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A Strong Start to the Budget Session

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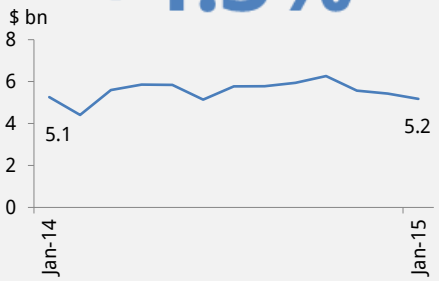
The first half of the Budget Session of Parliament concluded on March 20. The Budget itself, as we predicted, was not a muscular reform package (the Budget's role as a reform tool tends to be wildly overestimated). However, in the last two weeks of Parliament, the government passed critical economic reforms in three other areas—insurance, coal mining, and mineral mining. In addition, the government found support from a wide range of parties, including the Congress Party, to move its legislative agenda. The table below details each of these reforms and the projected impact on the economy.

Bill	Short Description	Estimated Impact
The Insurance Laws (Amendment) Bill, 2008	• Increases the FDI cap in the sector from 26% to 49%. • Allows foreign reinsurers to establish branches in India. • Establishes a separate establishment/regulatory environment for health insurance providers. • Devolves more authority to the insurance regulator, IRDA.	• New FDI inflows of $3 billion to $10 billion. • More standalone health insurers may launch under new rules. • Facilitates private-sector growth. Government-owned insurers account for 75% of life insurance sales, 55% of non-life sales in FY2014. • Reduces reinsurance rates through competition.
The Coal Mines (Special Provisions) Bill, 2014	• Allows private companies to bid for merchant mining operations (prior, private coal mining was only allowed for captive purposes).	• Reduces $17 billion annual coal import bill. • First auctions yielded $33 billion to be shared between central & state governments.
The Mines and Minerals (Development and Regulation) Amendment Bill, 2015	• Extends the life of a license from 20/30 years to 50 years. • Simplifies transfer of mining rights. • Establishes a District Mining Foundation to aid locals impacted by mining operations.	• Reduces reliance on imports, for example the $675 million (and climbing) import bill for iron ore (through Q3 2015). • Eases transfer of mining licenses, making them more valuable.

By getting these three bills through the Rajya Sabha—something many considered to be the government's biggest challenge—the Narendra Modi–led National Democratic Alliance (NDA) government has shown it is capable of both compromise and political maneuvering. The Bharatiya Janata Party

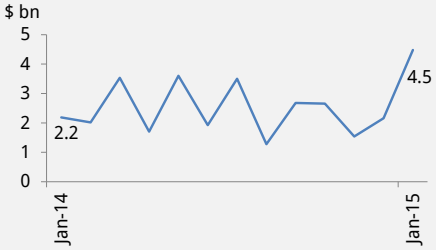
KEY DATA

+4.3%



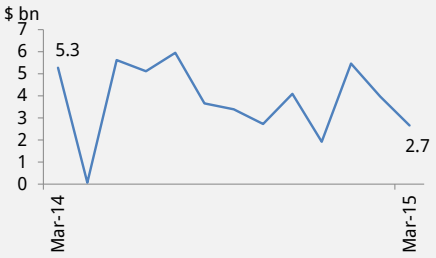
Increase in U.S.-India goods trade, 12-month rolling average, per U.S. Census*

+40.8%



Increase in FDI, 12-month rolling average, per DIPP

+399.5%



Increase in FII, 12-month rolling average, per NSDL

(BJP), after all, still holds less than 20 percent of the seats in the Rajya Sabha, a number unlikely to change dramatically in the near future.

Two of these bills hold particular significance. The Insurance Bill's passage is a powerful signal to foreign investors that the Modi government will expend political capital for foreign investment–related reforms. It is also expected to bring in fresh foreign direct investment (FDI) in the range of $3 billion to $10 billion. Private insurers hope the resultant capital infusion by foreign partners will allow them to regain ground lost to government-owned insurers in recent years.

The Coal Bill may ultimately be one of the most powerful economic reforms undertaken by the Modi government. The coal sector, until now, was largely reserved for the government-owned Coal India and its subsidiaries. Private coal mining was only allowed for captive projects—those reserved for a specific use such as a power plant or steelmaking facility. With the passage of this bill, the sector is now open to private merchant mining, including foreign investors. However, it also means that we can expect an increase in coal-based power generation, which means that a large-scale shift toward renewable energy is less likely.

Despite success with these bills, the BJP still faces challenges in the Rajya Sabha. Another bill viewed as key for industrial development, containing amendments to India's onerous land acquisition law, was recently delayed and its future is uncertain. And India's biggest legislative reform, a constitutional amendment creating a national Goods and Services Tax (GST), is still pending. As a constitutional amendment, this bill requires a two-thirds majority in each house of Parliament, in addition to the concurrence of a majority of states.

Parliament will reconvene on April 20 for the second half of the Budget Session. Approving the nation's 2015–2016 Budget is clearly the top priority. But we may also see a powerful push to get the GST and the land acquisition bills approved—moves that will be very warmly welcomed by domestic and foreign investors and will give a strong boost toward the government's "Make in India" campaign.

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