BREXIT and India

July 11, 2016

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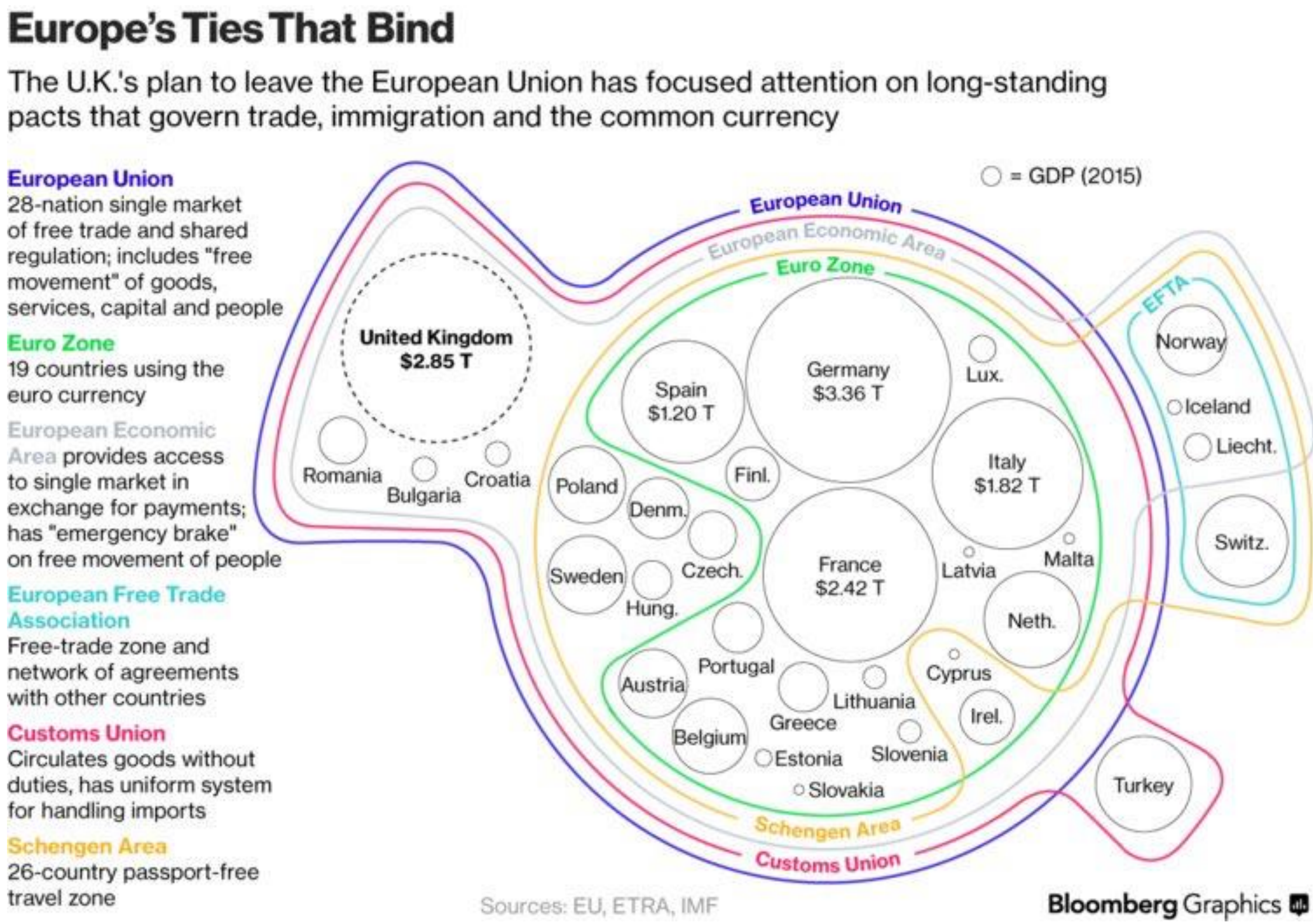
A Maze of linkages in Europe



Source: Bloomberg

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BREXIT: Uncertainty is the only certainty

- **UK is the second largest economy in the Union. Its redefining its relation with EU brings it into unchartered territory**
- **Europe looks weak and rudderless**
  - **Task of keeping EU together**
  - **How it will play out, depends on how negotiations will proceed.**
- **London as a financial Centre- No single candidate in Europe to take over the role of London**
- **BREXIT has added to the fragility, volatility and uncertainty in the global economy**

BREXIT: Channels of transmission

- **Financial**
  - **Contagion effects via financial market disruption and currency volatility**
- **Economic**
  - **Growth impact on UK, Eurozone**
- **Political**
  - **Referendum in Italy and Hungary**
  - **Elections in France (2017), Germany (2017) and referendum in Italy mean that real negotiations can only start after mid 2017**
  - **Negotiations will be difficult as EU would not like to set precedent for an easy withdrawal.**
  - **Weaken confidence and investment outlook**

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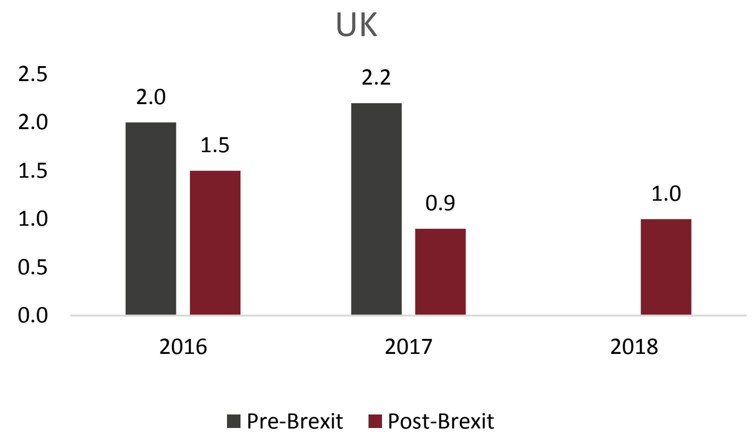
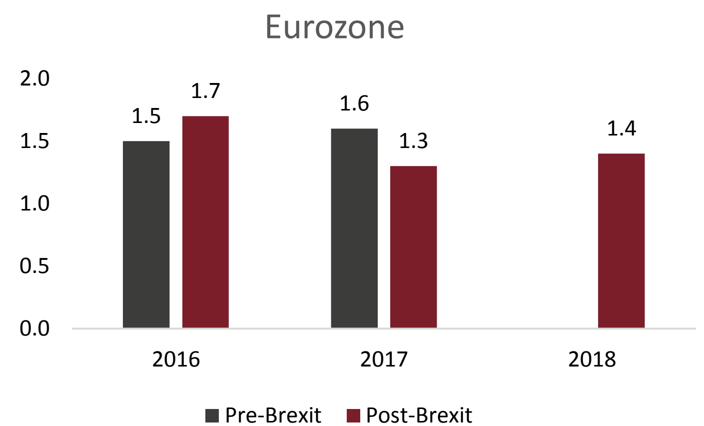
Growth Impact on UK and Eurozone

To avoid a recession we assume:

- **UK will slash its policy rate to '0' by the end of 2016**
- **It will re-start the quantitative easing program in 2017**
- **Has already announced reduction in corporate tax rate and reduced countercyclical buffers for banks**
- **Impact on Eurozone depends on resilience of domestic demand**





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Source: S&P Global, 2016

Indian macros: Will Brexit spoil the party

	2012-13	2013-14	2014-15 E	2015-16 E	2016-17 F
GDP growth (%)	5.6	6.6	7.2	7.6	7.9
Inflation (%)	10.2	9.5	6.0	5.0	5.0
CAD / GDP (%)	4.7	1.7	1.3	1.1	1.3
Fiscal deficit / GDP (%)	4.8	4.6	4.0	3.9	3.5
Exchange rate (Rs/$, March-end)	54.4	60.1	62.6	66.2	66.5
10-year yield (March-end)	7.9	8.8	7.7	7.5	7.3
Investment / GDP (%)	34.1	33.0	32.3	31.6	31.7
GNPA / advances (%)	3.3	3.8	4.3	6.8	7.7

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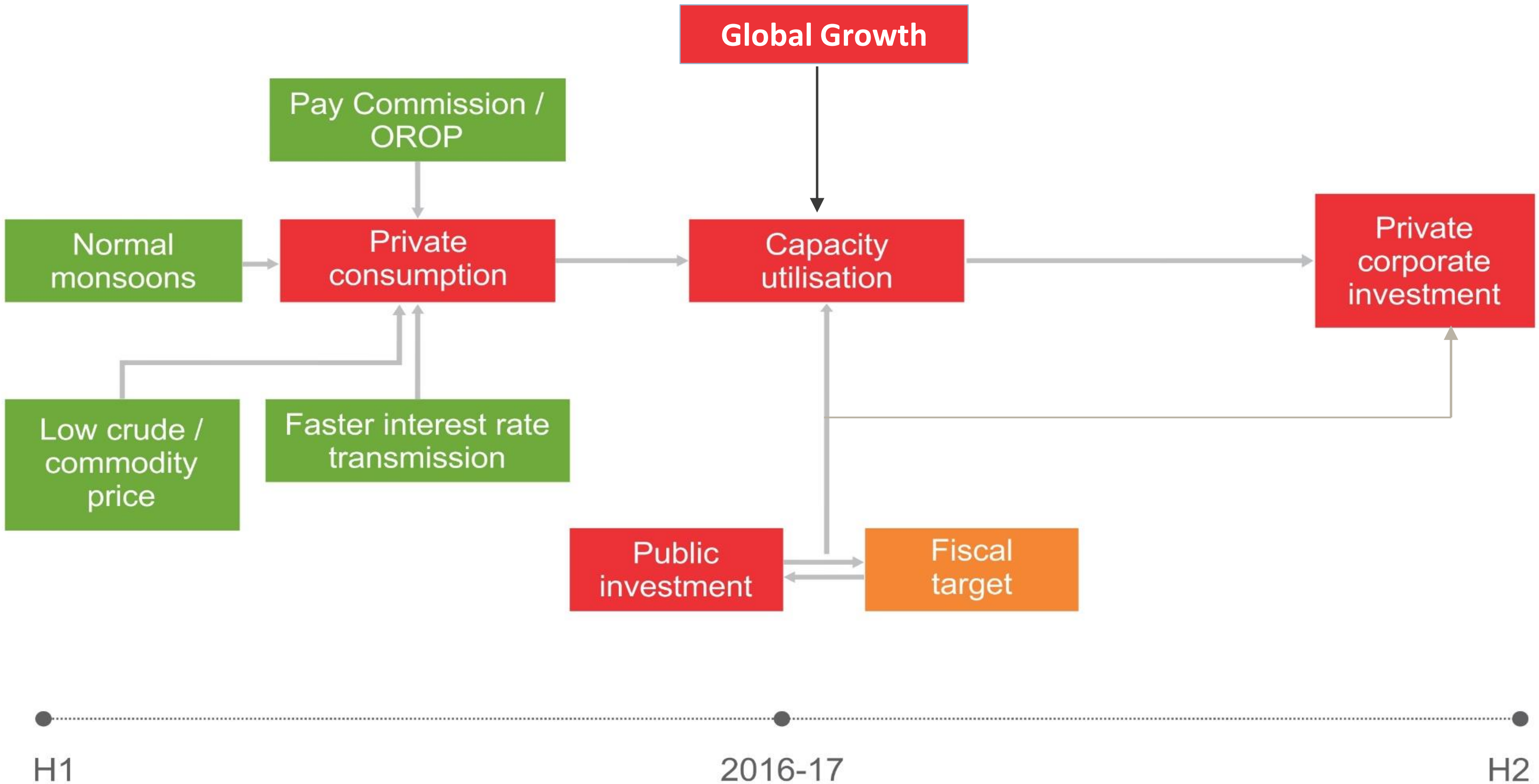
Source: CRISIL, CSO, MOF, RBI, NPA is non performing assets of the banks,

Indian growth dynamics



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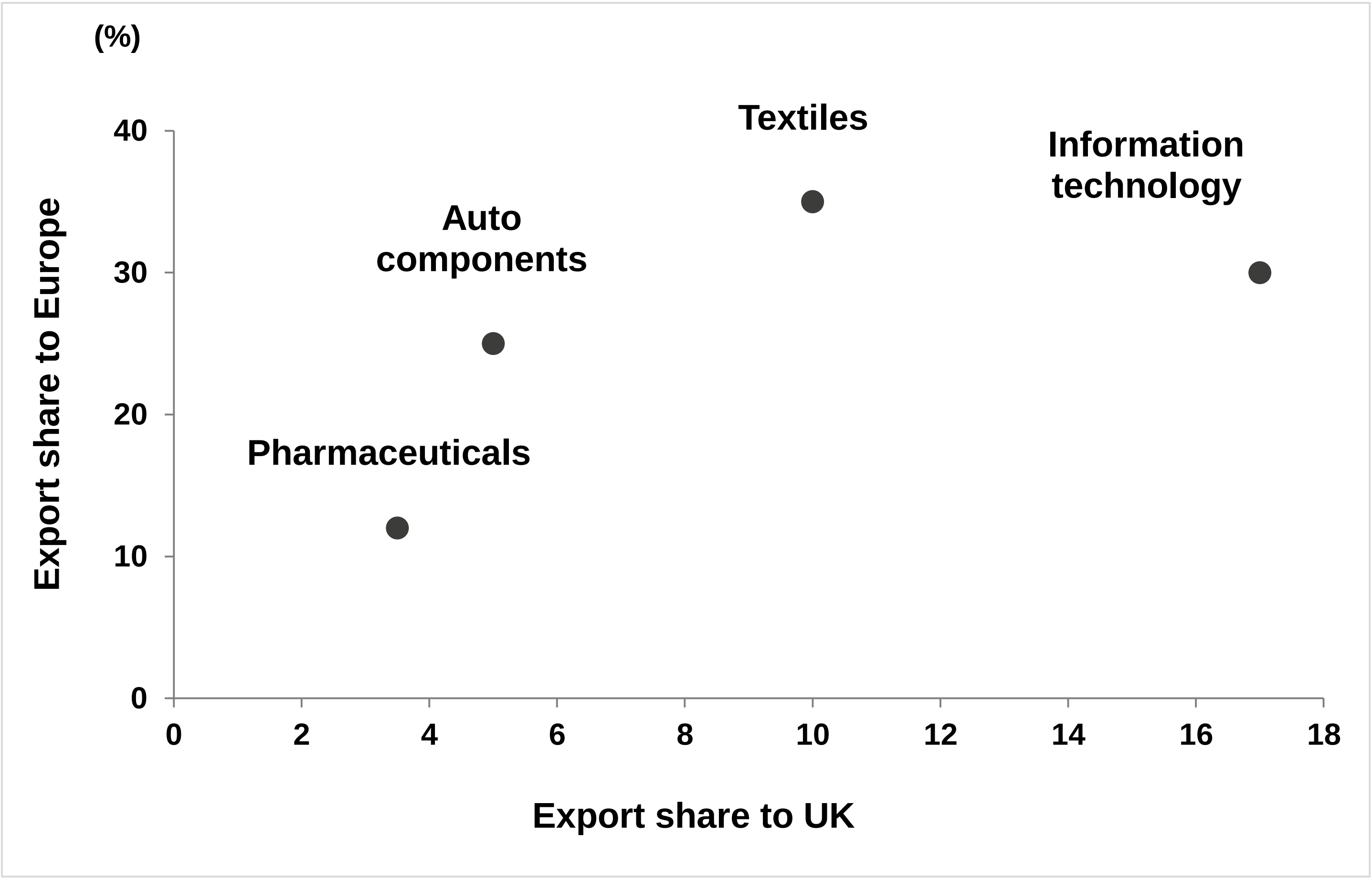
Impact on India Inc.

- Indian companies are likely be impacted via:
  - Demand weakness on account of potential slowdown in the EU and the UK;
  - Volatility in commodity prices, currency impact
  - Translation losses for companies with significant operations in the UK and the EU;
  - Balance sheet impact on account of exposure to unhedged overseas borrowings.

Sectoral exposure to EU and UK



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Thank you

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