Brexit is just a regional idiosyncratic shock

By A Business Reporter

Even as experts undercut the near-term economic impact of Brexit on India as an idiosyncratic regional shock, they sounded caution on the long-term growth as the wave of de-globalisation may threaten growth in India’s exports.

“The short-term growth impact on India is minimal because of strong macroeconomic fundamentals. We are under-worrying about the medium-term impact of BREXIT and over-worrying about its short-term impact,” said Sajjid Chinoy, Chief India Economist, JPMorgan at an interactive session on ‘Brexit: Impact on Indian Economy’ conducted jointly by World Trade Center Mumbai and All India Association of Industries (AIAI) at WTC Complex recently.

Seconding the argument of Chinoy, Dharmakirti Joshi, Chief Economist at the leading credit rating agency - CRISIL, has not changed its forecast for India’s economic growth for 2016-17 and remains at 7.9%. The impact of Brexit on India would be limited to Indian businesses in auto parts, textile and information technology sector.

“India has a sound macroeconomic background. But our two weak areas are private sector investment (due to weak balance sheet) and the Non-Performing Banking assets,” stated Joshi.

Indian companies that have exposure to UK, volatility in commodity prices, companies that have unhedged overseas borrowing may be hit by currency volatility. There is no single country that can replicate the financial system of UK. Under this situation, if the relationship between UK and EU changes, some firms will have to move their headquarters from UK.

So, companies with exposure to UK and EU may face rise in compliance cost and administration cost,” Joshi added.

Speaking on the legal impact of Brexit on Indian companies, Ran Chakrabarti, Partner, IndusLaw suggested that companies dealing with the UK firms must include a termination clause that would enable them to end their business with their UK counterpart in case the terms of the UK’s exit negotiations would make it their contracts unviable. The most earth-shattering consequence of Brexit is that UK would no longer be in the wait to formulate the regulations of financial services sector of the EU, felt Chakrabarti, who also raised a concern of London’s premier position as world’s biggest financial centre post Brexit.
India's strong macro fundamentals will protect itself against any Brexit adverse impact, view economists

By Tilak Trivedi

Top Indian economists feel that India's strong macro fundamentals will protect itself against any Brexit adverse impact, but the Indian businesses in the UK will feel the heat of the visible changes in several business laws, Brexit is just a regional idiosyncratic shock, they opined at an interactive session on Brexit Impact on Indian Economy' conducted jointly by World Trade Centre, Mumbai and All India Association of Industries (AIAI) at WTO Complex here.

Even as experts underscore the near-term economic impact of Brexit on India as an idiosyncratic regional shock, they sounded caution on the long-term growth as the wave of de-globalisation may threaten growth in India's exports.

The short-term growth impact on India is minimal because of strong macroeconomic fundamentals. We are under-worrying about the medium-term impact of BREXIT and over-worrying about its short-term impact, said Najid Chirayu, Chief India Economist, JP Morgan. Chirayu pointed out that the Brexit was a political event. With many other EU member countries facing election, will they also take the protectionist route is the most pertinent question post-Brexit.

India's strong growth of 8.9 per cent during 2000-09 was led by double digit growth in exports. However, in the last few years, Indian exports have been growing in single digits. The growing voice of de-globalisation post-Brexit referendum may affect India's exports more and therefore Indian policymakers must introduce long term economic reforms to boost domestic consumption, he added.

Chirayu remarked that the benefits of globalisation are distributed unequally among different sections of the population. The middle and lower income people who are affected adversely by globalisation would suffer from the pace of globalisation and this would affect India's exports adversely.

Dharmakirti Joshi, Chief Economist at the leading credit rating agency - CRISIL, pointed out that CRISIL has not changed its forecast for India's economic growth for 2016-17 remains at 7.9 per cent. The impact of Brexit on India would be limited to Indian businesses in auto parts, textile and information technology sector.

India has a sound macroeconomic backdrop, Joshi emphasized but pointed out country's two weak areas - Private Sector Investment (due to weak balance sheet) and the Non-Performing Banking assets. Indian companies that have exposure to UK, volatility in commodity prices, companies that have unbudgeted overseas borrowing may hit by currency volatility.

There is no single country that can replicate the financial system of UK. Under this situation, the relationship between UK and EU changes, some firms will have to move their headquarters from UK. So, companies with exposure in UK and EU may face rise in compliance cost and administration cost, Joshi said. 25 per cent of India's total automobile exports go to the EU and 5 per cent to the UK. Similarly, 35 per cent of India's textile revenue comes from the EU. These two sectors are most exposed to the risks of Brexit, he opined.

Speaking on the legal impact of Brexit on Indian companies, Run Chakrabarti, Partner, IndiaLaw said that companies dealing with the UK firms must include a termination clause that would enable them to end their business with their UK counterparts in case the outcome of the UK's exit negotiations would make it their contracts unviable.

Legal consequences are going to be critical for companies having business in UK or EU over the coming years. If no agreement is reached, UK's trade with the EU would come under the rules of WTO. 'UK may not have a say in the making of EU laws. Existing consumer protection, financial services, product liability laws of the EU will have bearing on the decisions in the UK,' Chakrabarti pointed out.

I suspect, UK would have to have bi-lateral agreement with each member of the EU. But this may trigger reciprocity on the part of other members. UK may treat Eastern European countries' nationals as it treats citizens of India and the USA. Those laws favour professionals over low skilled labour. If UK adopts this measure, this would impact businesses in the UK that relies on low skilled workforce from the eurozone countries, he added. The most important consequence of Brexit is that UK would no longer be in the seat to formulate the regulations of financial services sector of the EU, felt Chakrabarti, who also raised a concern of London's premier position as world's biggest financial centre post Brexit.
Experts have sounded caution on the long term growth as the wave of de-globalisation may threaten growth in India’s exports. “We are under-worrying about the medium term impact of Brexit and over-worrying about its short-term impact,” said Sajjid Chinoy, chief India economist, JP Morgan at an interactive session on ‘Brexit: Impact on Indian Economy’ conducted jointly by World Trade Centre Mumbai and All India Association of Industries at WTC Complex.
We see India growth slowing to 7.2% in FY17: JP Morgan’s Sajjid Chinoy

‘A strong monsoon is important to stoke some rural demand and help cool off food prices’

A strong monsoon is important to stoke some rural demand and help cool off food prices. But that’s not the only thing that helps. Almost any good news that comes in the form of a strong monsoon will be welcomed. The Indian economy, in its current state, needs any good news it can get to boost growth.

Despite the expectations of a global economic slowdown post Brexit, Sajjid Chinoy, Chief Asia Economist, JP Morgan, sees less scope for monetary stimulus by central banks globally. Domestic factors will continue to dominate economies and recovery will happen with resolution of non-performing assets and leverage in the corporate sector. Excerpts from an interview.

How do you see India’s GDP growth playing out amid global events?

Our growth forecast for FY17 is modestly lower, at 7.3 per cent, from the 7.6 per cent we had forecast in FY16. We estimate that the positive terms of trade shock from the collapse in oil prices added a full percentage point to growth last year. But this is temporary and one-time windfall, which will not last in FY17.

What do you see recovery happening in the Indian economy?

I think we have already seen a recovery in the last year, both in urban consumption and public investment. Consumer durables have done well, as have infrastructure and public investment. In addition, the government has increased public spending significantly.

We have also had some recovery in capital goods production on the back of higher export growth. But I don’t think there has been a significant increase in investment in the manufacturing sector as yet. There needs to be stronger demand in the infrastructure sector, which needs a resolution of corporate leverage and bank NPA's.

Do you think the worst is over on the NPA front?

NPA trends may continue to be challenged by FY17. A lot will depend on the growth and the direction of government spending, and what happens in related projects and resolution of banks’ non-performing assets. It’s important to recognize the problem fully and then solve it as quickly as possible, even if it means taking some hit upfront.

What is your view on inflation?

We will see a gradual increase in inflation. We see inflation being in the 5.5 to 6 per cent range for FY17. March will depend on what happens to food inflation later in the year. I think inflation will remain on the lower side of this range, as the government has already taken measures to reduce inflationary pressures. Getting it to 5 per cent by March 2017 won’t be too tough, but getting it to 6 per cent will be a challenge.
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by Shrutee K/DNS

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Written by FT Bureau, July 12, 2016, 0 Comments

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The most earth shattering consequence of Brexit is that UK would no longer be in the seat to formulate the regulations of financial services sector of the EU, felt Chakrabarti, who also raised a concern of London’s premier position as world’s biggest financial centre post Brexit. “How the EU and London work out the legal modalities post Brexit in the next two years will be a game of poker and an interesting one to watch,” he concluded.
Brexit is just a regional idiosyncratic shock

Top Indian economists feel that India’s strong macro fundamentals will protect itself against any Brexit adverse impact, but the Indian businesses in the UK will feel the heat of the visible changes in several business laws

Mumbai, July 11, 2016:

Even as experts undercut the near-term economic impact of Brexit on India as an idiosyncratic regional shock, they sounded caution on the long term growth as the wave of de-globalisation may threaten growth in India’s exports.

“The short-term growth impact on India is minimal because of strong macroeconomic fundamentals. We are under-worrying about the medium term impact of BREXIT and over-worrying about its short-term impact,” said Sajjid Chinoy, Chief India Economist, JP Morgan at an interactive session on ‘Brexit: Impact on Indian Economy’ conducted jointly by World Trade Centre Mumbai and All India Association of Industries (AIAI) at WTC Complex today.

Chinoy pointed out that the Brexit was a political event. With many other EU member countries facing election, will they also take the protectionist route is the most pertinent question post-Brexit.

“India’s strong growth of 8-9 per cent during 2003-09 was led by double digit growth in exports. However, in the last few years, Indian exports have been growing in single digits. The growing voice of de-globalisation post-Brexit referendum may affect India’s exports more and therefore Indian policymakers must introduce long term economic reforms to boost domestic consumption,” Chinoy added.
Chinoy remarked that the benefits of globalisation are distributed unequally among different sections of the population. The middle and lower income people around the world who are affected adversely by globalisation would influence the pace of globalisation and this would affect India’s exports adversely.

Seconding the argument of Chinoy, Dharmakirti Joshi, Chief Economist at the leading credit rating agency – CRISIL- pointed out that CRISIL has not changed its forecast for India’s economic growth for 2016-17 and remains at 7.9 percent. The impact of Brexit on India would be limited to Indian businesses in auto parts, textile and information technology sector.

“India has a sound macroeconomic background. But our two weak areas are private sector investment (due to weak balance sheet) and the Non-Performing Banking assets,” stated Joshi. “Indian companies that have exposure to UK, volatility in commodity prices, companies that have unhedged overseas borrowing may be hit by currency volatility.

There is no single country that can replicate the financial system of UK. Under this situation, if the relationship between UK and EU changes, some firms will have to move their headquarter from UK. So, companies with exposure to UK and EU may face rise in compliance cost and administration cost,” Joshi added.

25 per cent of India’s total automobile exports go to the EU and 5 per cent to the UK. Similarly, 35 per cent of Indian textile revenue comes from the EU. These two sectors are most exposed to the risks of Brexit, he opined.

Speaking on the legal impact of Brexit on Indian companies, Ran Chakrabarti, Partner, IndusLaw suggested that companies dealing with the UK firms must include a termination clause that would enable them to end their business with their UK counterpart in case the terms of the UK’s exit negotiations would make it their contracts unviable.

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