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Any political formation after the polls in UP where the Congress party forges an alliance to form a new government will improve the Congress party's ability to push for policy decisions and reforms at the Centre and in turn will create a positive market sentiment, an independent study of the impact of Uttar Pradesh election results on the economic situation suggests.

The study says that there is a greater possibility for the Congress to increase its tally in the UP polls and play an important role in forming the next government, which may set the ball rolling for realignment at the Centre. In 403 strong UP assembly, Congress won only 22 seats in the last assembly elections in 2007, while ruling Bahujan Samajwadi Party (BSP) won 206 seats and Samajwadi Party (SP) won 97 seats. This time, the alliance between Congress and Rashtriya Lok Dal (RLD) is expected to gain more seats, which could create a positive sentiment in the

economy, suggests a report by Religare capital.

Gautam Trivedi, managing director (India), Religare Capital Markets, said: "This study of the political situation in UP and the impact of UP election result on markets was specially commissioned by us since many domestic and foreign investors are eager to know about this element. Our team spent a lot of time on the ground in UP to understand and learn about various emerging political possibilities, we are not predicting exact results, but the overall impact of poll results on the economy"

The report suggests that though assembly election results have traditionally not influenced the markets as much as the general elections, this time the market will be watching UP poll results closely as it will be an indication of things to come in the 2014 parliament election, since the state sends the highest number (80) of MPs to the Lok Sabha. Hence, a favorable outcome for the Congress in UP would be a significant sentiment booster for the markets.