

Global Fundamental



India's general election: the world's largest democratic vote



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Often described as the world's largest democracy, India is currently going to the polls in what is a weeks-long electoral process on a near-unimaginable scale. To give a sense of perspective, there are just under one billion registered voters in India, more than twice the combined population of Europe and over 10% of the world's population. The 2024 General Election involves India's 28 states and eight federal territories voting across over a million polling stations, for as many as 2,660 registered parties, in seven separate phases from 19th April to 1st June, with the results announced on 4th June. As voting progresses over the next few weeks, markets will be keeping a watchful eye, assessing the prospects and scale of a potential Modi/BJP (Bharatiya Janata Party) third term and what that could mean for the world's fifth largest economy.

A mammoth process

The process behind India's general election is a staggering logistical feat, with 1.5 million election officials mobilised to ensure every voter can access a polling booth, from busy cities to remote villages. In the 2019 election, election officers covered 300 miles across four days in mountainous Arunachal Pradesh to set up a polling booth for just one voter, while a village in Himachal Pradesh boasts the highest polling station in the world at over 15,000 feet above sea level. Real-time monitoring systems and GPS tracking have brought technological prowess to the election, allowing electoral authorities to minimise delays and ensure timely delivery and security across such a huge undertaking.

The Westminster-modelled vote is to elect 543 lawmakers to the lower house of parliament (known as the Lok Sabha), with the winning party providing the prime minister for the next five-year term. The two major electoral parties are the incumbent BJP, led by Narendra Modi, and Congress (Indian National Congress), led by Rahul Gandhi, grandson of former prime minister Indira Gandhi and great-grandson of India's first prime minister, Nehru. Congress dominated Indian politics for the half-century after Independence, making the emphatic arrival

of the BJP to power in 2014 even more transformative. This year, the BJP and Modi are aiming for an historic third-consecutive term, having won the pivotal election in 2014, becoming the first single-party government since 1984, before consolidating their position in 2019 as the dominant electoral force in India, extending their seat count from 303 to 323 and winning six times as many seats as rival Congress.

What a Modi third term could mean for India

The past decade of BJP stewardship of the economy has been crucial in transforming India, with a pivotal shift from a redistributive, welfare-based model to one aggressively focused on investment and infrastructure and easing supply-side constraints. Key examples of reforms enacted are the Goods & Services Tax (GST) of 2017, which harmonised tax codes across states and effectively created a free-trade zone throughout India and has been compared in significance to the establishment of the Eurozone; while the Real Estate Act (RERA) and Insolvency & Bankruptcy Code both acted to unclog the banking system of bad loans after the previous economic cycle had soured, laying the foundations for the current investment recovery.

While the BJP's first term was heavy on major reforms, the second term has been focused on executing on the investment priorities of the government, targeting both physical infrastructure such as roads and railways, but also digital infrastructure to enable the modernisation of payment systems and benefit transfers. Were the BJP to win a third consecutive term (as polls suggest is likely) then investors should largely expect policy continuity – more of the same. Likely policies for a BJP third term would include ongoing investment in infrastructure and 'future' sectors such as electronics manufacturing, maintaining fiscal discipline and the continued roll-out of digital infrastructure. More challenging reforms that would require further political capital would include rationalisation of food and fertiliser subsidies by building on the Direct Benefit Transfer (DBT) scheme, as well as land and labour reforms. A Congress victory (unlikely as it currently looks) would likely feature a shift towards welfare spending and away from investment.

Given the Indian economy's successes over the past decade, a change in government at this juncture would likely be taken negatively by markets. However, the odds of policy continuity currently look strong, with pre-election polling suggesting a further increase in BJP seat share compared with the 2019 election. As the core party within the right-leaning NDA (National Democratic Alliance), the BJP can look to a combined NDA tally of 377 seats – an improvement on the 353 achieved in 2019. However, the BJP electoral machine has openly targeted 370 seats (400 for the NDA), which would be a significant increase in mandate from the previous term.

Opinion polls have been directionally accurate in the last decade, though not when considering the margin of victory (polls undercounted NDA final vote tallies in the previous election), so a significant remaining question remains the size of a potential BJP/NDA mandate, and the market response to the final results will be a function of whether the BJP/NDA secure more or fewer votes than market expectations.

The narrative of the current election suggests a 'normal' or status quo election, as opposed to a so-called 'wave' election, which acts as a significant turning point (such as the 2014 election that brought the BJP to power emphatically). Unlike the 2019 election, when recent skirmishes with Pakistan had put national security high on the agenda, there is no standout, overriding issue driving voting as such. Voters are concerned about inflation and job availability, but do not ascribe blame for either of these issues to the government in particular. The BJP campaign focus has been on foregrounding India's rising global prestige and aspirations to become a developed economy by 2047, the 100-year anniversary of Indian Independence.

A key goal of the BJP has also been to widen its footprint, beyond the Hindi-speaking belt of northern India and into the southern and eastern states where it has been weaker. In 2019, only 11% of BJP voters came from the south. As such, the BJP's ability to make inroads into states such as West Bengal, Odisha and Telangana will be closely watched. The key state of Uttar Pradesh, with nearly a quarter of a billion inhabitants, remains something of a kingmaker, carrying 15% of total seats – although the BJP won 80% of these seats in 2014, some were given back in 2019, so whether these can be regained will be another key indicator of the BJP's electoral strength.

The rapid growth of technology is also radically changing the nature of Indian elections – since 2014, the number of internet subscribers in India has risen four-fold to 930 million, while the number of smartphones has increased five-fold to 660 million. Users of WhatsApp, Twitter (X), Instagram and Facebook have also ballooned over the past 10 years, making the nature of campaigning much more personalised and targeted. This feature works to the advantage of the BJP, whose social media presence and following far outstrips Congress and the regional parties.

As the results approach over the next month, markets will be keenly reading the electoral tea leaves to assess the prospects and scale of a potential Modi/BJP third term. For a further clear mandate and the political capital required to push through tougher reforms to achieve the 7.5% and above growth rate that India promises, the more seats won on 4th June, the more markets will be able to look ahead to another five years of continuity and growth.

For a comprehensive list of common financial words and terms, see our glossary at:
<https://www.liontrust.co.uk/benefits-of-investing/guide-financial-words-terms>

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