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## Brexit: Effect on India

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### **Abstract:**

*India is a developing country which gets affected by any change in global scenario that may be change in valuation of foreign currency, change in crude prices, change in gold prices or any other major or minor change. All these changes affect India, may be in short run or sometimes in long run. Recent event having an impact on India and its economy is Brexit. And, it has affected India in short run. This research paper tries to demystify the effect of Brexit on India in future as studied by various experts and the immediate effect on economy in various areas.*

*Though it is UK that will be impacted most by the exit of Britain but other members of The European Union will also be impacted.*

## **1. Introduction**

### *1.1. Brexit*

In simple terms it means exit of Britain from European Union (EU). Surprisingly 51% votes were casted in the favour of exit of Britain from the EU (June 23, 2016). The term "Brexit" is a compound of the words "British" and "exit". It was derived by analogy from Grexit, referring to a hypothetical withdrawal of Greece from the eurozone.

### *1.2. Turning Point*

The turning Point in the whole scenario was that the opinion polls had suggested that Britain will choose to remain in EU (European Union). But the actual picture came out to be different and Britain voted out of European Union.

## **2. Immediate Effects of Brexit**

### *2.1. Effect on Sensex*

The sensex opened 635 point down from previous day and during the day went upto 1091 points down, leading to upheaval in market. Although sensex recovered 486 points up and closed with 605 points down.

This fluctuation had lead to worry and upheaval in the stock market. All major stocks suffered. Though the turmoil was temporary and is not supposed to affect the stock market in the long term.

### *2.2. Effect on Assets*

The effect of Brexit was visible on the asset market also. The debt market reacted negatively to the Brexit. Rupee went to a week's low at the loss of 89 paise against US Dollar. Crude Oil fell down and Gold rallied at about 5% as the investors played safe and avoided risk. All major Asian Currencies weakened.

2.3. There has been an increase in global risk aversion, which in turn can affect the FPI (Foreign Portfolio Investors)<sup>1</sup>. The volatility in developed markets affects even the emerging markets in some ways and in terms of Portfolio Investments, India is also an emerging market. But contrary to other emerging markets, India has not reacted much to the volatility in the developed markets.

A lot of people, who are not serious about India or are investing less in India- may start investing more given the fact that India has not reacted to the global turmoil.

-Ashish Kumar Chauhan  
CEO, Bombay Stock Exchange

<sup>1</sup> FPI- Foreign Portfolio Investment is the entry of funds into a country where foreigners deposit money in a country's bank or make purchases in the country's stock and bond markets, sometimes for speculation

### 3. Future Effects of Brexit

#### 3.1. Effect on FCNR

Brexit can affect Foreign Currency Non Resident<sup>2</sup> Fixed Deposits redemption which is due in September 2016.

#### 3.2. Effect on Inflation:

Every 100 basis point depreciation in the currency will increase Consumer Price Index (CPI) by 17-20 bps and Wholesale Price Index (WPI) by 22-25 bps.

-Dhananjay Sinha, Head, institutional Research  
Economist and Strategist, Emkay Global Financial Services

#### 3.3. Effect on GDP

The Gross Domestic Product of India is supposed to be not affected much in long term, India being the fastest growing major economy can be cited as a reason.

Also the ongoing FDI liberalization is conjectured to help in the GDP growth.

#### 3.4. Effect on Currency

In the immediate response to Brexit, rupee fell 89 paise against the US Dollar, but in the long run, effect is supposed to be neutral.

#### 3.5. Effect on IT sector in India

In short term, definitely the effect of Brexit on Indian IT sector is negative – citing to an estimated \$108 billion Indian IT sector and major US giants in working.

However, in long term, the effect is uncertain- since there are both the positive and negative factors.

#### 3.6. Effect on FTA

After Brexit, India and Britain can have direct Foreign Trade Agreements. This can encourage bilateral ties between the UK and the India.

The total FDI investment inflows from UK to India sum to approx USD 22.7 billion (in the period of April 2000 to December 2015) and it accounts for approximately 8% of total FDI.

'As far as India is concerned, if there is an entry point for us to the EU that is the UK.'

— Narendra Modi, Prime Minister of India [November 2015]

These should provide a fillip to slowing India-UK trade. The UK accounts for 15 percent of India's total merchandise trade, but its share has been declining.

- The Development Bank of Singapore

### 4. Conclusion

The exit of Britain from The European Union has created quite turmoil globally- be it developed markets or be it emerging markets. However, India seems resistant to this turmoil on many fronts; though some fields viz. IT sector may have a negative or a positive effect. Accounting to the strong position that India has maintained in last 6-8 months in global volatility, it can be said that BREXIT will have no major effect on India and its economy.

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<sup>2</sup> FCNR Foreign Currency Non Resident (B) account: -An account that can be opened with an Indian bank by a Non Resident Indian or a Person of Indian Origin in foreign currency is FCNR account. It is an account that allows the NRI to keep his deposits in foreign currency.

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