

## Daily Economic News Summary: 9 November 2016

### 1. Modi's money mantra: Cash is no longer king

Source: **Business Standard** ([Link](#))

In a surprise move intended to eliminate black money and the growing menace of counterfeit currency notes, the Union government on Tuesday, effective midnight, scrapped currency notes of Rs500 and Rs1,000 denominations. These account for over 80% of all currency in circulation by value. "In every nation's destiny comes a time when the actions taken have a defining impact on its destiny. We are at one such moment today," Prime Minister Narendra Modi said in a televised address to the nation. Not only does the move hit a fundamental reset in the economy, it also risks a political backlash, both against Modi and the Bharatiya Janata Party (BJP).

Implicitly, this is also a signal that this government is determined to steer the country towards a cashless economy, which strikes at the very root of black money transactions. Newly designed notes of Rs500 and a new Rs2,000 currency will be available starting 10 November. The Rs1,000 note will be reintroduced in due course, along with new notes of Rs10, Rs20 and Rs100 denominations. While ATMs will remain closed on Wednesday and partially on Thursday, banks will initially allow cash withdrawals of only Rs2,000 per day up to 18 November and Rs4,000 per day from 19 November onwards.

### 2. Bank deposits will spike: How Rs 500, Rs 1000 note ban will impact economy

Source: **Business Standard** ([Link](#))

In a bid to clampdown on black money, the government withdrew Rs 500 and Rs 1,000 notes from circulation with immediate effect. Reserve Bank of India (RBI) data suggests that the proportion of Rs 500 and Rs 1000 notes were 86.4% of total value of notes in circulation on March 31, 2016, amounting to Rs 14 trillion. The growth rates in these notes were 76% and 109% respectively in the last five years versus overall currency in circulation going up by 40%, points out a Citigroup note. Here is a quick compilation of how leading brokerages and research houses interpret the development, and its impact on the economy and sectors.

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First, while citizens will be inconvenienced in the short term, this is a big medium-term positive in the government's effort to crack down on black money and corruption. Second, as the old currency notes are deposited with banks, bank deposit growth will witness a pickup and currency in circulation will moderate - a positive for banking sector liquidity. Third, as rural households open new bank accounts to deposit old notes, this may also end up giving a boost to the government's financial inclusion thrust. Fourth, since black money played a role in real estate transactions, this crackdown is very likely to hurt the real estate market, which is already reeling

under high inventory in top tier cities such as Mumbai and Delhi. Fifth, as some of the black money is brought under legitimate channels, the government's tax revenue collections will get a boost. Finally, we believe the move generally bodes well for the inflation outlook since black money was associated with higher inflation. However, it is likely to hurt near-term consumption demand.

### **3. Theresa May visit: India, UK to sign over Rs 8,300 crore business deals**

Source: **Business Standard** ([Link](#))

India and the United Kingdom (UK) will ink more than GBP 1 billion (Rs 8,300 crore) of business deals during the three-day visit of British Prime Minister Theresa May, who is here on her first bilateral outside Europe since assuming office in July. Describing her talks with Prime Minister Narendra Modi as "good and productive", May said as leaders, they both were working to improve the livelihoods of their citizens - creating jobs, developing skills, investing in infrastructure and supporting the technologies of the future. Talking about Modi's vision of smart cities, May said they have agreed on a new partnership that will bring together government, investors and experts to work together on urban development, unlocking opportunities worth GBP 2 billion for British businesses over the next five years.

This will focus on the dynamic state of Madhya Pradesh - with plans for more smart cities than anywhere else - and the historic city of Varanasi. Take the capital that is required for India's infrastructure - since the launch of the first masala bond in London in July, rupee-denominated bonds worth over GBP 900 million have now been issued, the British PM said. "And we expect a further 4 bonds with a total value of GBP 600 million to be issued in the next 3 months. This is a vote of confidence in India's growth story. And it's a vote of confidence in London as the world's leading financial centre.

### **4. How big were the Diwali sales for e-tailers? \$2.2 billion, says report**

Source: **Live Mint** ([Link](#))

E-commerce firms generated gross sales of \$2.2 billion (Rs13,500 crore) in October, beating expectations in a crucial month when typically they make the bulk of their annual sales, according to a report by consulting firm RedSeer. It was feared that Diwali sales would not meet expectations, after the government, with its new foreign investment regulations, in March prohibited online marketplaces from influencing prices on their platforms, thereby disallowing discounts. E-commerce firms, however, found ways to get around this and managed to offer some discounts. Their festive sales beat expectations—RedSeer had forecast gross sales between \$1.5 and 1.8 billion. About half of the sales were driven by the mobile and tablet categories, the report said, with large appliances accounting for 10%. The consumer goods and home categories, in which Flipkart and Amazon India have been investing, also showed “strong growth”, according to the report.

## **5. Ford to build global tech, business centre in Chennai**

Source: **Live Mint** ([Link](#))

Ford Motor Co. on Tuesday said that it will invest \$195 million (Rs1,300 crore) in Chennai to build a global technology and business centre that will serve as a hub for product development, mobility solutions and business services for India and other markets around the world. The centre will also house the company's largest information technology organization outside of the company's global headquarters. *Mint* had in October 2015 first reported about Ford's plans to set up a global technology and business centre in India. "India is not only a vibrant market for cars and new mobility ideas, it also is rich with talent, technical expertise and ingenuity," executive chairman Bill Ford said in a statement. "This new center will help us attract the best and brightest, and make Chennai a true hub of innovation for Ford around the world." Once it gets completed in 2019, the centre will become Ford's third global product development centre in Asia Pacific and part of Ford's global product development network.

**By Nandini Malhotra**

