

India –Elections Update

National Australia Bank

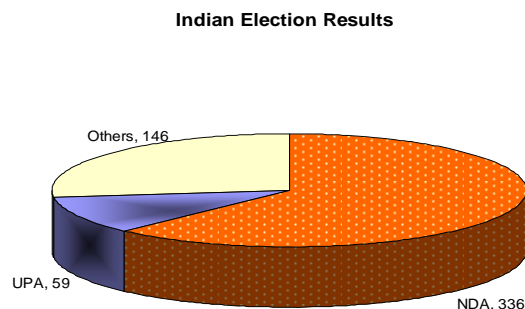
- The BJP-led National Democratic Alliance won a landslide election victory in the recently concluded elections, with the BJP winning enough seats to govern in its own right.
- Its leader, Narendra Modi, led a highly efficient and energised campaign, and tapped into voter anxiety over weak economic conditions during recent quarters.
- The result was welcomed strongly by financial markets, reflecting gains in both equities as well as the Indian Rupee. Share market volatility eased considerably following the results.
- The verdict does offer the incoming Modi administration a strong mandate to pursue its development agenda, unshackled by Coalition political constraints.
- If the incoming administration is able to fast-track stalled projects and improve the ease of doing business, then India's growth prospects should improve over the coming quarters.

Election Results

The results of the recently concluded *Lok Sabha* (Lower House) Parliamentary elections, released on the 16th of May, revealed a strong victory for the BJP-led National Democratic Alliance (NDA). The NDA won 336 seats (out of a total of 543), with the BJP itself winning 282 seats, in excess of the 272 seats required to govern in its own right. This is the first time in 30 years that a single party has won an absolute majority on its own. By contrast, the Congress party won only 44 seats.

The BJP made a clean sweep of results in Delhi, Gujarat, Rajasthan and Uttarakhand. Moreover, it polled very strongly in key states such as Maharashtra in the west, Karnataka in the South, Bihar and the all-important Uttar Pradesh – the state which elects the largest number of MPs, 80 in total.

Indian Election results



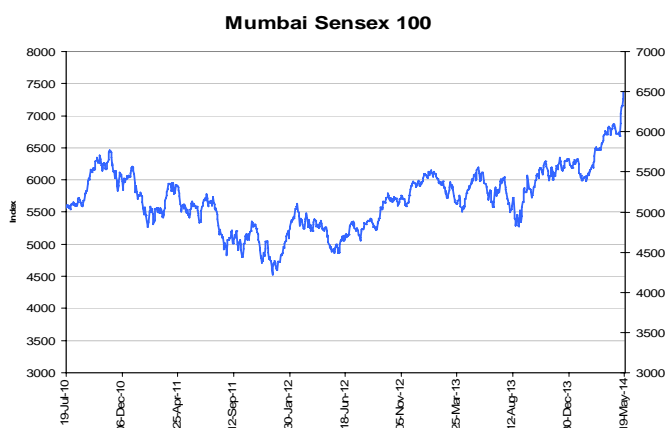
The BJP led a well-organised campaign, under the leadership of Narendra Modi, the Chief Minister of Gujarat. Modi ran a strong campaign, conducting 550 rallies across swathes of India, covering around 300,000 kilometres. Besides, he is very adept at using modern social media tools such as Twitter, which has helped him better connect with India's aspirational youth. Most importantly, he sold his message of competence based on the strong economic management of his home state, Gujarat. Modi is expected to be sworn in as Prime Minister on the 26th of May.

Examining some of the factors behind the election results, it is evident that India's recent spell of weak growth (last 7 quarters of sub 5% growth), modest employment opportunities and high inflation have taken their toll. The sense of 'policy paralysis' that afflicted the previous UPA Government, particularly with regard to stalled projects did take its toll on growth, investor sentiment towards the country, as well as influenced the election results.

Financial Markets Reaction

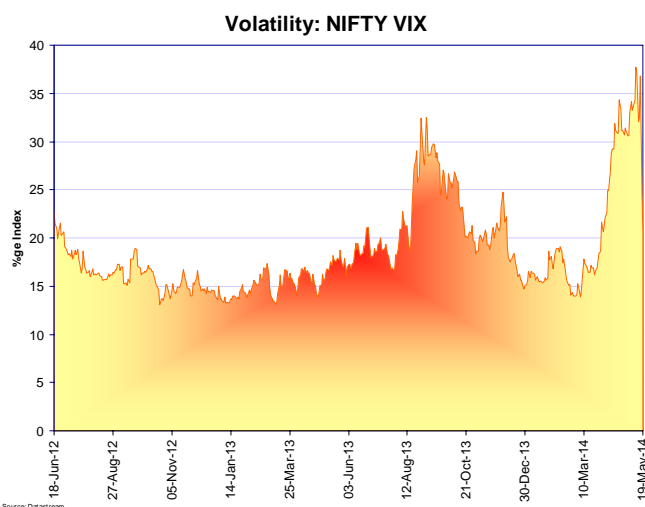
Markets were pleased with the outcome of the election win. The *BSE-100* (Bombay Stock Exchange) Index has risen by 16.5% over the Year to 19th May. It is likely that the clear mandate has triggered strong interest from Foreign Institutional Investors, who have become more bullish on Indian equities and the economy, in general. Besides, it is also likely that erstwhile lagging sectors such as infrastructure and oil and gas will be given a fillip based on the policies of the incoming administration.

Indian Equity Market



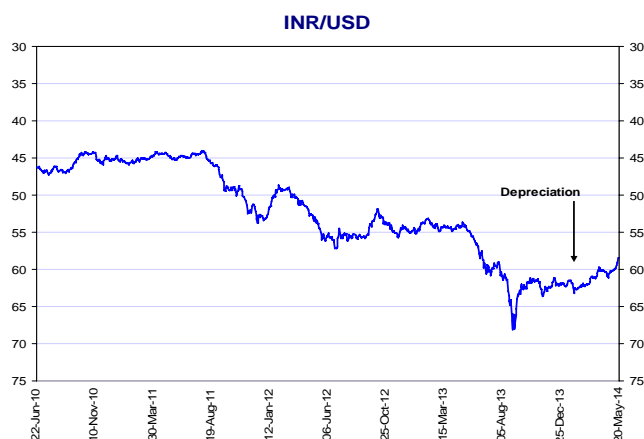
India's *VIX indicator*, an indicator of market volatility over the ensuing 30 days, fell sharply following the results of the elections. The onset of the elections precipitated a rapid rise in volatility, as markets became nervous about the prospects of a hung parliament. However, the election results have soothed market tensions.

Indian Volatility Index



In concert with the upswing in stock indices, the Indian Rupee has appreciated to an 11-month high on continued robust foreign purchases of Indian debt and equities by overseas investors. This reflects investors' expectations that the strong mandate given to the BJP will translate to better growth investment prospects in India. The rupee was trading near a 11-month low at 58.45/USD. The strong rupee does afford the RBI a window of opportunity to accumulate reserves.

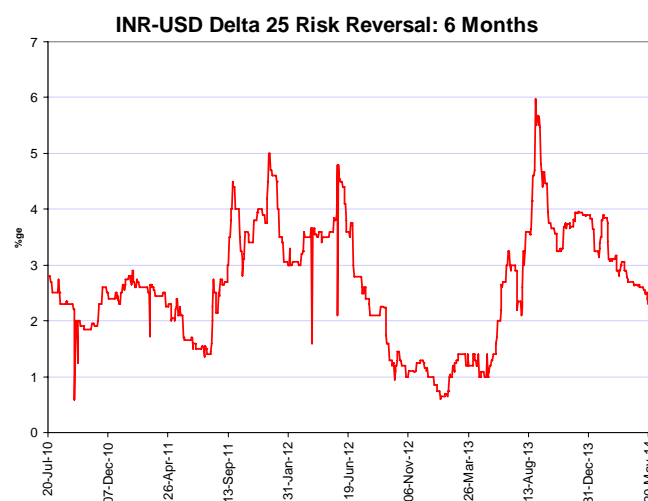
Indian Rupee



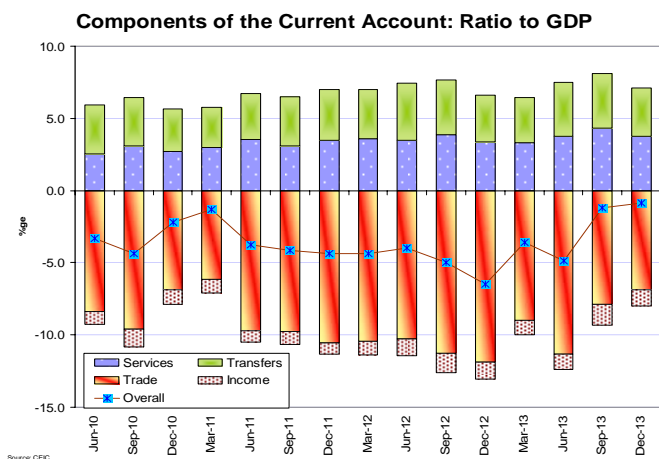
To be fair, the outgoing Finance Ministry and the RBI should take some of the credit for the relative improvement in India's external indicators. Last August, the Indian rupee was in freefall, approaching 70/USD. This was due to concerns about the US Fed launching its tapering program, exacerbated by India's high Current Account Deficit. However, measures such as widening the MSF corridor to dissuade the carry trade and prevent further weakness in the rupee (which is now no more in operation), the attractive swap rates offered to banks to attract FCNR deposits; restrictions on gold imports and a focus on CPI inflation targeting have eased problems in foreign exchange markets and led to a sharp tightening in the Current account deficit.

Delta 25 reversals – a key measure examined by RBI for Financial Stability - indicate option market participants expect far less depreciation pressure on the Rupee. Note that a higher value indicates Rupee weakness. The election results have only continued forward this improved trend. More significantly, India's stock of FX reserves has risen to a recent high of USD 313.8bn, helping to better cushion the economy against potential external shocks.

Delta Risk Reversals



Current Account Deficit



Outlook & Challenges

The incoming administration has a number of critical challenges: boosting growth and employment; fast tracking stalled projects; realizing better fiscal outcomes by curbing fuel subsidies and perhaps creating a Goods and Services Tax; and finally improve food supply and distribution, lessening food inflation.

The decisive election mandate does offer the Government the opportunity to pursue its agenda without the constraints that typically arise in a Coalition Government. Its first object should be to accelerate clearance for some USD 255bn worth of projects, covering sectors such as energy and steel. Factors such as land acquisition and environmental concerns have held up these projects, and it is imperative that the Centre and respective State Governments work closely to expedite these projects.

If the incoming BJP administration is able to fast-track project clearances and eases the regulatory burdens on business, it is likely to engender improved business confidence, resuscitate the stalled investment cycle and result in faster growth over the coming quarters.

John Sharma

Economist – Sovereign Risk

john.sharma@nab.com.au

Tom Taylor

Head of International Economics

Tom_Taylor@national.com.au

Global Markets Research

Peter Jolly
Global Head of Research
+61 2 9237 1406

Australia

Economics

Spiros Papadopoulos
Senior Economist
+61 3 8641 0978

David de Garis
Senior Economist
+61 3 8641 3045

FX Strategy

Ray Attrill
Global Co-Head of FX Strategy
+61 2 9237 1848

Emma Lawson
Senior Currency Strategist
+61 2 9237 8154

Interest Rate Strategy

Skye Masters
Head of Interest Rate Strategy
+61 2 9295 1196

Rodrigo Catril
Interest Rate Strategist
+61 2 9293 7109

Credit Research

Michael Bush
Head of Credit Research
+61 3 8641 0575

Equities

Peter Cashmore
Senior Real Estate Equity Analyst
+61 2 9237 8156

New Zealand

Stephen Toplis
Head of Research, NZ
+64 4 474 6905

Craig Ebert
Senior Economist
+64 4 474 6799

Doug Steel
Senior Economist
+64 4 474 6923

Kymberly Martin
Senior Market Strategist
+64 4 924 7654

Raiko Shareef
Currency Strategist
+64 4 924 7652

UK/Europe

Nick Parsons
Head of Research, UK/Europe,
and Global Co-Head of FX Strategy
+44207710 2993

Gavin Friend
Senior Markets Strategist
+44 207 710 2155

Tom Vosa
Head of Market Economics
+44 207710 1573

Simon Ballard
Senior Credit Strategist
+44 207 710 2917

Derek Allassani
Research Production Manager
+44 207 710 1532

Group Economics

Alan Oster
Group Chief Economist
+61 3 8634 2927

Tom Taylor
Head of Economics, International
+61 3 8634 1883

Rob Brooker
Head of Australian Economics
+61 3 8634 1663

James Glenn
Senior Economist – Australia
+(61 3) 9208 8129

Vyanne Lai
Economist – Agribusiness
+(61 3) 8634 0198

Karla Bulauan
Economist – Australia
+(61 3) 86414028

Dean Pearson
Head of Industry Analysis
+(61 3) 8634 2331

Robert De Iure
Senior Economist – Industry Analysis
+(61 3) 8634 4611

Brien McDonald
Economist – Industry Analysis
+(61 3) 8634 3837

Amy Li
Economist – Industry Analysis
+(61 3) 8634 1563

John Sharma
Economist – Sovereign Risk
+(61 3) 8634 4514

Gerard Burg
Senior Economist – Asia
+(61 3) 8634 2788

Tony Kelly
Senior Economist – International
+(61 3) 9208 5049

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.