



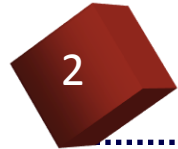
Demonetisation

November 3, 2017

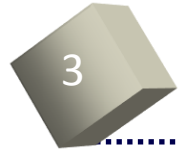
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The event



Affected stakeholders



Impact



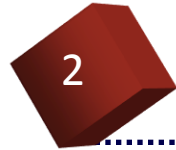
India – in November 2017



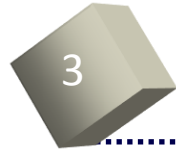
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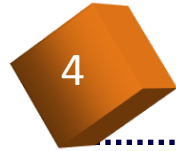
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India – in November 2017

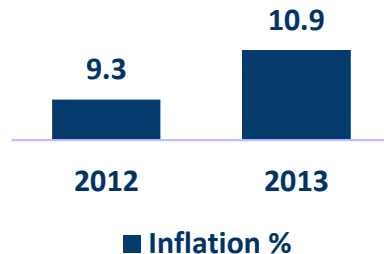


India in 2014

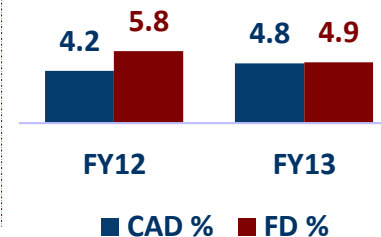


GDP growth at 6.1%;
economy struggling
with multiple
weaknesses

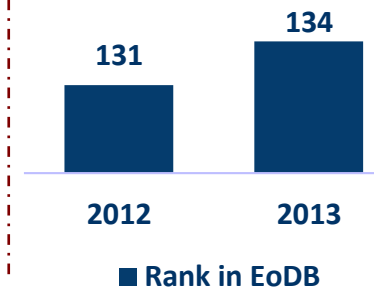
High inflation
limited the
spending capacity



Twin deficit stress;
fiscal deficit target
missed



'Ease of doing
business' (EoDB)
rank deteriorating



Source: Reserve Bank of India (RBI); World Bank



India listed among
the 'fragile five'



Country outlook
downgraded

SME contribution to GDP at **37%**, of the overall GDP growth of **6.1%**

*CAD: Current account deficit

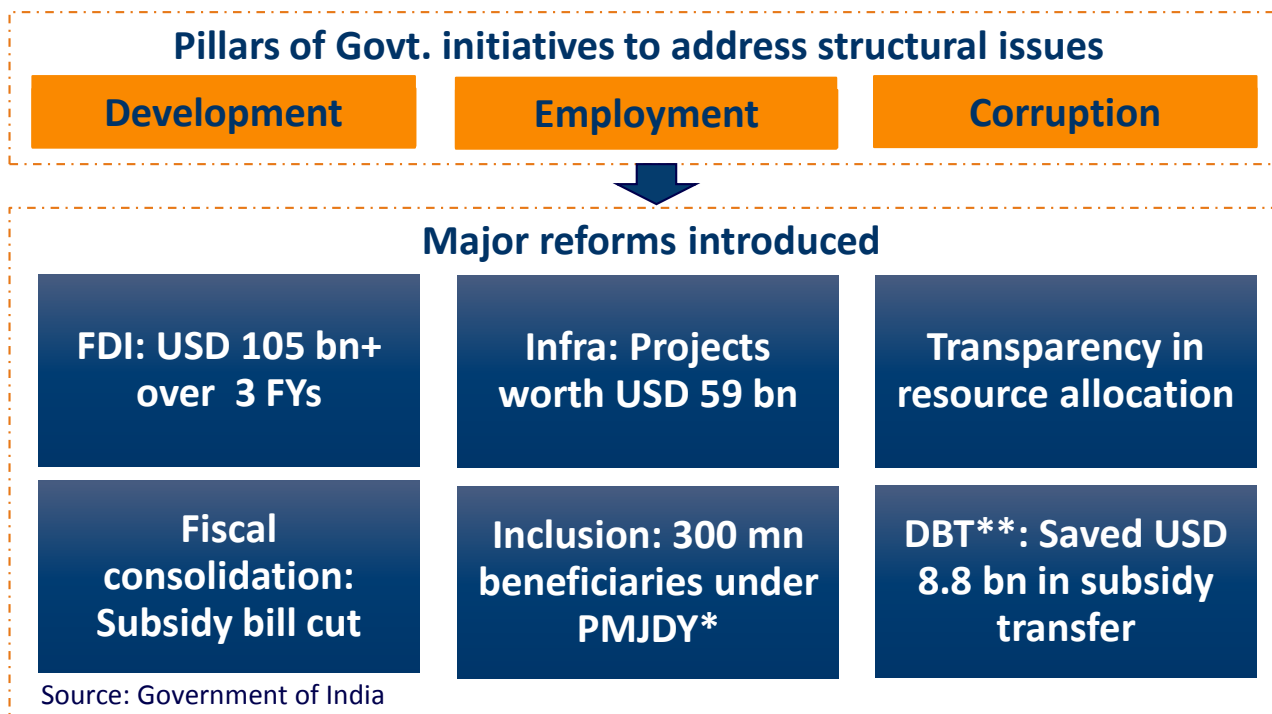
**FD: Fiscal deficit



Developments since then...



A gradual
turnaround story
has been seen 2014
onwards



Indian economy in 2016

| | | | |
|---|--|---|---|
| Inflation (Aug'16) CPI: 5.1% WPI: 3.7% | GDP (FY16): 7.9% CAD: 1.1% FD: 3.9% | Outlook upgraded to 'stable' | Ranked 130 in EoDB, poised to rise |
|---|--|---|---|

Source: Government of India, RBI, World Bank

*PMJDY: Prime Minister's Jan Dhan Yojana

**DBT: Direct Benefits Transfer

CPI: Consumer Price Index; WPI: Wholesale Price Index



SME initiatives

Start up

- Aimed at promoting bank financing for start ups to boost entrepreneurship and encourage jobs creation
- There are currently 50+ schemes

TReDS* Program

- Online channel for financing of trade receivables of MSMEs through multiple financiers

Udhyog Aadhar

- Online platform for registration of on-going MSMEs
- To avail benefits i.e. tax benefits, bank loans at concessional rates and subsidies

SME contribution to GDP increased to 45%, of the overall GDP growth of 7.1%

Source: Confederation of Indian Industry

*TReDS: Trade Receivables Discounting Systems



2016 – An eventful year globally

Multiple shockwaves globally with Brexit, US Presidential elections catching experts unawares

In this context, demonetisation caused major shock and awe at the domestic and international stage



FINANCIAL POKHRAN

In one fell swoop, Prime Minister Modi sucked the black money and counterfeit currency out of circulation in India, which he tied to lubricating terror operations, by demonetising ₹500 and ₹1,000 notes; announces timeline for phasing out banned notes

₹500, ₹1,000 notes out of circulation
₹2,000, ₹500 reintroduced

It was unexpected the scale of the move and the speed with which it was carried out. The Prime Minister, Narendra Modi, announced the move on Tuesday night. The move was a watershed moment in the history of the country.



corruption had served only to hobble the nation's growth. The demonetisation of the bank of corruption in the country has done the trick. On the other hand, many people have received their pensions and benefits. On the other hand, many people are suffering, he said. The Prime Minister asked the departments to the Government, would be together.



Cautious welcome by corporate India

EXPRESS NEWS SERVICE (www.ens) NEW DELHI, NOV 9

MIDNIGHT STRIKE ON STASH

50-day demonitising road map for all to return notes | New 500 and 2,000 notes to be issued on November 10 | Airports, hospitals, petrol bunks to take notes till Nov. 11

FC AND DC CORRESPONDENTS NEW DELHI, NOV 9

Spending the 50 general elections, but mounting political parties joined up for Assembly and Punjab. Prime Minister Narendra Modi is a dominant force and explained the process of the withdrawal of high denomination currency notes.

All notes in lower denominations of ₹10, ₹20, ₹50, ₹100, ₹200 and ₹500 will remain valid and continue to be used. The banks will remain closed on Wednesday and ATMs will also shut. Postbox will

RBI SAYS BAN ON NOTES TO FIGHT TERROR FINANCING

PAGE 12

Corrupt may black money in gold | Modi move makes ₹15 lakh crore

A TUGHLAQI FARMAN: CONGRESS

FC CORRESPONDENTS NEW DELHI, NOV 9



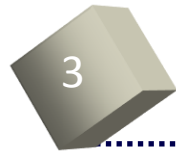
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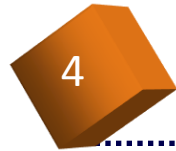
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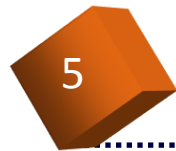
The event



Affected stakeholders



Impact



India – in November 2017



Demonetisation

The move



Executed on
midnight of Nov. 9,
2016



- Largest denomination notes (INR 500 & 1,000) de-legalised

Scale

- Legal status of currency worth USD 237 bn withdrawn

86%

- More than 86% of currency in circulation on date

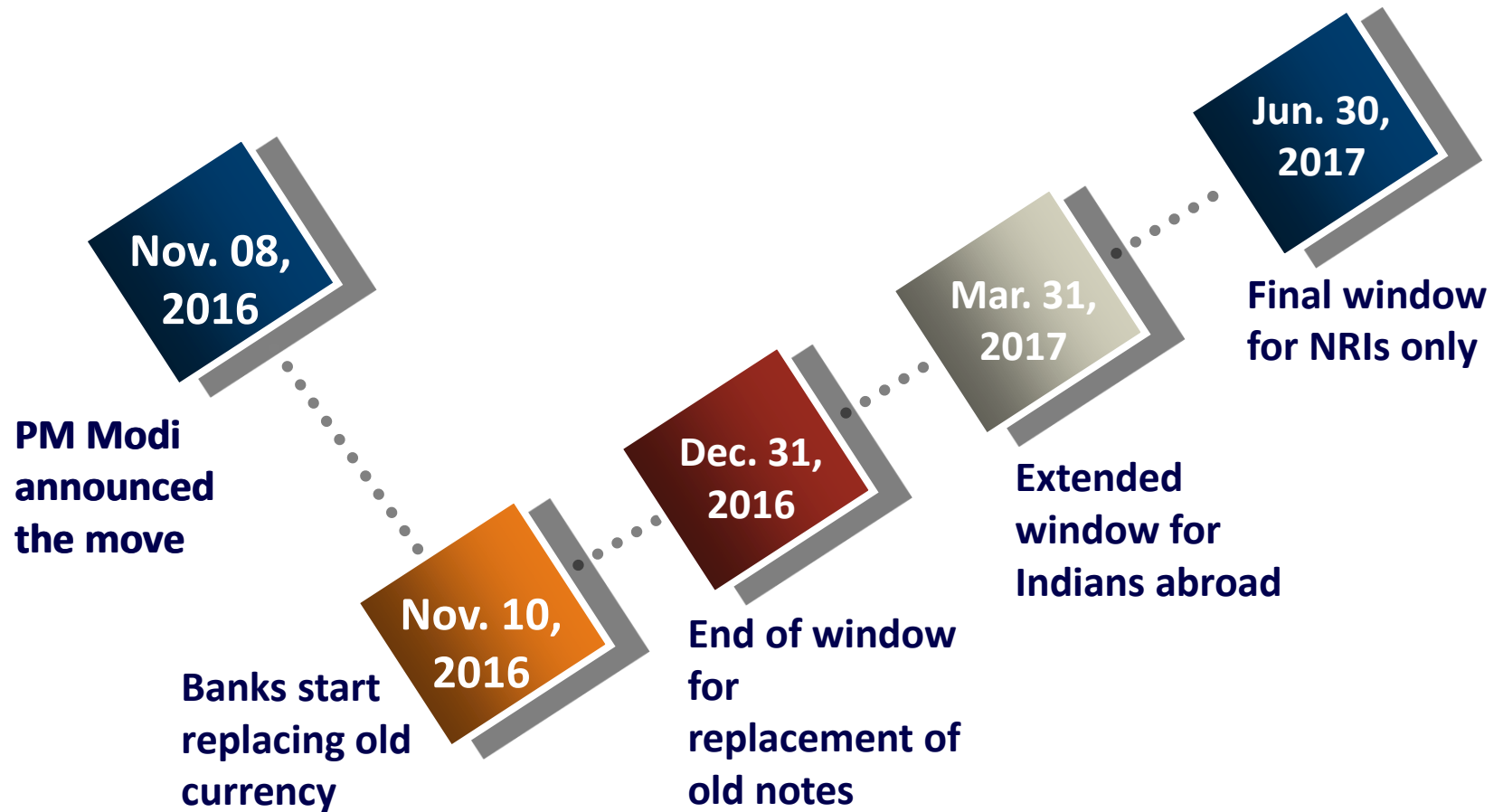
Rationale

- Curb the following:
- Terror financing
 - Black money
 - Counterfeiting



Source: Government of India, RBI

Tracing the timeline



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Banks



Handled queues for exchange of old notes

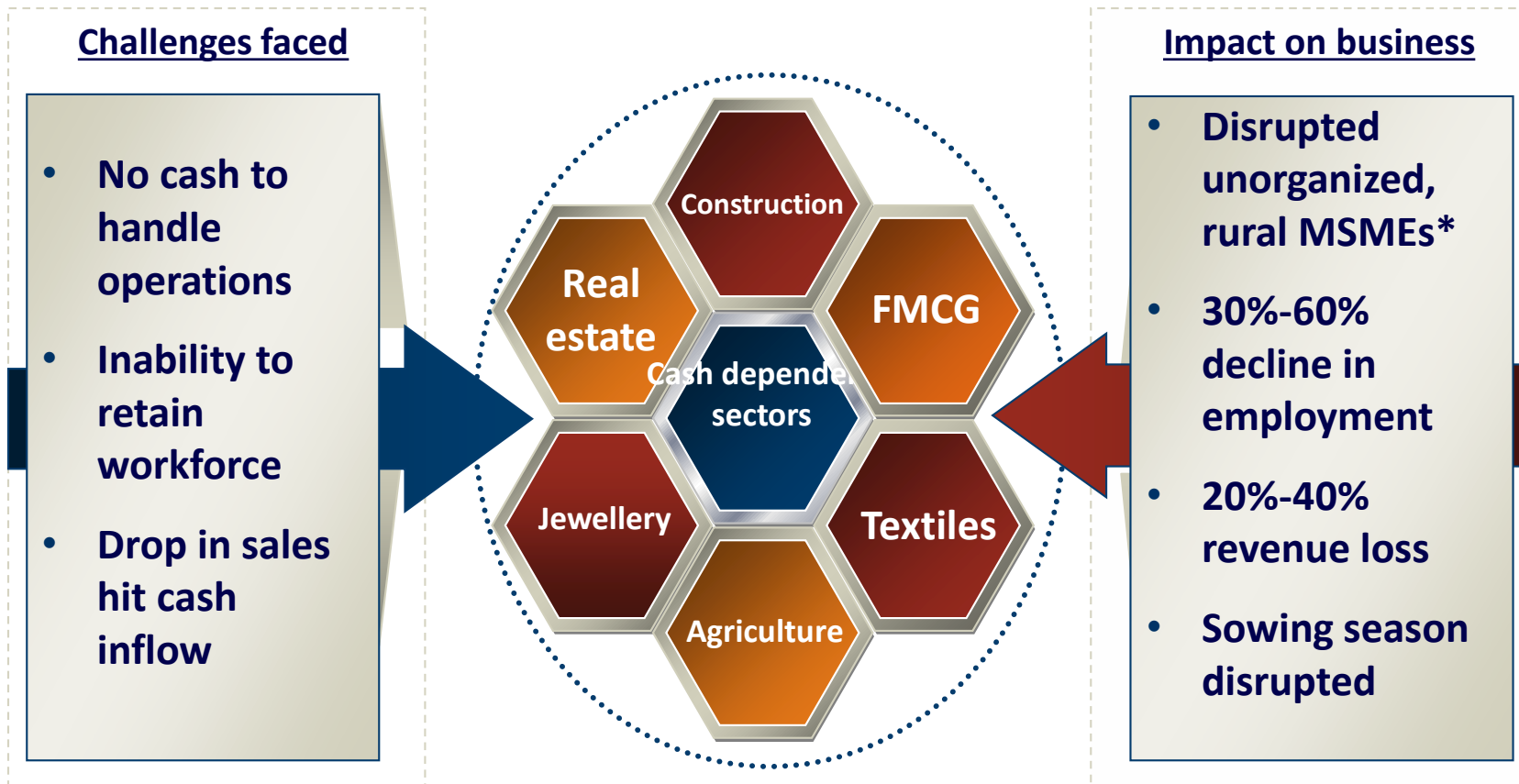
Witnessed a surge in deposit base in the short term

Recalibrated ATMs to dispense new notes

Impacted by higher delinquency in retail portfolio



Companies & SMEs



Unorganised SME and rural sectors more impacted than organized sectors

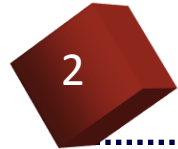
*MSMEs: Micro, Small and Medium Enterprises



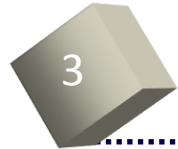
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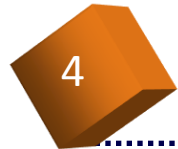
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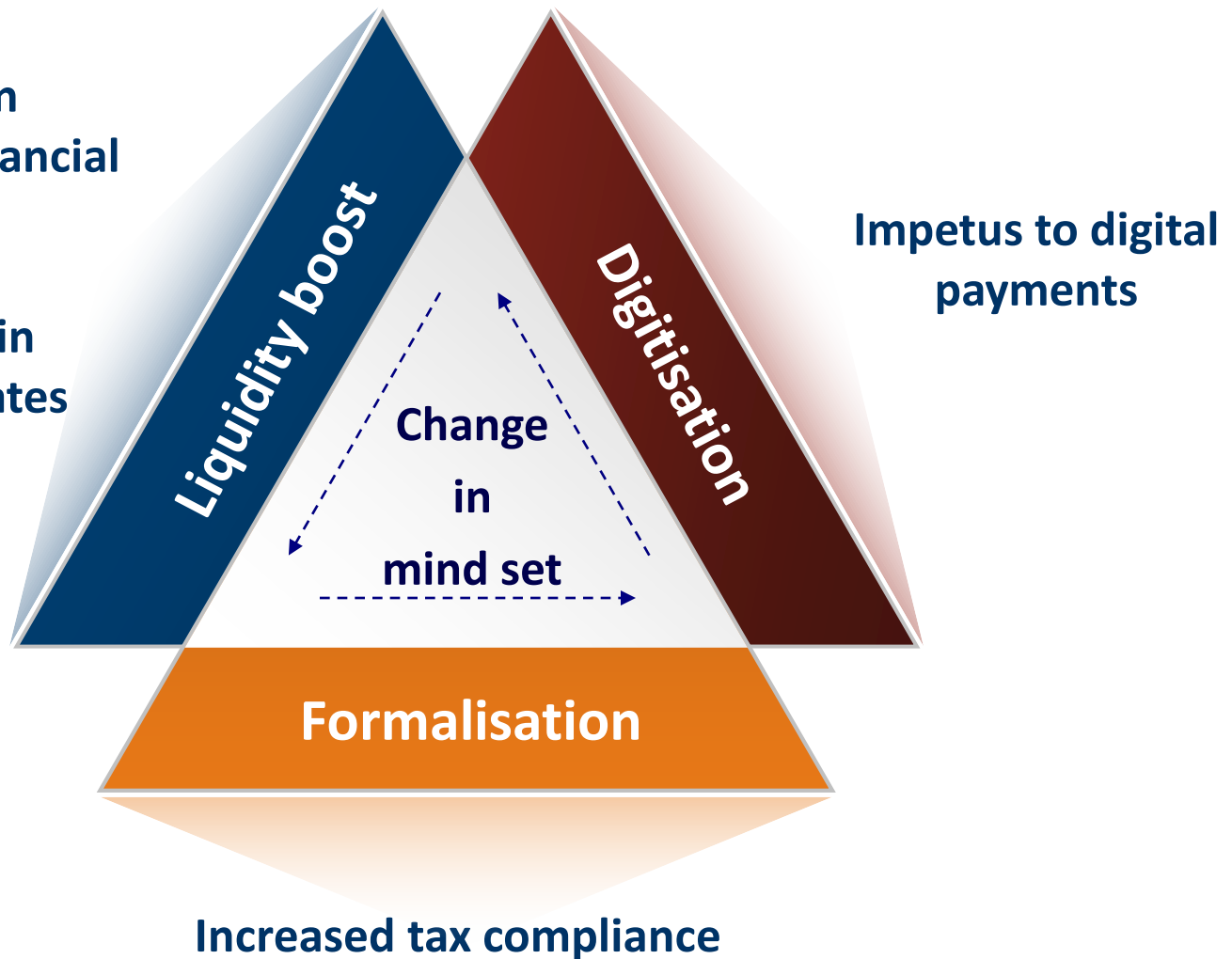


India – in November 2017

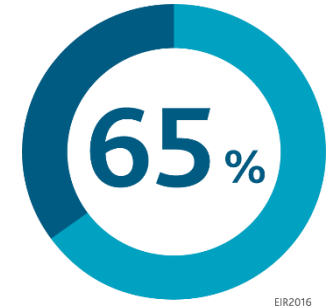
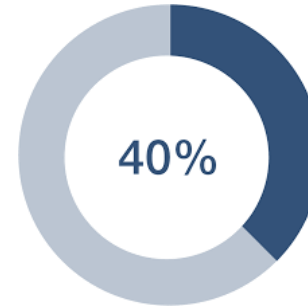
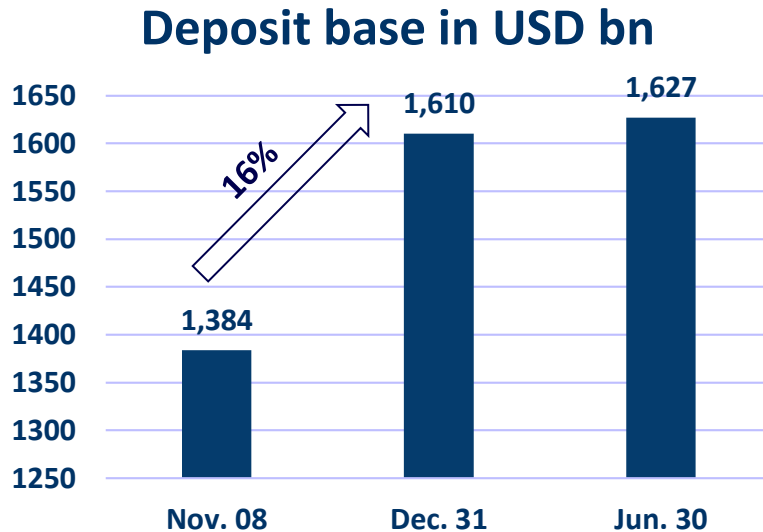


Impact

- Increase in formal financial savings
- Decrease in interest rates



Liquidity boost



- Only 40% of incremental deposits were expected to be retained
- Actual figure is around 65%

Impact on key banking parameters

- CASA share in deposits increased by 4.1% points to 39.3%
- Median term deposit rate declined by 38bps by Feb-17
- 1-year median MCLR* fell by 70bps

Source: RBI

*MCLR: Marginal cost-of-funds-based lending rate



Digitisation (1/2)

Increase in digital channel activity post demonetisation



POS – 100%*



Credit card usage – 30%**

Debit card usage – 140%**



Digital payment – 55%***



E-commerce card txn. – 284%****

Source: RBI

Channels like BHIM and UPI introduced and promoted to widen digital transaction net

*August 2016 – August 2017;

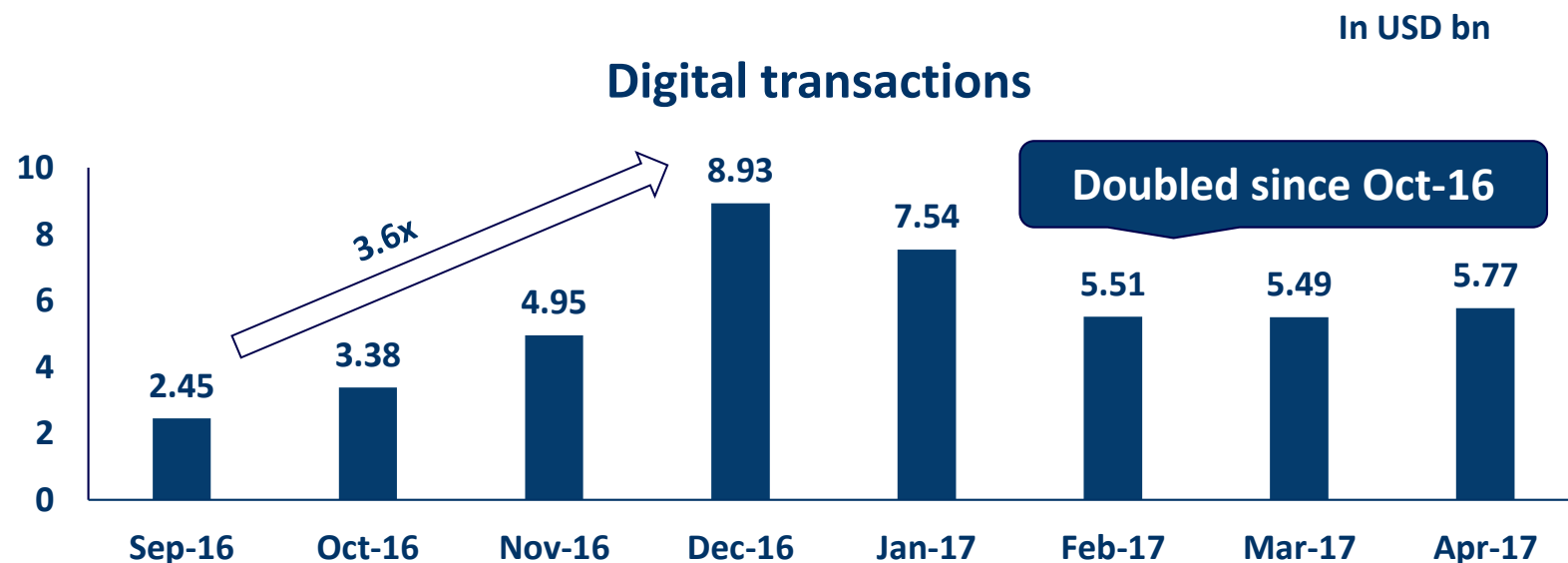
**March 2017 data, yoy growth

***November 2016 over October 2016

****November 2016 over October 2016



Digitisation (2/2)



Source: RBI, National Payments Corporation of India, Morgan Stanley Research

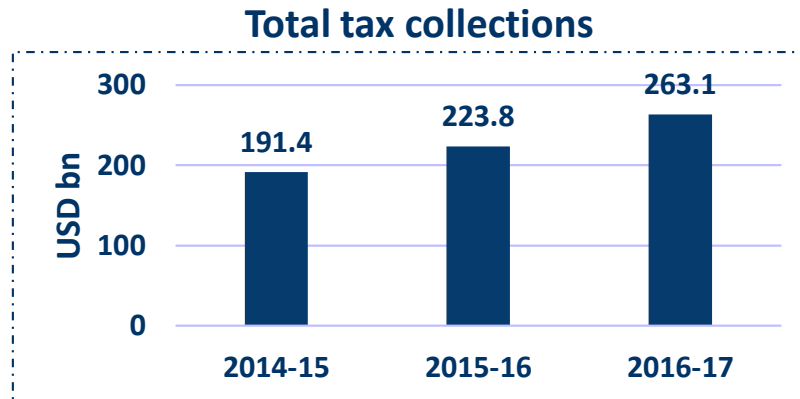
- **Mobile internet users to double by 2026**
- **Digital transactions as a percentage to PCE* to increase 4x to 36% by 2027**
- **Government targeting of 25 billion digital transactions over FY18**



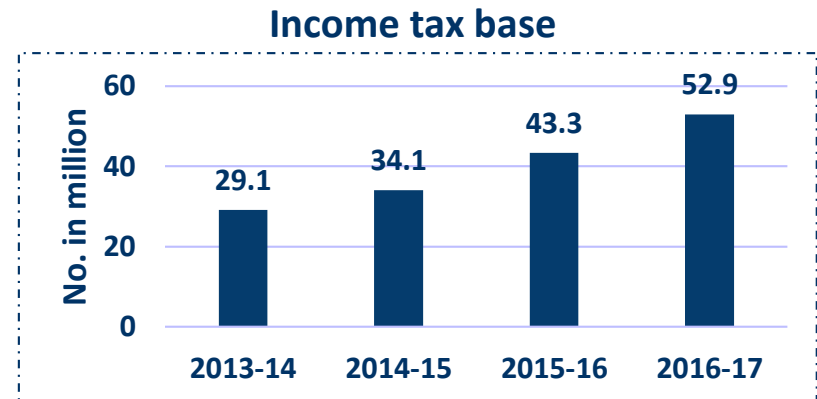
*PCE: Personal Consumption Expenditure

Formalisation

Increase in tax volume and tax base



Tax-to-GDP ratio has risen from 14% in FY15 to 17% in FY17



Tax base has doubled to 4% of population in three years

Direct tax collection up 19%; tax registration up 25%

Closure of shell companies: 200,000+ firms deregistered

Close to a million individuals being investigated by IT department

Source: Government of India



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Reforms continue...

- On July 01, 2017 Government introduced the biggest indirect tax reform in India – the Goods and Service Tax (GST)
- GST has subsumed 17 distinct central and state taxes
- GST is expected to
 - Reduce leakages and tax evasions
 - Create a transparent indirect tax regime
 - Boost GDP by 0.80% in 5 years
 - Ensure greater compliance, revenue

USD 14bn realized as GST revenues in July, surpassing expectations



Recovery begins...

Despite positive indicators from GST, June quarter GDP figure of 5.7% was a shocker!

To initiate recovery, Government has announced:

- USD 108 bn further infrastructure investment
- USD 32.5 bn infused into PSBs to support credit offtake
- Series of measures to increase flow of credit and guarantee payment cycle to small businesses and exporters

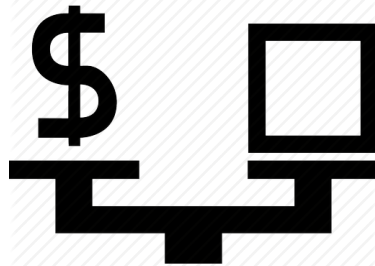


Improving economic indicators

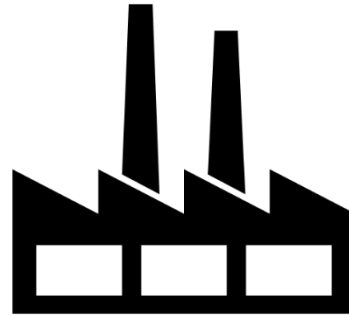
High frequency data seem to indicate...



Comm. vehicle sale up 25% for Sep., highest since Nov. 2011



Trade deficit fell 30% since Nov.; 26% growth in exports



IIP rebounds to 4.3% growth for Aug. v/s 4% in Aug. 2016



Credit growth at 7.5% y-o-y for Sep. 15, highest for 2017

Source: RBI, Central Statistics Office, Society of Indian Automobile Manufacturers

...an end to the short term disruptions, despite decline in GDP



Looking forward

Government's 3-point agenda



Development



Consistent reforms



Attracting FDI

Supported with favourable demographics, will amplify India's expansion

India to become the world's fastest-growing large economy over the next 10 years

Indian economy to rise from its current 7th position to the 3rd largest economy by 2027 with USD 6 trillion GDP

Source: Morgan Stanley research



Thank you

