

# An Analysis Of The Impact Of General Elections On The Indian Stock Market: A Decade-Long Perspective (2014-2024)

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## **Abstract**

*This paper traces the role that has been played by the Indian General Elections on its stock market over a decade from 2014 to 2024, analysing the impact of electoral outcomes on market volatility and investor sentiment. This study investigates historical data, and demonstrates the fluctuations in the India VIX and the Nifty 50 index during the election cycles, highlighting the sensitivity of financial markets to political events.*

**Key Words:** Stock Market, General Elections, India VIX, Nifty 50 Index, Investor Sentiment, Market Volatility, Electoral Results, Market Sentiment, Market Dynamics.

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## **I. Introduction**

Acting as the link between investors and publicly traded companies, the stock market provides a to buy and sell shares and get ownership of such companies. Increased investment in the market indirectly implies confidence in a country's government policies and established laws, resulting in potential economic growth and a prosperous future for the nation.

Over the years, the Indian stock market has evolved significantly from being heavily reliant on international events to being primarily influenced by domestic factors. However, among the multitude of domestic events, one significant factor that consistently exerts a profound impact on the Indian stock market is the outcome of the General Elections. Investors in the stock market typically favour a stable government with consistent policies. This is primarily due to the fact that experienced governance can adeptly navigate through extreme situations, whereas changes in administration often result in incomplete policy agendas and unfulfilled objectives, leading to significant wastage of capital.

## **Background And Context**

India forms the world's largest democracy and fastest-growing economy, with general elections held every five years to elect members of the Lok Sabha, the lower house of Parliament. These elections are critical in shaping the country's economic policies, as the elected government is responsible for formulating and implementing policies that influence various sectors of the economy.

India's General Election is a momentous occasion, determining the course of its future political, social, and economic development. Consequently, the Indian stock market is more volatile during the election season and prone to election fever. The elections, thereby, have a severe impact on the financial market.

During the election season, an uncertainty in the political atmosphere may lead to an increase in market volatility, as investors react to potential shifts in governance and policy direction. Historical data clearly shows that stock market performance is directly influenced by electoral results, with market statistics (typically) responding positively to the prospect of stable and business-friendly governments.

## **Understanding India VIX:**

Introduced by the National Stock Exchange (NSE) in 2008, the India VIX serves as a means to measure market volatility. It measures fluctuation in the market and investor sentiment. It represents the market's expectation on the basis of the movements in Nifty 50, assisting investors and traders to make the right decision about their capital.

A higher India VIX indicates a higher expected volatility, signifying increased uncertainty or fear in the market. Conversely, a lower India VIX suggests lower expected volatility, indicating calmer market conditions.

Formula to calculate the India VIX:

$$\text{India VIX} = 100 \times \sqrt{\frac{\text{Sum of Weighted Implied Volatility Squared}}{\text{Total Weight}}}$$

The VIX Index usually rises before elections due to high volatility and uncertainty in the market.

### Understanding the Nifty 50:

The Nifty 50 is the benchmark index listed on the National Stock Exchange (NSE) of India, tracking the performance of the top 50 large-cap companies listed on the exchange. It represents a diverse portfolio of sectors, ranging from finance to pharmaceuticals, thereby, providing a comprehensive overview of the Indian stock market's health and direction. The Nifty 50 is closely monitored by investors and analysts to understand market trends, and consequently make informed investments or develop different strategies. Movements in the Nifty specifically show the investor sentiment, as well as the economic landscape, making it a crucial tool for financial planning and portfolio management in India.

The formula for calculating the Nifty Index:

Market Capitalization = Equity Capital × Share Price

Free Float Market Capitalization = Share Price × Equity Capital × Investable Weight Factor (IWF)

Index Value =  $\frac{\text{Current Market Value}}{1000 \times \text{Base Market Capital}}$

## 2014 ELECTION

### Background:

The 2014 general elections in India took place from April 7 to May 12, with results declared on May 16. These elections were particularly significant because the Bharatiya Janata Party (BJP), led by Narendra Modi, won a landslide victory, gaining a majority with 282 out of the 543 seats in the Lok Sabha. Modi's promise of economic growth and promise of positive governance resonated strongly with voters across the country. Additionally, the BJP's ideological platform, centred around Hindutva principles emphasising Hindu cultural pride and national security also incentivised voters to give support to the Modi-led government. Strategic alliances with regional parties further bolstered the BJP's electoral success, cementing its victory and signalling a significant realignment in Indian politics.

### Pre-Election Period:

Leading up to the elections, there was a strong sense of optimism among investors expecting a change in governance from the Congress-led UPA government and shifting to the BJP led by Narendra Modi, who was known for his pro-business stance and reform-oriented governance as the former Chief Minister of Gujarat. The stock market began to rally months before the actual election dates, driven by positive sentiment but remained volatile due to uncertainty. The Bombay Stock Exchange (BSE) Sensex and the National Stock Exchange (NSE) Nifty indices saw significant gains in anticipation of a favourable election outcome.

### India VIX during the 2014 elections:

During the 2014 Elections, the India VIX remained volatile from late March until May 12, 2014, reaching a peak of around 39 on election day. Following the announcement of results on May 16, 2014, the VIX sharply declined, reflecting improved market sentiment with the victory BJP. By the end of July 2014, the VIX had decreased to 13, showing increased stability in the markets post-election.



Figure 1: India VIX during the 2014 elections  
Source: TradingView

### Nifty 50 during the 2014 elections:

During the 2014 Indian elections, the nation's anticipation and reaction to the ongoing elections were clearly reflected in the NIFTY 50 index. On April 7, 2014, it opened at 6,704.20, as voters headed to the polls, demonstrating uncertainty in the market. By the last day of voting, May 12, it dipped by a small margin to 6,588.25, possibly due to nervousness surrounding the electoral outcome. However, on May 16, 2014, with the announcement of election results, it surged to 7,203.00, indicating a significant upswing in market confidence, also showcasing clarity and optimism brought by the new government under Narendra Modi's leadership.



Figure 2: Nifty 50 during the 2014 elections  
Source: TradingView

### Nifty 50 price movements during the 2014 elections:

**April 7, 2014:** 6,704.20 (First day of voting)

**May 12, 2014:** 6,588.25 (Last day of voting)

**May 16, 2014:** 7,203.00 (Election results day)

## 2019 ELECTION

### Background:

The 2019 general elections in India took place from April 11 to May 19, with results declared on May 23. The 2019 Lok Sabha elections in India were marked by the BJP seeking re-election under Prime Minister Narendra Modi, once again, emphasising national security, economic development, and the controversial revocation of Article 370. Meanwhile, the Indian National Congress, led by Rahul Gandhi, campaigned on social issues including unemployment, agrarian distress, and alleged corruption. The Pulwama terror attack, followed by the Balakot airstrike significantly influenced the electoral discourse, adding to the the BJP's nationalist narrative. The BJP secured a decisive victory, making a majority by winning 303 seats in the Lok Sabha.

### Pre-Election Period:

Between 2014 and 2019, India experienced significant reforms under the BJP government, including the 2016 demonetisation, which aimed to curb black money and counterfeit currency, and the introduction of the Goods and Services Tax (GST) on July 1, 2017, simplifying the tax structure. Additionally, the "Make in India" initiative sought to boost manufacturing and create jobs for the unemployed. These reforms, further, with an average GDP growth rate of around 7.5% during Modi's first term, motivated Indians to re-elect the BJP in 2019 for continued economic transformation and development.

### India VIX during the 2019 elections:

During the 2019 Indian general elections, the VIX Index surged, reaching a peak of (nearly) 30 by May 20, 2019, demonstrating heightened market uncertainty. However, following the announcement of election results, the VIX experienced a significant drop, reflecting the improved market sentiment and reduced uncertainty. By the end of July 2019, the VIX stabilized within the range of 13-15.



**Figure 3: India VIX during the 2019 elections**  
Source: TradingView

**Nifty 50 during the 2019 elections:**

Opening at 11,761.80 on April 11, 2019, the Nifty 50 indicated initial anticipation. As the election concluded on May 19, 2019, it dipped to 11,407.15 amid uncertainty. However, on May 23, 2019, with the election results announced, it surged to 11,828.25, reflecting renewed market confidence under the BJP's leadership.



**Figure 4: Nifty 50 during the 2019 elections**  
Source: TradingView

**Nifty 50 price movements during the 2019 elections:**

- April 11, 2019:** 11,761.80 (First day of voting)
- May 19, 2019:** 11,407.15 (Last day of voting)
- May 23, 2019:** 11,828.25 (Election results day)

**2024 ELECTION**

**Background:**

The 2024 general elections in India took place from April 19 to June 1, with results declared on June 4. India's political landscape, marked by intense competition between the ruling National Democratic Alliance (NDA) and the opposition India Alliance, had Prime Minister Narendra Modi seeking a third term while banking on his government's track record and promises of further development and reforms.

Holding its fort strong and giving the NDA a run for its money, the India Alliance campaigned vigorously on a range of different social issues; however, the NDA managed to secure a majority. The NDA eventually won 293 seats, surpassing the majority mark of 272, while the India Alliance secured 232 seats. Modi's third term, often referred to as Modi 3.0, was thereby, established; promising to build on the previous terms' initiatives and address the ongoing challenges that plague the country.

**Pre-election Period:**

As the 2024 Lok Sabha elections closed in, the political atmosphere in India was filled with anticipation; expecting Prime Minister Narendra Modi to secure a third term, after emerging victorious in the general election

of 2014 and 2019. Modi's tenure upheld a strong nationalist narrative that resonated with countless voters. Key contributions like the successful hosting of the G20 summit, the construction of the Ram Mandir, and notable economic growth further added to Modi's appeal, to once again take charge of the country's government. Reflecting their ambition for an even greater victory; the BJP, thereby, entered the election with its powerful slogan "Abki Baar 400 Paar". In response, a coalition of opposition parties formed the Indian National Developmental Inclusive Alliance (INDIA Alliance) to challenge his leadership.

### India VIX during the 2024 elections:

During the 2024 elections, the VIX Index experienced significant fluctuations. Starting from a low value of 9.85 on April 23, the index later doubled and reached 21.48 by mid-May, marking a rise of over 161%. After the results of the exit polls had been released on June 3, 2024, the VIX index dropped significantly, showing a landslide victory in favour of the BJP gaining majority once again. However, on June 4, the index rose massively and reached its 52 week high of 31.7, when the BJP failed to gain an outright majority, representing an extremely volatile market and investor uncertainty.



Figure 5: India VIX during the 2024 elections  
Source: TradingView

### Nifty 50 movements during the 2024 elections:

With the onset of the 2024 Lok Sabha Election, the Nifty 50 Index experienced significant volatility. As the result dates approached, the market gained its optimism, with the exit polls predicting a wipe-out victory for the NDA on June 3 and the Index surging to an all-time high of 23,338.70. This ultimately resulted in closing at 23,263.90, up by 3.25% at the end of the same day.

However, on June 4, the actual election results caused the Nifty 50 to plummet. The index opened low and continued to decline throughout the day, closing at 21,880, down by 5.93%. This sharp drop was attributed to the BJP not securing an outright majority, which led to uncertainty and a sell-off in the market.



Figure 6: Nifty 50 during the 2024 elections  
Source: TradingView

**Nifty 50 price movements during the 2024 elections:**

**April 19, 2024:** 22,147 (First day of voting)

**June 3, 2024:** 23,263.90 (Exit Poll Results)

**June 4, 2024:** 21,880 (Election results day)

**II. Findings:**

Upon examining the Nifty 50 index and the India VIX for the years 2014, 2019, and 2024, significant insights into market behaviour during electoral periods have been revealed. This paper shows key findings such as the stark increase in market volatility during the Indian general elections which have been noticed throughout 2014-2024. The India VIX touches new highs near the election dates while the Nifty 50 Index too shows notable movements at the same time. However, later both the VIX index and the NIFTY 50 stabilise, once the election results are out - this is dependent on the election of a stable government.

In 2014, the market's anticipation of a stable administration headed by the BJP directed the Nifty 50 to a strong bullish trend before the elections. The India VIX peaked at 39.30, indicating significant volatility and unpredictability that decreased after the election when the new administration assumed power.

Similar trends were seen in the 2019 elections, and the Nifty 50, thereby, rose significantly in anticipation of continued stable administration under the BJP. The India VIX had risen to almost 30.

Before the elections in 2024, the India VIX exhibited a sharp rise from 9.85 to 21.48, indicating a great deal of market anxiety. The Nifty 50 fluctuated at this time due to investor apprehension over possible election results and their effects on the economy. The volatility was similar to previous election cycles.

Overall, the three election years have exhibited results highlighting the imperative role of political stability in market performance. It can also be inferred from the movement in the Nifty 50 and spikes in the India VIX that investors tend to react strongly to stability in governance.

**III. Conclusion:**

Research has indicated the profound impact of the General Elections on the Indian Stock Market, especially over the past decade (2014-2024). It has been shown that election periods are marked by an increase in market volatility, which is evident from the fluctuations in the India VIX and Nifty 50 index. The consistent market patterns across the three elections demonstrate the role of market stability in the stock market's performance. The insights highlight the cruciality of a positive electoral outcome for investors and policymakers, thereby, emphasising the need to consider political factors in investment strategies. In conclusion, with each vote cast, the nation's economic destiny gets shaped, as the Indian Stock Market's fate hinges on the pulse of its democracy.

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