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- *Exit polls predict a return of the ruling coalition – National Democratic Alliance (NDA), for a second term. Results are due on 23 May*
- *These polls have a mixed record in accurately predicting past results*
- *Rupee, equity markets and bond yields reacted favourably on Monday.*
- **Implications for forecasts:** *Reform agenda will be focused on inclusive policies, infra, rural and fine-tuning recent initiatives*
- *Weakness in activity will persist, before momentum improves in mid-to-late FY20*
- *Return of the incumbent government was our base case scenario, and we maintain our 7% GDP forecast for FY20*
- **Implications for markets:** *For the markets, a positive outcome is now in the price. Ability of the markets to sustain these gains in the short-term will depend on two factors.*
- *June/ July Budget is next key event*

**After a month and half of voting, elections ended on May 19.** Exit polls predict a return of the ruling coalition – National Democratic Alliance (NDA), for a second term. On average, the NDA is expected to bag over 300 seats, comfortably over the 272 needed for a majority. **This is better than opinion polls and a straw poll conducted by our DBS India team.** The latter saw 42% of the respondents predict NDA to win over 272 seats i.e. a clear majority, while a slightly bigger group – 49% expected the coalition to score between 200-272 seats.

#### Exit polls ahead of final results on 23 May

Poll	NDA (BJP-led alliance)	UPA (INC led alliance)	Others
Times-Now-VMR	306	132	105
Today's Chanakya	350	95	98
C-Voter	287	128	128
ABP-Nielsen	277	130	136
Axis My India-India Today	353	94	96
Repulic double exit poll	305	124	114
News Nation	290	126	127
News X-Neta	242	164	137
Surdarshan News	313	121	109
<b>Average</b>	<b>303</b>	<b>124</b>	<b>117</b>

Source: Media reports, DBS Group Research

**State exit polls are also of interest.** Despite being challenged by a coalition of regional parties in the key state of Uttar Pradesh, exit polls show a swing towards the ruling coalition of over 40 seats off the 80, but weaker than in 2014. The other state of interest was West Bengal where a Times-Now poll predicts a notable pick-up in Bharatiya Janata Party's (BJP) seat tally to 11 seats vs 2 in 2014. This might at the cost of state party TMC's tally going down to 28 from 34 in the last cycle.

**Results are due on 23 May.**

These polls have a mixed record in accurately predicting past results. In 2014 and 2009, the polls predicted the right winner, but missed on the margin of victory. In 2004, the exit polls picked the wrong party as the likely victor. Hence these exit polls provide an early peek into a likely outcome but diverge from the actual result. We also note that a couple of surveys that were more accurate in predicting the 2014 elections, now capture a win of ~350 seats for the ruling coalition.

**Implications for markets: Domestic financial markets rallied sharply on Monday**, buoyed by these favourable exit polls. USDINR gapped down to ~69.50, while the benchmark equity index notched the biggest single-day gain (+3.7%) in over three years. Benchmark 10Y yields declined 8bp at open, breaking below 7.3%. Return to power with a majority bodes well for policy/ reform continuity and will be welcomed by the markets as it addresses a key domestic event risk. **Ability of the markets to sustain gains will, however, require:** a) actual poll outcome to be close or better than exit polls suggest; b) global catalysts, particularly oil prices and US-China trade dispute, both of which are unfavourable at this juncture.

**Implications for forecasts: Return of the incumbent government was our base case scenario, thereby not warranting any changes in central forecasts.** If actual results mirror the exit polls, reform agenda will turn more inclusive, alongside fine-tuning initiatives that have already been undertaken. As highlighted in the manifesto, infrastructure will remain a key area, continuing the strong performance by the roads and transport sector, which has already fast-tracked many stalled and ongoing projects.

Boosting rural growth will also be a priority through expanding the already announced PM-Kisan scheme but is unlikely to include a nationwide farm loan waiver. The goal of narrowing the fiscal deficit to 3% of GDP for the centre continues to be delayed, with the February Interim Budget already making room for a small slippage in the fiscal goals. An additional ~10bp slippage in the fiscal deficit target might be on the cards at the full-year (June/ July) Budget, but not diverging widely from the path of fiscal consolidation; as we have maintained before -3.5% of GDP continues to be a key level, which will be adhered to. Borrowings will remain high and

remain a driving force for the bond markets (see [here](#) for our views).

Highlights of party manifestos

Areas	BJP	INC
Rural distress	-Reaffirmation and expansion of PM-Kisan	-Farm loan waivers
	-Efforts to improve land productivity, digitalisation of land records, interest free loans	-Repeal APMC Act
Poverty alleviation	-Better access to housing and pension scheme for small farmers/ businesses	-NYAY – minimum income guarantee scheme
Taxation	-Fine tune and simplify GST	-Improved GST, single rate, widen umbrella
Infrastructure	-Invest INR100trn by 2024, with focus on airports, roads, transport, digital connectivity, etc.	-Resume use of PPP models
		-Focus on physical infra, housing and electricity
Economy & Finance	-Continue with banking sector reforms	-Plans to lower fiscal deficit to 3% of GDP
	-Pursue financial inclusion	-Banking sector reforms

Source: Documents, press, DBS Group Research

**While the exit polls and actual outcome later this week remove a risk event from the horizon**, there is unlikely to be material change to the growth prospects this year. We look for growth to average 7% in FY20. Short-term weakness in activity will persist, particularly in consumption and manufacturing (see [here](#)), with a trough in the March-June 2019 quarters. Besides base effects, consumption has slowed, not helped by tight financial conditions; along with a challenging manufacturing sector trends and external trade. The government's immediate economic priority will be to address the weak farm demand quotient, improve job creation and boost consumption. Policies are likely to shift from a consumer bias (pro-inflation) to producer bias (protecting incomes). Growth momentum is expected to improve towards mid-to-late FY20.

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