Economics

DBS Flash

Decisive win for India’s ruling coalition

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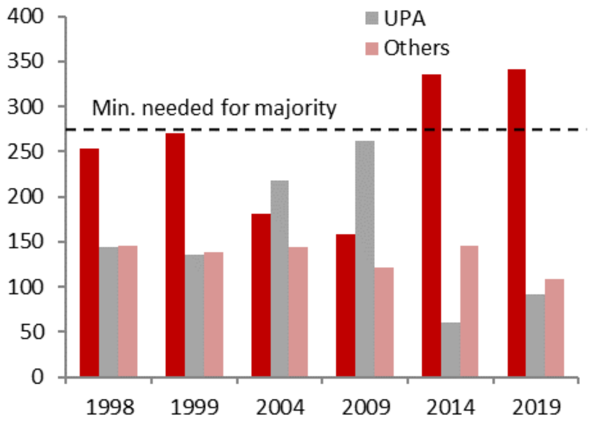
- *The BJP-led ruling coalition is on course for a decisive win in India’s general elections*
- *The scale of victory was better than exit polls and comparable to the 2014 margin*
- *Amongst states, the coalition retained parts of their stronghold in centre/west India, while improving in east and south*
- *Staying on for a second term with an emphatic majority underscores policy continuity and stable political environment for the next five years.*
- *Domestic financial markets extended post-exit poll gains*
- *While unable to skirt weak global risk sentiments, Indian markets might fare better on relative basis vs those most exposed to the fallout of the US-China trade tensions*
- *Beyond elections, attention returns to the economic to-do list*
- *RBI rate review in June and the full-year Budget are next events under watch*

Latest counts show that the incumbent National Democratic Alliance (NDA)-led by the Bharatiya Janata Party (BJP) is set to return to power with a clear majority, outdoing the average exit poll. Staying on for a second term with an emphatic majority underscores policy continuity and stable political environment for the next five years.

Election results

No. of parliamentary seats



Source: Election Commission, press, DBS Group Research Count as on May 23, 0910GMT

Apart from the overall tally, much attention was also on state-level performance where NDA fared strongly in 2014 or faced stiff competition this time around. In Uttar Pradesh that accounts for 14% of the total seats, the NDA lost some ground compared to 2014, but fared better than expected. Rajasthan, Bihar and Chhattisgarh backed the incumbent, but the opposition party gained some ground in Punjab. The NDA improved their tally in the eastern states of West Bengal and Orissa. In south, the NDA fared better in Karnataka, whilst Kerala and Tamil Nadu went to the regional parties/opposition.

Alliance parties - tally in key states

Poll	NDA (BJP-led alliance)	UPA (INC led alliance)	Others
Uttar Pradesh	60	1	19
Maharashtra	43	4	1
Bihar	39	1	0
West Bengal	18	1	23
M.Pradesh	28	1	0
Rajasthan	25	0	0
Tamil Nadu	3	30	6
Karnataka	23	3	2
Gujarat	26	0	0
A.Pradesh	0	0	25

Source: Media reports, DBS Group Research
Count as on May 23, 0910GMT

Domestic markets extended the relief rally that started on Monday as actual results turned out to be better than exit polls and another five years of political stability looks imminent. While unable to skirt weak global risk sentiments, Indian markets might fare better on relative basis vs those most exposed to the fallout of the US-China trade tensions, especially North Asian currencies.

Down to the to-do list

With a key event risk out of the way, return of the incumbent government is business-as-usual for the economy and ticks a key box of political stability.

Attention here on will return to the to-do list, key amongst which is the need to address the ongoing cyclical slowdown in growth. GDP data for the March 2019 quarter is due in late-May and is likely to see growth slip to 6.2-6.4% from 6.6% in 4Q18. The key engine of growth i.e. consumption has weakened in rural and urban areas as lead indicators suggest (auto sales, non-durable production etc.) Job creation has progressed at a slower than desired pace, weighing on discretionary spending; these areas are likely to gain priority under the government's second term. Manufacturing activity has also felt the heat from slowing consumption, and a challenging global demand/ trade outlook.

On reforms, impetus to iron out and improve the implementation of GST, financial inclusion, infra spending, banking sector efforts etc. will continue. India's political-economy has also attained modern welfare dimensions-direct cash transfer, health insurance, crop support prices, pension for unorganised sector workers etc. Consolidation of these support schemes into a welfare construct, will help boost purchasing power of agri-dependent and lower income families.

Beyond elections, two other aspects will be watched with interest. Full-year Budget in June/July and RBI rate review in June. 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 wildly 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 the RBI, we continue to expect a 25bp cut in June, but will be a close decision due to global uncertainties, lack of clarity on monsoon and higher oil prices. If undertaken, this is likely to mark the late end cutting cycle as inflation prints are off January 2019 lows. Addressing the liquidity squeeze in the domestic credit markets will be the central bank's priority, to transmit lower funding costs, along with supporting non-bank entities. A dedicated credit line to struggling NBFCs is unlikely as underlying problems are more solvency driven, rather than due to a shortage of liquidity. Instead, a new operational framework is in the works for non-banks to improve on their asset-liability mix. Focus is also on the RBI's revised circular to replace the February 2018 version, which had placed stringent course-correction steps for banks to deal with stressed assets. Add to this, the government is expected to improve banks' capital levels through periodic equity injection and pursue further consolidation of the sector.

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Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).