

BREXIT and India



July 11, 2016

A Maze of linkages in Europe

Europe's Ties That Bind

The U.K.'s plan to leave the European Union has focused attention on long-standing pacts that govern trade, immigration and the common currency

European Union

28-nation single market of free trade and shared regulation; includes "free movement" of goods, services, capital and people

Euro Zone

19 countries using the euro currency

European Economic Area provides access to single market in exchange for payments; has "emergency brake" on free movement of people

European Free Trade Association

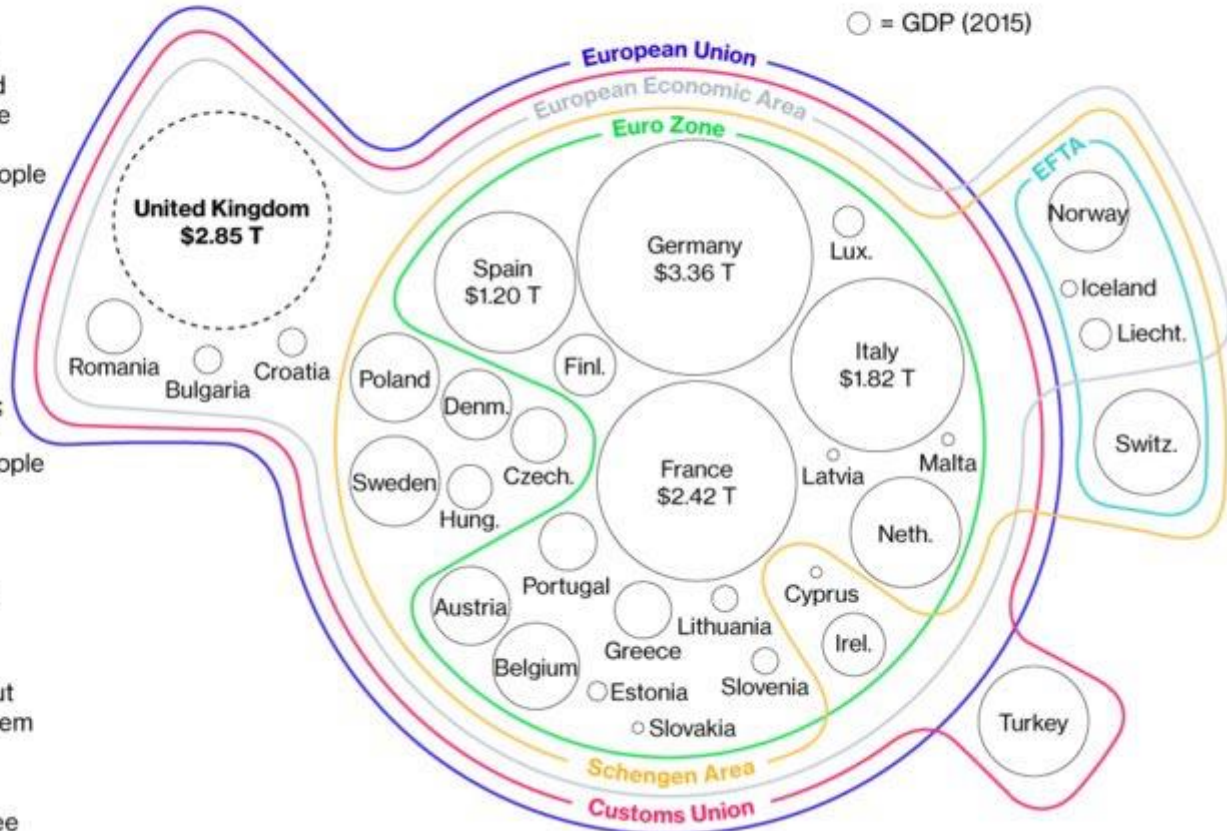
Free-trade zone and network of agreements with other countries

Customs Union

Circulates goods without duties, has uniform system for handling imports

Schengen Area

26-country passport-free travel zone



Sources: EU, ETRA, IMF

Bloomberg Graphics

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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 uncharted 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**

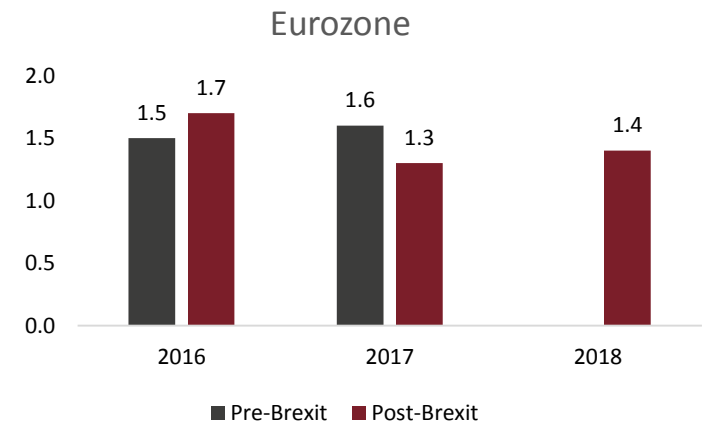
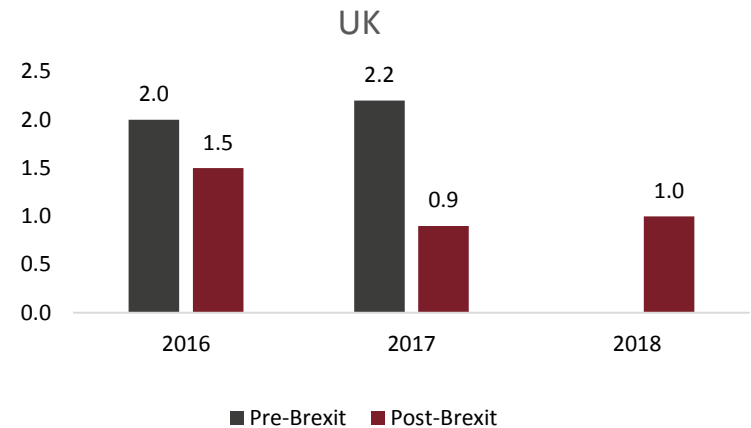
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Growth Impact on UK and Eurozone

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



Indian macros: Will Brexit spoil the party

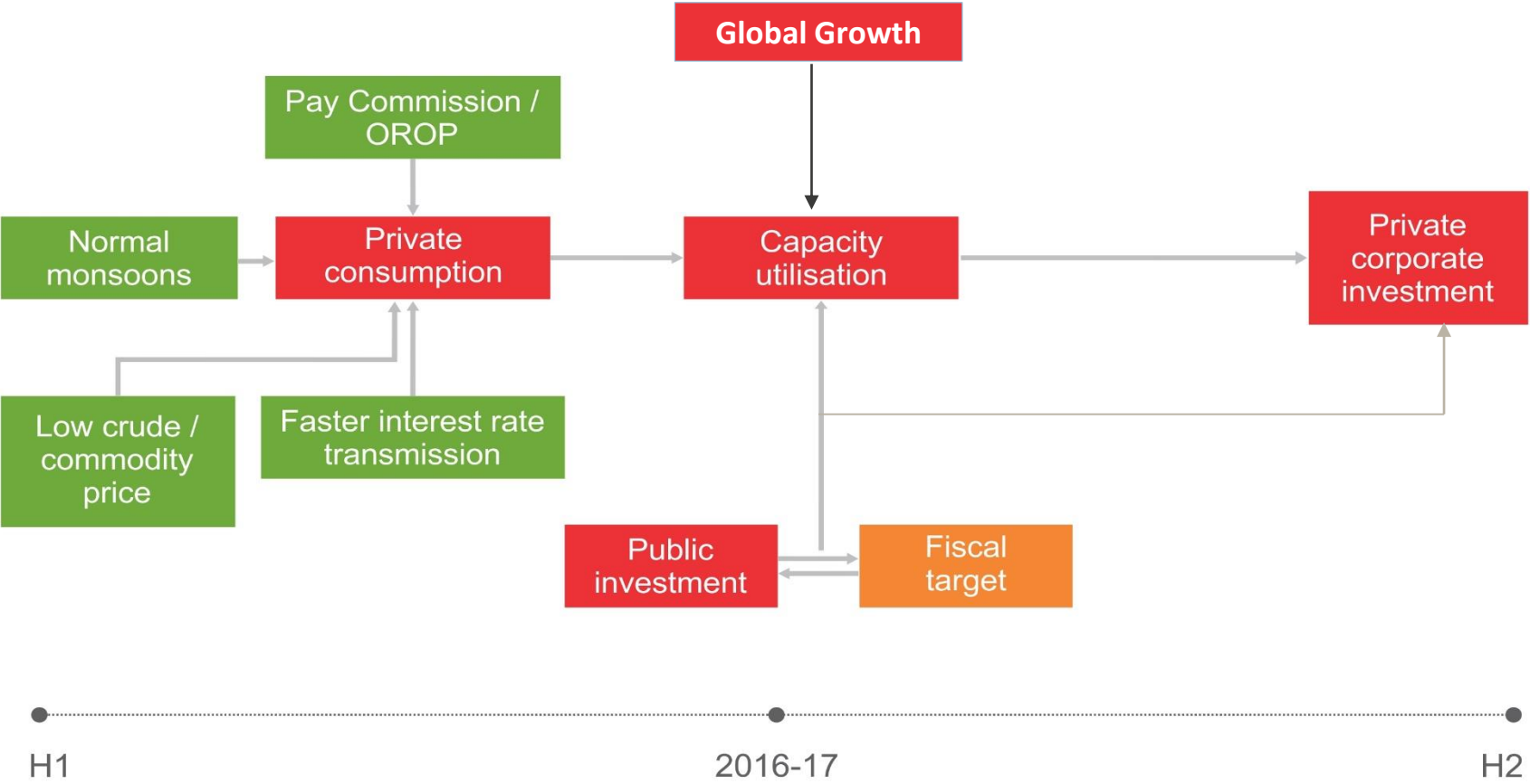
	2012-13	2013-14	2014-15 E	2015-16 E	2016-17 F
GDP growth (%)	5.6	6.6	7.2	7.6	7.9
Inflation (%)	10.2	9.5	6.0	5.0	5.0
CAD / GDP (%)	4.7	1.7	1.3	1.1	1.3
Fiscal deficit / GDP (%)	4.8	4.6	4.0	3.9	3.5
Exchange rate (Rs/\$, March-end)	54.4	60.1	62.6	66.2	66.5
10-year yield (March-end)	7.9	8.8	7.7	7.5	7.3
Investment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

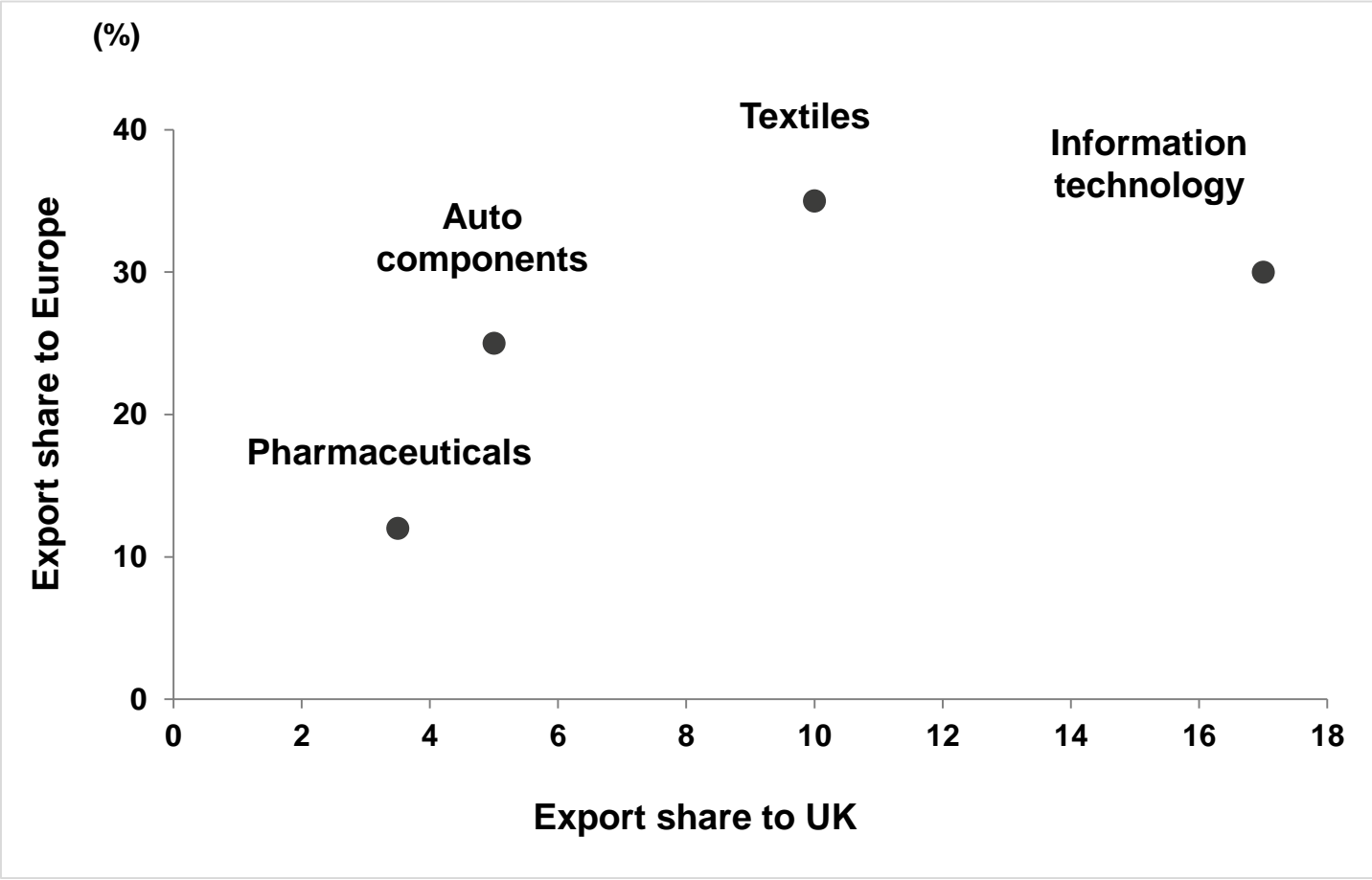


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Impact on India Inc.

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

Thank you

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