



June 2024

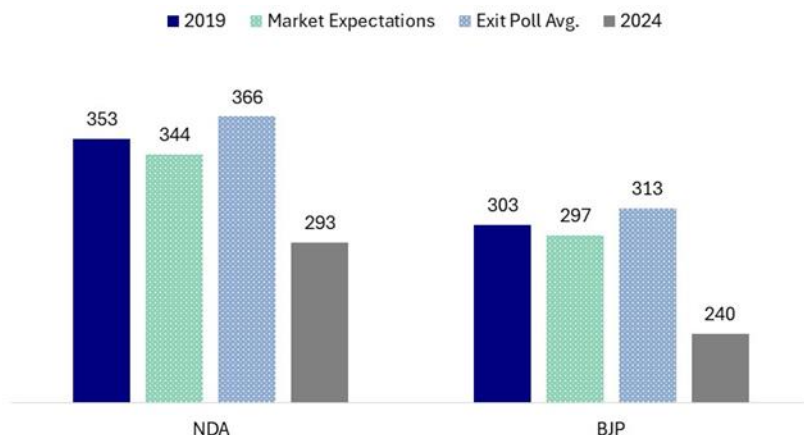
The Missing Modi Wave in India

This month, India's national election ended in a huge shock. Prime Minister Narendra Modi lost the majority that most observers had expected him to build on, mightily. One exception was our CIO Ruchir, who travels the Indian campaign trail regularly, and this year found no sign of a "Modi wave"; he found voters focused on local issues, on demands for more government support particularly in stressed rural areas, not in thrall to Delhi. Now, Modi's ruling Bharatiya Janata Party (BJP) needs support from coalition allies to form a government, demonstrating that competitive democracy is alive and well in India.

India's Shock Elections

The BJP went into the contest with 303 seats in parliament, and final polls suggested it would add roughly ten to that total. Instead, the BJP won only 240, falling below the 272 needed for a majority. Now, it is dependent on its partners in the National Democratic Alliance, who generally did not suffer such deep losses. [Chart 1 below]. To say this outcome defied expectations is an understatement.

Chart 1. India Lok Sabha Election: Total Number of Seats for the Incumbent Party



Source: Nomura

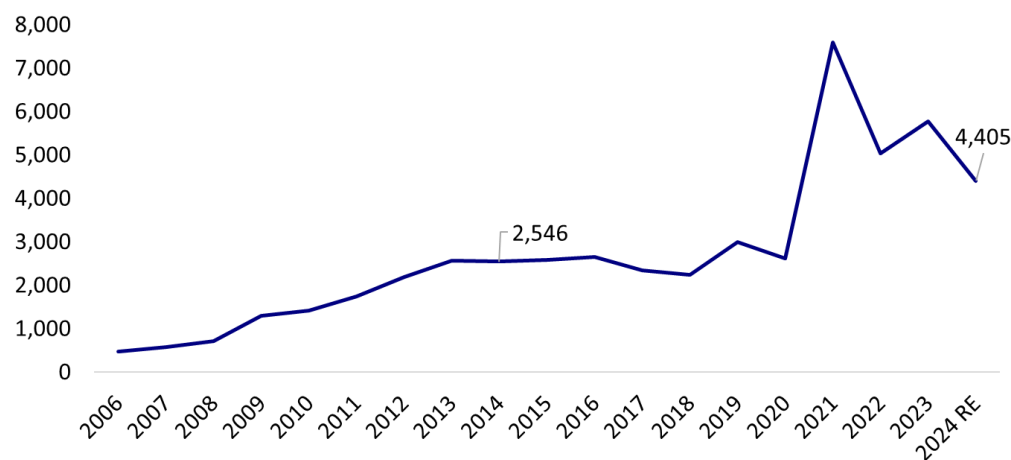
Why the Shock?

Ruchir traveled nearly 2,000 kilometers over eight days, from the east coast to the west coast, through the states of Andhra Pradesh, Telangana, Karnataka and Maharashtra. This path runs south of the Hindi-speaking heartland, where the BJP is strongest, yet still the mood was very different from 2014 and 2019—when Modi led the party to "wave" victories. Though he came to power as a critic of welfare, fiscal subsidies have doubled in nominal terms on his watch (Chart 2), yet many voters, particularly in rural areas, spoke of an urgent need for more government relief. One politician spoke of the emergence of "Swiggy politics": growing demands for instant delivery of welfare benefits, named after a popular mobile shopping app.

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Chart 2: Fiscal Subsidies in India (Billions of Indian Rupees)

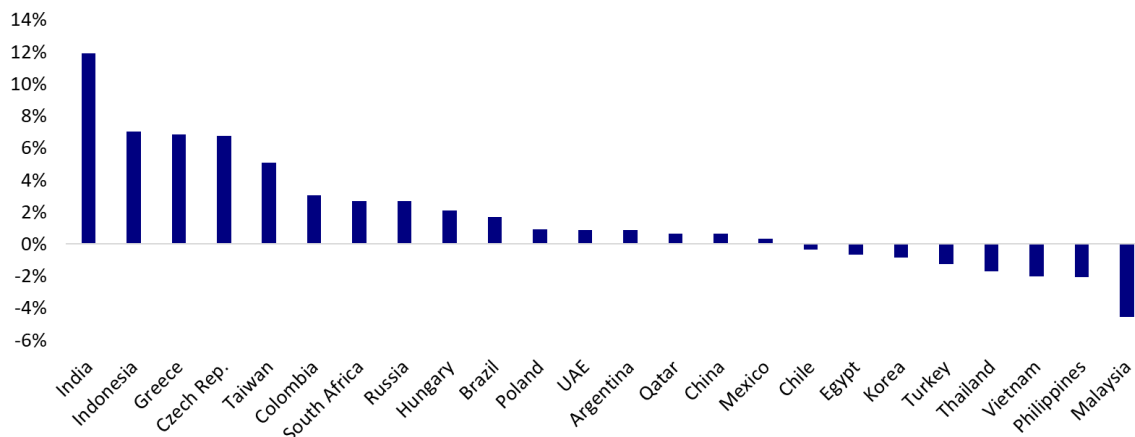


Source: Budget Documents, Breakout Capital Calculations. Subsidies Include Food, Fuel, Fertilizer and Other Items.

“Ideology is for Libraries”

Though foreign observers worry about the BJP’s Hindu nationalist ideology, the campaign conversation was all about pocketbook issues—including subsidies and inflation. One opposition leader told Ruchir, “Ideology is for libraries.” Voters want to know what more the government can do for them, and behind this impatience looms a stark reality, that others are doing much better. Amongst the top 50 large emerging and developing economies, India has seen the sharpest increase in the wealth of its billionaire class. Their fortunes now equal 26% of GDP, up 12 percentage points from 5 years ago; that compares to an average increase of one percentage point in emerging markets over the same period, and a 7-percentage point increase in the United States.

Chart 3. 5Y Change in Billionaire Wealth to GDP in Major EM’s (Percent)



Source: Forbes Billionaire Annual Lists, Breakout Capital Calculations.

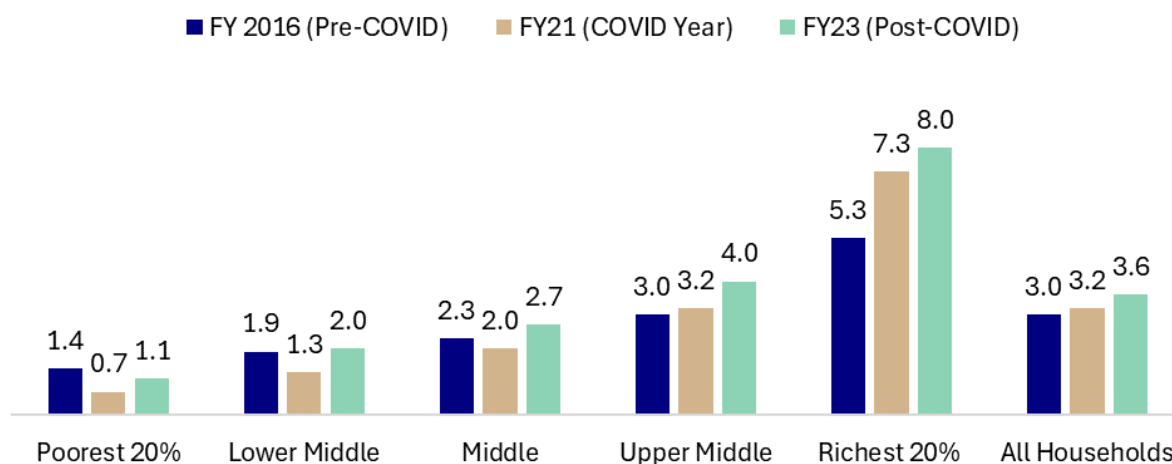
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The BJP Pitch Falls Flat

The BJP hammered the message that Modi is lifting India's global stature, in part by generating one of the fastest GDP growth rates in the world. The urban middle class embraces this message, the rural poor seem to care less. Food inflation is still running at around 9 percent in India, and the poorest 20% of the population have seen their income fall by 20% in inflation adjusted terms, compared to pre-pandemic levels. The richest 20% have seen a gain of 50% in that period [Chart 4]. In that light, the practical concerns of rural voters are no shock at all.

Chart 4. Average Annual Household Income – in Inflation Adjusted Terms (INR Lakhs)



Source: PRICE's ICE 360 surveys 2016, 2021, 2023.

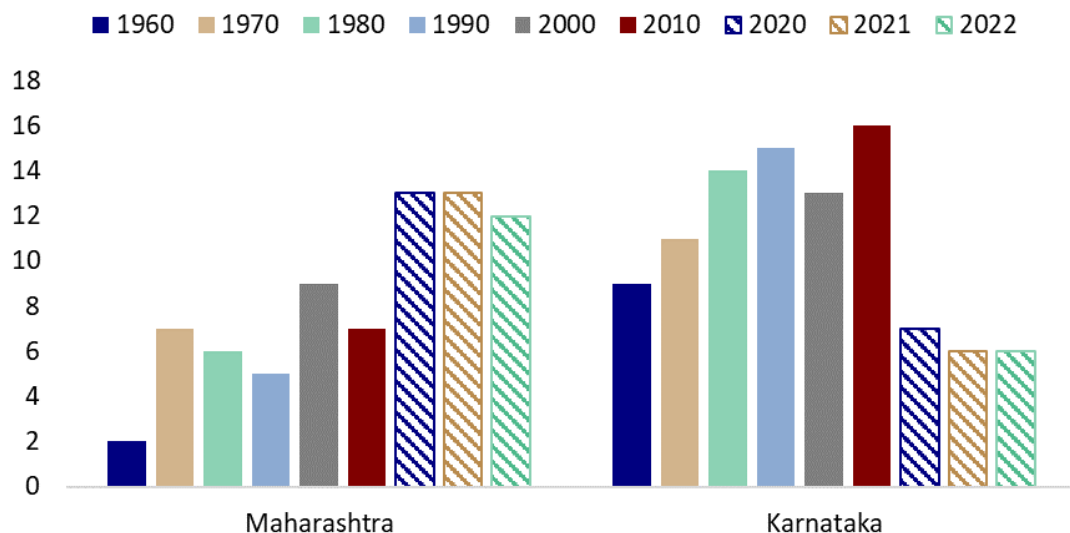
The Maharashtra Factor

The politically most important state Ruchir traveled through was Maharashtra, because it holds more parliamentary seats than any state other than Uttar Pradesh. Maharashtra's fortunes have faltered in the last decade, as its per capita income grew slower than the national average and was surpassed by incomes in fellow southern states like Karnataka and Andhra Pradesh [Chart 5]. The conversations were particularly grim here, dwelling on issues like neglected highways, the devastating impact of a recent temporary ban on onion exports, and suicides among overstressed farmers. And the BJP suffered a particularly disappointing rout in Maharashtra, with its seat total falling from 23 to just nine.

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Chart 5: Key Indian States: Ranks on Nominal State Net Domestic Product Per Capita (Higher Number Implies a Worse Relative Position)



Source: MOSPI, NSO, RBI, Breakout Capital Calculations

The initial market reaction to the BJP's unexpectedly weak showing was to drop sharply, but in the longer term, we believe the result is not necessarily for the worse (indeed the markets are already bouncing back). Talk that Modi and the BJP are killing Indian democracy will fade; we believe the need to work with coalition partners will impose at least some restraint on his tendency to rule strongman style, by personal order from the top.

The bigger concern may be the rise of "Swiggy politics." Under Modi, India has grown fast enough to ramp up subsidies without busting the budget; the question now is not whether he is too strong, but whether he is strong enough to resist popular demands for instant delivery of more welfare benefits.

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