

Our Views

Thank God it's over! People of India are the winners.

We as a country are nearly perpetually in an election mode. However, Lok Sabha elections are the biggest of all elections, with maximum emotional investment in and psephological conversations about them by the citizens. And the outcome of these elections has the maximum impact. This time, the conversations around elections were further accentuated as the elections dragged on for a longer duration. Finally, the outcome was not necessarily in line with the market expectations.

For the markets there is a sense of déjà vu from 2004 or 1991 - the totally unexpected results and the uncertainty emanating from it have made the markets a bit jittery. The uncertainty is not about who will form the Government, but about the construct of the Government. While it will be a BJP led government with the support of its pre poll partners, the uncertainty is about the Government's ability to push large reform agendas in its third term.

It is usual for the markets to get euphoric and peak in the run up to the elections. So, unless there is an extraordinary situation, markets are always soft post the results. We have seen this since the 2004 elections. A similar trend is observed in the run up to the first union budget of a new Government. It is an important policy announcement which sets the economic tone for the next five years, and again the expectations from it are often so high that it is usually followed by disappointment. However, as a rule, over a period the market goes back to basics and starts acting and reacting to the economic fundamentals.

While we will continue to analyse the results and its impact over the next couple of days, my initial view on the long-term policy impact is that the new Government will focus on addressing critical issues such as employment creation, agriculture growth, and tax reforms.

The BJP has lost more seats in the rural India than in the urban areas and therefore the focus of its policy making will be rural development. This could be agricultural reforms, labour reforms, rural infrastructure development and employment generation. In my assessment, doling out freebies don't really impact election results anymore. If it did, Andhra Pradesh results would have been something else. Several social initiatives were rolled out in Andhra by the earlier government, but the voting outcome does not seem to be driven by it. In my view, employment generation remains a key ask for a large section of Indians, mainly in rural areas.

I expect the government's fundamental policies of economic progress, infrastructure creation, liberalization, PSU rationalization, tax reforms and manufacturing to continue. Similarly, I believe the government will continue to focus on defense and digitization. However, results from cities like Mumbai clearly indicate that tax reforms are a critical issue, and the government may now further focus on both direct and indirect tax reforms, more particularly GST reforms.

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In conclusion, while it is totally understandable that surprises provoke hasty and impulsive reactions which we saw in the market yesterday, the market will in the coming days evaluate the impact of these results on fundamentals. It will analyze the construct under which the new government will be formed, its first policy announcement through the first budget, and its long-term focus areas from an economic perspective. As I said, some of the newer focus areas would include farm reforms, labour reforms, agricultural growth, consumption improvement, job creation and rural infrastructure. All these cumulatively will set in motion a more wide-spread economic growth in the country. This, in turn, will boost the overall economy and the markets. Additionally, the current fiscal situation with the BJP's focus on remaining fiscally disciplined, the likelihood of a sovereign rating upgrade, a good monsoon and enhanced tax revenues will give comfort to the bond markets in the medium term.

We must thank God that this five-yearly mega-event is behind us. Let us move past the knee jerk reaction from the unexpected election results, get back to our desks and start focusing on the fundamentals which will have a real impact on the markets.

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