investment and delivering a strong economy through expedited capital-goods reform at the center of its agenda. Profitable projects in manufacturing, especially those that boost employment, are at low risk. However, the BJP government's policy shift towards defense manufacturing – intended to discourage imports and encourage indigenous production – increases the risk of defense import contracts being cancelled: in January 2018, India cancelled a USD500-million contract to buy missiles from Israel, with the intention to provide the state-run Defence Research and Development Organisation (DRDO) an opportunity to manufacture its own anti-tank missile. Private investment aimed at leveraging international expertise for domestic production is instead likely to be encouraged: the Indian government expects the share of private investment in defense manufacturing to increase from a current approximate 10% of projects to 25% by 2020.

The risk of contract delays is higher than the risk of contract cancellation. Although the BJP government has sought to ease the rules for business contract approvals at the central level, a cumbersome bureaucracy increases the

likelihood of delays of up to several years. Furthermore, such delays are more likely in projects that require either land clearances or negotiations with trade unions; this renders projects in the energy and infrastructure sectors particularly vulnerable to contract frustration. Since 2014, local residents in West Bengal's Bhangar village have protested against the establishment of a power substation – amid land acquisition conflicts – that is being built by a state-run power-grid corporation. The latest protest in Bhangar in December 2017 resulted in protester injuries and two vehicles being set ablaze. Given the sensitivity of the situation, the state government has yet to provide a timeline for the commencement of construction.