

# 2018 INDIAN STATE ASSEMBLY ELECTIONS

DECEMBER 14, 2018

## SUMMARY

- The results for last week's multi-phase polling in five key Indian states – Chhattisgarh, Madhya Pradesh (MP), Mizoram, Rajasthan, and Telangana were announced on December 11.
- Three of these states – Rajasthan, Chhattisgarh, and MP – witnessed a direct contest between the ruling Bharatiya Janata Party (BJP) and its national competitor, the Indian National Congress (INC).
- Victory for the INC in these three key states that are part of the BJP's 'Hindi Heartland' stronghold sets the stage for a fierce contest between Prime Minister Modi's BJP and the opposition coalition led by the INC in the upcoming 2019 national elections.
- To regain momentum before 2019, the government is expected to pursue increased fiscal spending to expand social welfare programs and may seek to pressure the central bank for a looser monetary policy.
- While businesses should not expect major economic reforms or new policies in the coming months, they should stay closely engaged with government officials and monitor 2019 election developments.

## ABOUT ASG

Albright Stonebridge Group (ASG) is the premier global strategy and commercial diplomacy firm. We help clients understand and successfully navigate the economic, political, and social landscape in international markets. ASG's worldwide team has served clients in more than 110 countries.

[ALBRIGHTSTONEBRIDGE.COM](http://ALBRIGHTSTONEBRIDGE.COM)

## WHY WERE THESE ELECTIONS CRUCIAL?

### *Three states of the 'Hindi-Heartland' went to election*

The 'Hindi Heartland,' comprised of Bihar, Chhattisgarh, Gujarat, Jharkhand, MP, Maharashtra, Rajasthan, and Uttar Pradesh, is critical to the Indian political landscape. These eight states account for over 75 percent of the BJP's seats in parliament and are considered to be the ruling party's political bastion. While the BJP has continued to expand its presence in southern and eastern states, its chances of remaining in power rest upon its performance in this region.

### *Barometer of perceived discontent against Modi's government*

There have been indications of [growing discontent](#) among the population over the performance of Mr. Modi's government. Key issues include weakness in the rural economy and the distress faced by India's

farmers; lack of employment opportunities in the market despite strong economic growth; and headwinds faced by the middle class – the BJP’s core voter group – due to such measures as withdrawal of currency notes ([demonetization](#)) and the [rollout of the Goods and Services Tax](#) (GST). The state elections served as a litmus test for the depth of this discontent and its potential impact on the BJP’s electoral prospects in 2019.

### *Bellwether for 2019 General Elections*

Since coming to power in 2014 with a historic mandate, Mr. Modi has been actively working towards securing a second term in 2019. Mainstream media dubbed these elections as the [semi-finals](#), and analysts agreed that momentum built by parties now would play a key role in the 2019 national elections. The fact that the elections were held in traditional BJP strongholds with a combined population of over 200 million made them even more important.

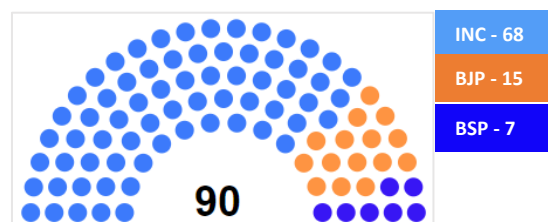
### *Test for the relevance of the opposition*

The INC’s claim to be the leading opposition party was also tested in these elections. Since 2014, Mr. Modi has consistently expanded his party’s footprint across India, while the INC [consistently lost ground](#) to the BJP. The opposition, including regional parties and the INC, has made efforts in recent months to put differences aside and [stitch a grand coalition](#) against the BJP. These elections were a test on the effectiveness of the INC to lead this opposition coalition.

## WHAT IS THE VERDICT?

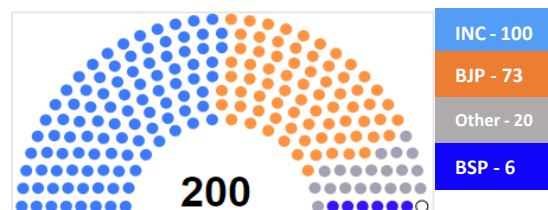
### *Chhattisgarh*

- INC won in a landslide victory.
- A chief minister candidate has not been announced, and at least four senior leaders are under consideration.
- The clear INC victory was unexpected, as exit polls predicted a close fight between the ruling BJP and INC.
- The BJP’s three-time chief minister, Raman Singh, was looking for a historic fourth consecutive term based on his “good governance” model in the state.



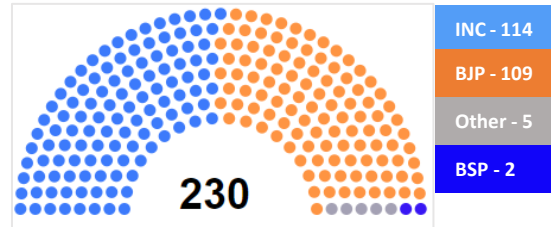
### *Rajasthan*

- INC won a slender majority.
- Exit polls had predicted a bigger mandate for the INC, due to discontent against the ruling BJP government.
- Senior leader Ashok Gehlot has again been appointed as the Chief Minister, while young scion Sachin Pilot will serve as his Deputy.



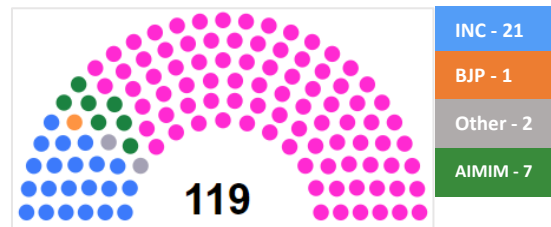
### Madhya Pradesh

- INC emerged as the single-largest party. However, they will need support of smaller allies to form the government.
- Exit polls had predicted the close race, with incumbent BJP CM Shivraj Singh Chauhan seeking a historic fourth term.
- Party veteran Kamal Nath has been appointed Chief Minister, after an internal tussle for the position with young leader Jyotiraditya Scindia.



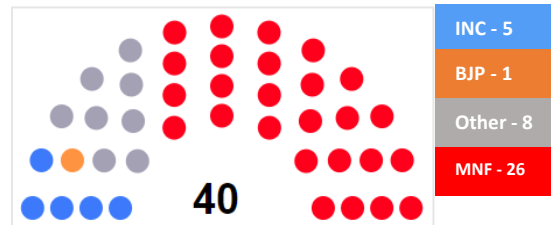
### Telangana

- TRS won in a sweeping victory.
- CM K. Chandrashekar Rao was rewarded for his able stewardship of the new state. His mix of pro-development reforms including ease of doing business and carefully targeted welfare programs are cited as reason for victory.
- Telangana will continue to hold its position as a prime destination for investment in the country.



### Mizoram

- Regional party Mizoram National Front (MNF) won a decisive mandate.
- INC was facing severe anti-incumbency; this loss wipes out INC's presence in India's northeast region.
- MNF support will be critical for BJP's northeast expansion strategy ahead of 2019.



## WHAT ARE THE IMPLICATIONS FOR 2019?

While the results are a setback for Mr. Modi and the BJP, they are not a decisive indicator for 2019. Historically speaking, [voter preferences vary](#) between state and national elections, and the latter are contested on a whole host of national issues that are left unaddressed during state elections. However, it is worth noting that these results indicate a major shift in the current political landscape, where the BJP is facing headwinds for the first time since Mr. Modi was elected to power in 2014.

### A break in the BJP's dominance

The results are a setback for the ruling BJP in India, which has dominated elections over the last four years. The loss in these elections is expected to force the party to reevaluate its electoral strategy for the upcoming national elections. Some analysts have indicated that the anti-incumbency vote played a significant role in these elections and that this factor will not apply in the 2019 general elections.

Furthermore, Mr. Modi continues to be the [most popular politician](#) in India. Several experts have opined that the BJP minimized its losses in Rajasthan and MP due to Mr. Modi's popularity.

### *A resurgent opposition*

These results are a certain comeback for the INC and clear evidence that it remains a force to be reckoned with. INC, however, was unable to win decisive mandates and needs to build on this victory towards 2019. The sound victories of the TRS in Telangana and the MNF in Mizoram indicates that regional parties remain relevant in India's elections. The INC will need to unify and rally these parties, play a key role in resolving internal differences, and outline a common shared vision for the proposed grand coalition to challenge the BJP in the upcoming national elections.

### *Government focused on winning votes ahead of elections*

The government is expected to announce several populist economic measures in the coming months in a bid to win over voters, particularly farmers hit hard by agrarian distress. The focus will solely be on new social welfare programs and successful roll-out of current programs, such as the proposed health insurance coverage for all Indian citizens announced earlier this year.

### *Volatile months for the economy and status quo for businesses*

Businesses should not expect any major reforms or policy measures in the coming months. The government is expected to exceed fiscal spending targets, as it seeks to fund the expanded social welfare programs. It may also seek to pressure the central bank for a looser monetary policy, to bolster near-term economic growth, in favor of stability. The central bank is likely to comply following the [appointment of Shaktikanta Das](#), a former economic affairs secretary who has served under Mr. Modi, as Governor of India's central bank. His appointment comes in the wake of Urjit Patel's [surprise resignation](#) as Governor, amidst reports of drift with the government.

---

*ASG's South Asia Practice* has extensive experience helping clients navigate markets across. For questions or to arrange a follow-up conversation please contact [Uzair Younus](#).

---

