

# ISAS Insights

No. 247 – 29 April 2014

29 Heng Mui Keng Terrace  
#08-06, Block B,  
National University of Singapore,  
Singapore 119620  
Tel: 6516 6179 / 6516 4239  
Fax: 6776 7505 / 6314 5447  
Email: [isassecc@nus.edu.sg](mailto:isassecc@nus.edu.sg)  
Website: [www.isas.nus.edu.sg](http://www.isas.nus.edu.sg)



## Economic Despondency and Indian Elections

Amitendu Palit<sup>1</sup>

Economic issues are expected to be decisive in determining the outcome of India's 16<sup>th</sup> general election. Most opinion polls point to the depressing economic situation in the country and its adverse impact on the prospects of the Congress-led United Progressive Alliance (UPA) in the elections. The economy, according to most analysts, might actually be the main villain in taking the Congress down, if it actually does.

How bad is the economic situation as India votes its next Parliament? Is it worse than the situations during the other general elections held in the recent past? Are the economic fundamentals poor enough to swing the popular vote against the UPA? This paper reviews the macroeconomic backdrops of the general elections that India has had since the 1990s for the answers.

---

<sup>1</sup> Dr Amitendu Palit is Head (Partnerships & Programmes) and Senior Research Fellow at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore. He can be contacted at [isasap@nus.edu.sg](mailto:isasap@nus.edu.sg). Opinions expressed in this paper, based on research by the author, do not necessarily reflect the views of ISAS.

## The Comparative Scenario

The ongoing 16<sup>th</sup> general election is also the seventh such election to the Lower House (Lok Sabha) of the Indian Parliament during the last two and a half decades. After the 10<sup>th</sup> general election to the Lok Sabha in 1991, the 11<sup>th</sup> election took place in 1996. The 12<sup>th</sup> and 13<sup>th</sup> general elections took place in quick succession in 1998 and 1999. The 14<sup>th</sup> and 15<sup>th</sup> general elections were held at the usual interval of five years in 2004 and 2009 with the current election following the same pattern.

Table 1 reflects some of the major macroeconomic indicators when India went to elections during the last twenty-five years. These help in understanding the macroeconomic backdrop of each election and in assessing whether the current general election is being held under particularly difficult conditions.

**Table 1: Macroeconomic Backdrops of General Elections**

	1991	1996	1998	1999	2004	2009	2014
GDP growth (%)	5.3	7.3	4.3	6.7	8.1	6.7	4.9
Industry (%)	8.2	13.1	6.6	4.1	7.0	2.8	-0.1
Manufacturing (%)	9.0	14.1	6.6	4.4	7.4	2.8	-0.7
Inflation (%)	11.6	10.2	6.8	13.1	3.9	9.1	8.3
Gross Fiscal Deficit (%GDP)	7.6	4.9	5.7	6.3	4.3	6.0	4.6
Current Account Deficit (% GDP)	-3.0	-1.6	-1.4	-1.0	-2.3	-2.3	-2.0
Foreign Exchange Reserves (US\$ billion)	5.8	21.7	29.4	32.5	112.9	252.0	298.6

Note: a) GDP growth rates are for real GDP at factor cost. b) Growth rates for industry and manufacturing are annual variations in the Index of Industrial Production (IIP). For 2014, these are quick estimates released by the Central Statistical Organisation (CSO) India for April 2013-February 2014. c) Inflation rate is for annual variation in Consumer Price Index (CPI) for industrial workers up to 2008-09. For 2014, the value is the provisional annual inflation rate, or the General Index (All Groups) in the rural and urban combined CPI reported by the CSO. d) The (-) before CAD ratios implies deficits. The estimate for 2014 is RBI's projection. e) The foreign exchange reserve number for 2014 is up to 21 March 2014. Sources: Publications of Ministry of Finance, Government of India; Reserve Bank of India, CSO, India.

### a) GDP Growth

The CSO's advance estimates for FY 2013-14 project a GDP growth of 4.9 per cent.<sup>2</sup> This is the second lowest among all the seven election-years; in 1998 the GDP growth for FY 1997-98 was 4.3 per cent. Compared with the last elections in 2009, the GDP growth has declined by more than two percentage

<sup>2</sup> 'Press Note on Advance Estimates of National Income 2013-14'; Central Statistical Organisation (CSO), Ministry of Statistics and Programme Implementation, Government of India; 7 February 2014; [http://mospi.nic.in/Mospi\\_New/upload/nad\\_pr\\_7feb14.pdf](http://mospi.nic.in/Mospi_New/upload/nad_pr_7feb14.pdf) (Accessed on 25 April 2014).

points. Indeed, even in 1991, the 10<sup>th</sup> general election was held in the backdrop of a higher GDP growth rate of 5.3 per cent in FY 1990-91.

## **b) Industry & Manufacturing**

The current election is being held in the backdrop of the worst industrial performance compared with the other six general elections. The latest estimate of the Index of Industrial Production (IIP) measuring the annual growth of industrial output shows a decline of 0.1 per cent during FY 2013-14. Industrial output shows an overall negative growth due to a negative growth of 0.7 per cent in manufacturing. None of the six other election-years witnessed negative growth in industrial production and manufacturing. The next worst performance of 2.8 per cent in industrial production and manufacturing noted during 2009 were results of the global financial crisis, which heavily affected industrial performance during the second half of FY 2008-09.

## **c) Inflation**

Rising prices have been a much-discussed issue in the current election. Interestingly, annual inflation for FY 2013-14, as measured by the new composite Consumer Price Index (CPI) combining both rural and urban CPIs, shows an annual rate of 8.3 per cent,<sup>3</sup> which is lower than inflation estimated during the relevant financial years for the elections in 1991, 1996, 1999 and 2009. Thus elections have been held in India in the relatively recent past in the backdrop of much higher inflation. The only instance of an election being held at a time when prices were actually 'soft' is 2004, when the annual CPI for FY 2003-04 was only 3.9 per cent.

## **d) Gross Fiscal Deficit**

The deteriorating fiscal health and the precarious state of public finances have heavily dominated the macroeconomic discourse in India. The revised gross fiscal deficit of 4.6 per cent of GDP for the Central Government for FY 2013-14 is actually one of the lowest among the seven election-years. Only the 14<sup>th</sup> general election held in 2004 had a lower fiscal deficit of 4.3 per cent of GDP in FY 2003-04. All the other elections have been held with the Central Government showing much larger deficits and worse fiscal health.

---

<sup>3</sup> 'Press Release: Consumer Price Index Numbers on Base 2010=100 for Rural, Urban and Combined for the Month of March 2014', Central Statistical Organisation (CSO), Ministry of Statistics and Programme Implementation, Government of India; 15 April 2014; [http://mospi.nic.in/Mospi\\_New/upload/cpi\\_press\\_rele\\_15apr14A.pdf](http://mospi.nic.in/Mospi_New/upload/cpi_press_rele_15apr14A.pdf) (Accessed on 25 April 2014)

## **e) Current Account Deficit**

The current account deficit, or CAD in short, has been held responsible for the plunging value of the Indian Rupee in recent years. While not being as bad as in 1991, the CAD is projected at 2.0 per cent of the GDP for FY 2013-14.<sup>4</sup> This would make it the third largest CAD in an electoral backdrop after 1991. Interestingly, the CAD for 2008-09, marking the backdrop of the 15<sup>th</sup> general election in 2009, was higher than the current CAD, at 2.3 per cent.

## **f) Foreign Exchange Reserves**

The current electoral backdrop scores the best on foreign exchange reserves. At almost US\$ 300 billion<sup>5</sup>, the foreign exchange cover with the RBI is the largest that it has had in all the seven election-years. It is important to note, though, while between 2004 and 2009, reserves increased by almost US\$ 140 billion, the corresponding increase during 2009-2014 has been by just around US\$ 50 billion (Table 1). This points to the external sector being under greater stress during the later period.

## **Prognosis**

The 16<sup>th</sup> general election to Parliament is being held in the backdrop of the worst industrial and manufacturing scenario among all seven general elections during the last twenty-five years. This election also has one of the lowest GDP growth rates in its background. There is little doubt over this general election being held in the rather gloomy setting of a distinct economic slowdown and industrial stagnation.

Inflation and rising prices, while being issues in the current election, are not at their peak compared with the situation in the earlier elections. Most general elections in recent times, including the 2009 election, have been held with the electorates facing higher prices compared with the current one.

The ‘twin deficits’ – fiscal and current account – while being large, are not at alarming levels. At the time of the current general election, the Central Government’s fiscal health is actually better than what it was during most of the earlier elections. The current account deficit, comparatively, is larger during

---

<sup>4</sup> ‘Macroeconomic and Monetary Developments 2014-15 (An Update)’, Reserve Bank of India; 1 April 2014; Table VI.1, Page 14; <http://rbidocs.rbi.org.in/rdocs/Publications/PDFs/MM01042014D84537B376.pdf> (Accessed on 25 April 2014)

<sup>5</sup> Ibid, page 9.

this election reflecting relatively more pressure on the country's balance of payments and external sector. However, this does not contain any cause for alarm given the large foreign exchange reserves, which, at this point in time, are at their healthiest state among all the seven election-years.

## **Economic Issues and Popular Vote**

Microeconomic issues are often more important in determining voting decisions of the electorate than the macroeconomic factors. This is more so in a country with a large and heterogeneous electorate of more than 800 million where economic issues would resonate differently across voters in terms of their locations, age, occupations and aspirations. The macroeconomic backdrop, while not providing insights on these specificities, does throw some light on the overall economic sentiments prevailing in the country.

Low economic growth and a dismal industrial performance have made the overall economic situation gloomy and downcast. The industrial and manufacturing contractions would have affected business and livelihood prospects across the country. Compounded with consumer prices that remain high, and stagnation in exports as revealed by the current account deficit, the economic mood of the electorate is expected to be sour.

Will the sourness be reflected in the popular vote being cast against the ruling Congress-led UPA? If economic factors dominate voting decisions, then yes, definitely.

Economic despondency does not set in overnight. In some respects, the macroeconomic conditions were worse in 2009, particularly for inflation, fiscal and current account deficits. But these were largely due to the global financial crisis breaking out during the second half of FY2008-09 and affecting overall performance for the year as a result. The return of the incumbent UPA in the 15<sup>th</sup> general election suggests the macroeconomic difficulties prevailing at that time did not adversely affect it. This was probably because the electorate was still enjoying the fruits of the robust economic phase that lasted for more than five years before the financial crisis. Also, the UPA's expansive economic measures following the financial crisis helped in containing its adverse impact.

The current occasion, however, is different. There has hardly been any economic revival during the last five years that the electorate would recall. The trimming of the fiscal and current deficits during the last year, while good for macroeconomic health, is unlikely to influence the electorate, which has hardly had a cause for cheer in recent years. An economically despondent electorate is unlikely to spare the incumbent government.

.....