FIN STREET
...the path to Financial Excellence!

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FINNOMICS

K J Somaiya Institute Of Management Studies and Research

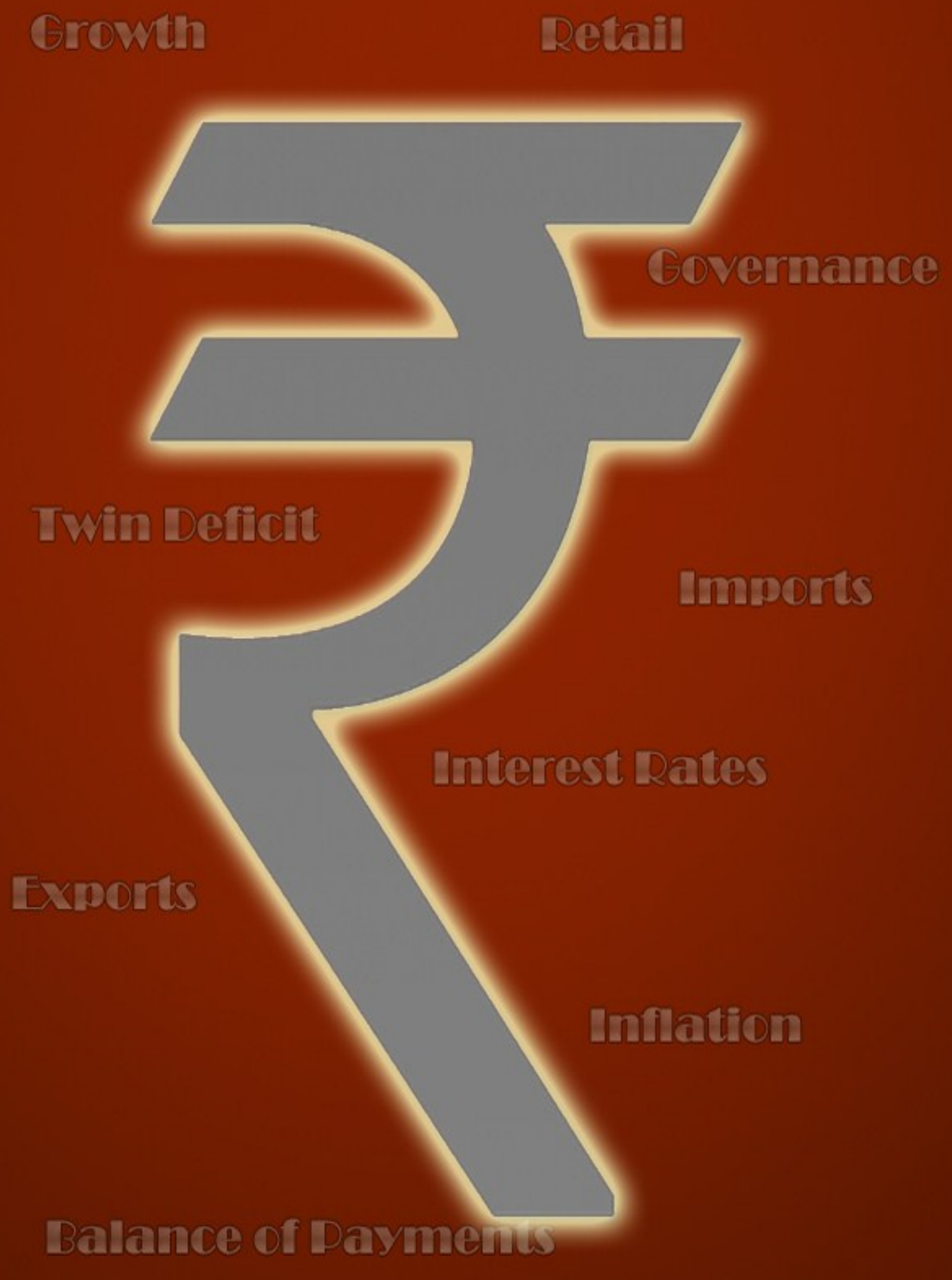
Impact of Financial Inclusion in India

FDI in Indian Retail

The Greece Story

Roller Coaster Journey of Indian Rupee

Rising Rupee, Falling Growth



Editor's Desk

Of late, Indian economy is at cross roads. High inflation, highly volatile rupee, widening twin deficit gap, reduced industrial output from the core sector, and policy paralysis are taking a heavy toll on our economic health. Amidst these certain uncertainties we hereby bring to you the fourth issue of our **Finnomics.**

It gives us immense pleasure to revisit our endeavor and bring you our views of the financial world as it unravels around you. We are held to our steadfast intent, thanks to the diligence we find fuelled by your support.

We start by giving you an insightful new look into the impact of policies formulated towards achieving complete financial inclusion in **Analysis of Economic Policies and Impact of Financial Inclusion**. As you meander along, you will learn about the implications—both positive and negative—of allowing FDI in multi-brand retail under **FDI in Indian Retail** . Then is an extensive report on the state that Greece is in, what impact its presence would have on the entire Eurozone and the role of IMF and ECB play in helping the country to bail itself out in **For Greece, Hope Lies With Institutions**. Rupee has been at the receiving end of all the global and domestic uncertainties for the past few weeks resulting in its unprecedented depreciation in turn leading its value to hit historic lows against the green backs. The causes and impacts are analyzed under **Roller Coaster Ride of Indian Rupee** and **Rising rupee, falling growth**

We, Finstreet, have always tried to keep each and every issue as much contemporary as possible. And even this issue is not an exception.

We sincerely hope that you will find this issue not only fascinating but also thought provokingly interesting. Happy reading!

- **THE FINSTREET TEAM**

Contents

Introduction:

Financial Inclusion has been the buzz word across many of emerging economies such as India, Philippines, Mongolia and Bangladesh, where a substantial amount of population resides under poverty line. However, the discussions about financial inclusion are of paramount economic importance in a nation with the second largest population coupled with a $1.4 trillion dollar economy.

Financial inclusion can be broadly defined in terms of penetration of financial services completely into the unbanked population in every corner of the country. Volatile and highly unpredictable global macroeconomic conditions play a huge role in decelerating even the best policies on paper. Intelligence coupled with aggressive policy stance is the only way out in not letting the deceleration leading to a handicap. Recent data shows that only 43000 villages have been covered which is far behind the set target of 6 lakh villages by 2012. Hence, this document takes into analysis of the effectiveness of the various economic policies targeted at financial inclusion.

Financial Inclusion Index (FII):

FII is an index developed to capture all the dimensions of financial inclusion including "Access" and "Use" of financial services. The various dimensions include number of rural offices, number of rural office accounts, volume of rural deposits and volume of rural credit.

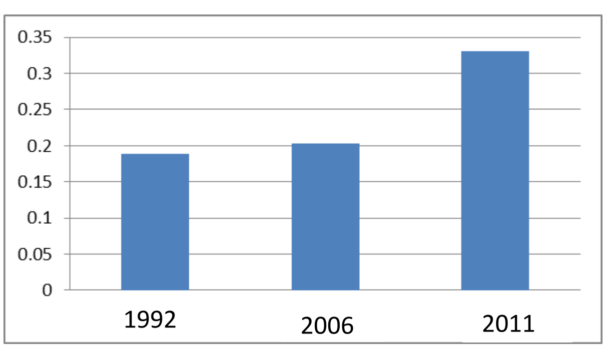


Fig 1: Financial Inclusion Index

The above graph (Fig 1) shows a continuous improvement in the FII index value ever since the concept of financial inclusion was conceived. Especially, diversification of efforts from agricultural sector has helped in the index to improve in a far better manner.

Measure of Poverty:

Foremost of all policy implementation is identification of target areas where the policies are intended to be implemented. Hence, a broad or vague definition of target is not going to help in this case. Also, the definition has to be backed by strong, substantial and reliable statistical data. But, it is here the real problem lies and not in the effectiveness of policy definition or implementation.

The recent report on the definition of poverty by the planning commission has received a wide spread criticism for they are seemed inaccurate and unreliable. This will definitely have an impact on the effectiveness of implementation of the drafted and finalized policies howsoever great it could be.

However, the real problem goes much beyond the above one. Availability of statistical data is so laggard in India that even the measure of WPI inflation is said to have an error of at least 1 percentage point.

So, without a clear understanding of which section of population should be targeted to be financially included, even the best of the policies might seem incomplete. Financial inclusion is about penetrating into the unbanked or otherwise rural areas which don't have access to all of the financial services that is available elsewhere. But, how much unbanked in rural? How poor is rural?

A slightly developed locality which is a dozen kilometers away from a well-developed main urban locality may lack access to all the banking services. But, they tend to ignored stating they are not rural but only semi-urban or sub-urban.

Policies related to Banking sector:

RBI has mandated all the existing banks to ensure that 25% of its branches are in rural sector. The finance ministry has also issued a directive in September to PSBs and private banks, besides RRBs, that all villages with a population of 5,000 and above in the 296 districts identified by the RBI as "under-banked" should have at least one bank branch. Such an expansion would heighten the competition and banks have to learn to operate on extremely low margins by innovating alongside. Innovation would then lead to high diversification in the range of products being offered targeting the rural population.

The private banks have one grouse—that they don't have a level playing field. PSBs get a 3% central subsidy on farm loans of up to Rs 3 lakh. So, farmers prefer PSBs, which offer loans at 7-8% interest compared to the 10%-11% private banks charge. Moreover, private banking channels are not involved in subsidy disbursements through schemes like MGNREGS. That also puts them at a slight disadvantage.

Financial illiteracy might stand in the way between the rural unbanked population and the private sector banks, as savings security will be the first to cloud their minds. This will give a natural upper hand over the PSU banks. Hence, Pvt Sector banks might have to revise the strategies that are followed in urban areas viz. high minimum savings deposit amount etc. So, financial inclusion through this way might come at the cost of urban population's benefit.

The following chart explains the downside of such a policy where the profit concerned private sector banking institutions are concentrating their operations still around semi-urban areas and not in rural areas.

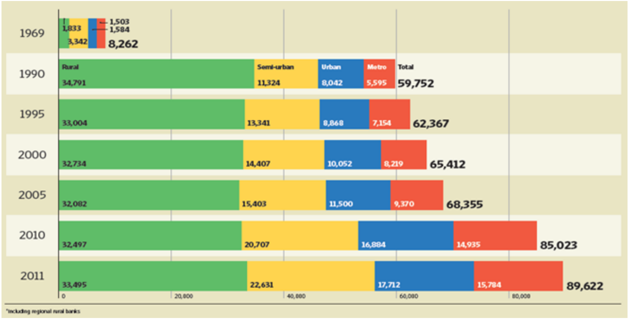


Fig 2: Bank distribution and growth

But, on the other side Government's strong backing of the PSU banks like SBI to involve in financial inclusion has been contributing strongly in accelerating the progress towards achieving great efficiency. With 54% controlling stake, SBI continues to enjoy Government's support even during times of economic slowdown. This policy holds major importance as SBI is the biggest in terms of the number of branches and customer base. SBI also enjoys the confidence of the rural population even when not every rural citizen might have access to it. The success of banking in rural sector is heavily dependent on the performance of SBI in all the other sectors. Hence, the Government's policy stance cannot be discounted.

Diversification of Financial Providers:

Issue of banking licenses to NBFCs is the latest and most welcome step towards financial inclusion. As the NBFCs already have a strong presence in select rural areas and they have loyal brand following as well, empowering them more with common banking functions is the dominant wave of the futuristic approach towards inclusivity.

Downside: Every solution has its own downside and this policy too is not an exception. Increased operations and functional ability of these NBFCs in unbanked sectors would cripple the operations of co-operative societies/ banks and the already ailing post offices.

This will be considered as the cost that is to be paid for a greater good as the NBFCs have a greater disposition towards providing diversified and better-return products. However, the near absence of proper alternatives proposed for the co-operative banks and post offices doesn't seem good as empowering these already existing institutions further would have been a more cost effective way rather than seeding in new institutions that have doesn't enjoy as much public awareness as the former.

Through a policy called "Doubling of agriculture credit" total agricultural credit flow increased from Rs 13,915 crore in 1991-92 to Rs 92215 crore in 2005-06. But production credit has seen a steady decline of 0.5 percentage points every year. Also, the share of co-operative banks in total credit flow for agricultural sector had also steadily declined from 53.7% in 1991-92 to 21.9% in 2005-06. However, the share of rural commercial banks has seen a modest increase of 3.4 percentage points in this period up from 5.1%. However, post 2006; the trend has seen a significant divergence. The share of total agricultural credit supplied through rural branches has seen a decline from 55.5 per cent in 1990 to 38.5 per cent in 2010.The contribution of urban and metropolitan branches to agricultural credit has increased from 14.9 per cent to 33.7 percent during this period, indicating that credit disbursement is mainly through non-rural branches.

Such an increase was made possible through increasing the number of openings of no-frills savings account which are specially tailored for the rural population. The fig 3 shows the continuous steep increase of the count over the period 2006-2011.

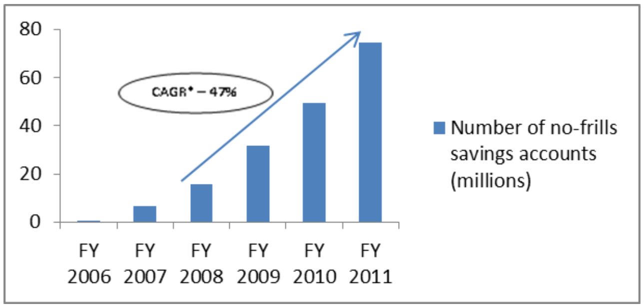


Fig 3: Number of no-frills saving accounts

The total amount of agricultural credit disbursed from the financial year 2006 to 2010 and the split-up of the same between RRBs, Co-operative and Commercial banks is shown in the chart below (Fig 4).

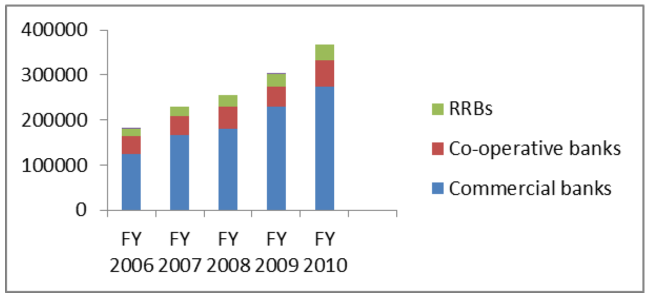


Fig 4: Disbursement of commercial credit

Government's policy in encouraging the issue of Kisan cards for agricultural farmers have also shown a steady increase over the years which with facilities like overdraft limits tied to it have provided financial independency to a considerable extent. The growth of issuance of Kisan cards are shown below in fig 5.

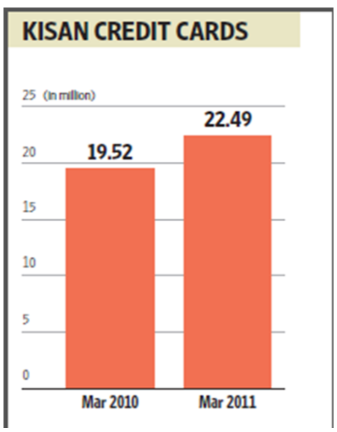


Fig 5: Kisan Credit Cards Issuance Growth

SHG Bank Linkage Program:

Thus, the SHG-Bank Linkage programme launched by NABARD has an important role in promoting financial inclusion and inclusive growth. It has proved to be a successful model wherein the outreach

has expanded substantially leading to many advantages like micro savings, timely repayment of loans, reduction in transaction costs to SHG members and banks, etc.

Years	No. of SHGs Credit linked	% growth over the previous year	Cumulative No. of SHGs Credit linked
2001-02	1.98	-	4.61
2002-03	2.56	29	7.17
2003-04	3.62	41	10.79
2004-05	5.39	49	16.18
2005-06	6.20	15	22.38
2006-07	6.86	10	29.24

Fig 6: SHG and bank linkage statistics

Conclusion:

Financial inclusion is a journey that India needs to travel towards becoming a global economic superpower. Financial access to everyone will attract global corporations to our country, which in turn will result in new employment creation and business opportunities. RBI has been supporting and executing financial inclusion initiatives on a priority basis through a mix of strategies ranging from provision of new products, relaxation of regulatory guidelines and other encouraging measures to achieve sustainable and scalable financial inclusion.

Although the Government and RBI have taken several measures towards this goal for the past 5 years, roadblocks still appear in terms of financial illiteracy, profitability of financial services companies, customers' ease of access to banking services in rural areas, etc. The Government should work together with all the entities involved in financial inclusion vis RBI, banks and other financial institutions, business correspondents, ICT providers, self-help groups and work out a standard framework for further progress in financial inclusion to be implemented country wide. There should also be constant feedback and progress review from the Government or RBI to check as to whether all these measures reach the intended result - bringing the last mile citizen into the banking net.

Nimisha Agrawal—PGDM 'B'

Retailing in India is one of the pillars of its economy and accounts for about 15% of its GDP. The Indian retail market is estimated to be USD 450 billion and one of the top five retail markets in the world by economic value. Organized retailing, absent in most rural and small towns of India is undertaken by licensed retailers like supermarkets and privately owned retail chains. Unorganized retailing is carried out by mom and pop stores, popularly known as 'kiranas'. India has been ranked as the fourth most attractive nation for retail investment among 30 emerging markets by the US-based global management consulting firm, A T Kearney, in its Global Retail Development Index (GRDI) 2011.

Globally, retail sector is a highly regulated sector. However, with liberalization, most countries now permit FDI in retail. China opened its retail sector in 1992; Brazil, Mexico and Argentina in 1994. Many countries (like China) opened up their retail sector in a phased manner.

Japan first allowed FDI in specific retail formats such as specialty stores and then gradually allowed it in hypermarkets and supermarkets. In some countries, FDI in retail is allowed subject to certain conditions such as partnership and investment requirement. In China domestic companies are treated more favorably than foreign companies in zoning and urban development requirements.

The global experiences show that appropriate regulations rather than FDI restrictions have been used as a tool to regulate the retail sector. This allows inflow of foreign investment technical knowhow and skills and at the same time enables the countries to control and monitor large/foreign retailers.

Ever since the government announced its long-awaited decision to allow 51% foreign direct investment in multi-brand retailing and 100% in single-brand retailing, all hell seems to have broken loose

The major reasons for government to allow this FDI could be:

- **Job creation: -** Huge investments in the retail sector will see gainful employment opportunities in agro-processing, sorting, marketing, logistics management and front-end retail.
- **Consumer Savings: -** Better quality products will be available at cheaper rates.
- **Reduced wastages of food products: -** Policy mandates a minimum investment of $100 million with at least half the amount to be invested in back-end infrastructure, including cold chains, refrigeration, transportation, packing, sorting and processing. This is expected to considerably reduce post-harvest losses.
- **Better prospects for farmers: -** FDI in retail will help farmers secure remunerative prices by eliminating exploitative middlemen.
- Sourcing of a minimum of 30% from Indian micro and small industry is mandatory. This will provide the scales to encourage domestic value addition and manufacturing, thereby creating a multiplier effect for employment, technology upgradation and income generation.
- Foreign retail majors will ensure supply chain efficiencies.

Thus, proliferation of large organized retailers such as Wal-Mart, Tesco, and Carrefour in Indian market will result in increased employment, consumer savings, prosperous farmers and reduced food wastage. These reasons might not shoe results in short run but in the long run, a "win-win" situation can be created if the government actively engages investors to take a developmental approach in the retail sector.

First, it is expected that the entry will result in creation of millions of jobs. A major argument given by opponents of FDI in retail is that there will be major job losses.

Nimisha Agrawal—PGDM 'B'

Big retail chains are actually going to hire a lot of people. So, in the short run, there will be a spurt in jobs. Eventually, there's likely to be a redistribution of jobs with some drying up (like that of middlemen) and some new ones sprouting up. Wal-Mart's entry into US in 1977-79 somewhat increased retail employment but employment growth was tapered off by reduction in small retail establishments. However, in the long run. The development of "strip malls" around giant retailers, creation of large distribution centers, and a network of vendors added large no of jobs to the economy.

Second, FDI will offer better prospects for farmers in India. The argument that farmers will suffer once global retail has developed a virtual monopoly is also weak. To begin with, it's very unlikely that global retail will ever become monopolies. Stores like Wal-Mart or Tesco are by definition few, can't intrude into the territory of local kiranas. When domestic majors were allowed to invest in retail, both supermarket chains and neighbourhood pop-and-mom stores coexisted. It's not going to be any different when FDI in retail is allowed. Who, after all, will give home delivery? The local kirana. Why would anyone shun them? Secondly, it can't be anyone's case that farmers are getting a good deal right now. The fact is that farmers barely subsist while middlemen take the cream.

According to the National Farmers Union in the US, large stores like Wal-Mart did not serve the interest of farmers and unfairly slashed food costs at the expense of farmers. However, in recent years, Wal-Mart has unveiled its global sustainable agricultural goals and is now facilitating farmer access to markets. Carrefour had emphasized a "buy local" theme in France to assist French farmers in getting better prices.

Third, large retail stores will bring economies of scale and transfer savings to consumers. If a consumer monthly basket is analyzed as whole, it is possible that there is not great deal of saving that large store offer over small stores.

However, if a consumer monthly basket is analyzed over a long period of time(12 months) it is possible that with the entry of the large size retailers, consumer savings shall accrue irrespective of the store size.

Recommendations

The retail sector in India is severely constrained by limited availability of bank finance. The Government and RBI need to evolve suitable lending policies that will enable retailers in the organized and unorganized sectors to expand and improve efficiencies. Policies that encourage unorganized sector retailers to migrate to the organized sector by investing in space and equipment should be encouraged.

A **National Commission** must be established to study the problems of the retail sector and to evolve policies that will enable it to cope with FDI – as and when it comes. National Commission should evolve a clear set of conditionality on giant foreign retailers on the procurement of farm produce, domestically manufactured merchandise and imported goods. These conditionality must be aimed at encouraging the purchase of goods in the domestic market, state the minimum space, size and specify details like, construction and storage standards, the ratio of floor space to parking space etc.

Entry of foreign players must be gradual and with social safeguards so that the effects of the labor dislocation can be analyzed & policy fine-tuned. Initially allow them to set up supermarkets only in metros. Make the costs of entry high and according to specific norms and regulations so that the retailer cannot immediately indulge in 'predatory' pricing.

The government must actively encourage setting up of co-operative stores to procure and stock their consumer.

goods and commodities from small producers. This will address the dual problem of limited promotion and marketing ability, as well as market penetration for the retailer. The government can also facilitate the setting up of warehousing units and cold chains, thereby lowering the capital costs for the small retailers.

Conclusion

If government were to persist in allowing greater FDI in the retail sector, it can at least have in phases. Also, it could persist with the stipulation that the foreign retail source 30% of their supplies from the MSME sector. The large retailers can be motivated to contribute heavily to our educational institutions and development institutions. These positive contributions to our country in the areas of need may also positively influence the public perception of these giant foreign retailers, thus possibly providing them long-term retail patronage.

Sankritya Vedanabatla—PGDM 'A'

Institutions such as The European central bank and the IMF are the ones that troubled nations turn to, the later being the last resort. Temporarily leaving aside the numbers, seeing from a layman point of view, earlier it was George Papandreou along with Giorgos Papakonstantinou who was seen to be battling the crisis. With the change of guard, for a few weeks the media focused on Lucas Papademos and Evangelos Venizelos (the incumbent Prime minister and the Finance minister respectively) thinking that they would somehow "handle" the crisis. Now finally, people seem to think that everything lies in the hands of Angela Merkel and Nicolas Sarkozy (back to square one). Naturally, the European public would not agree to a bailout with their Taxpayers' money (yes, bailouts can de-throne kings). Adding to this, The National Front even wants France to quit the Euro. Thus, there is little that these people can do.

Can the Greek public not accept the public spending cuts? After all, the Greek public has enjoyed unprecedented levels of prosperity and very high standards of living until 2008. In short, Greece lived way beyond its means. Misreporting economic statistics in 2001 and currency devaluation in 2004 seemed to have initially helped the nation until the tourism boom lasted. Now, Greece runs a fiscal deficit of 13.6% (anything even near 5% is not good). The debt is now a whopping 142.76% of its GDP. The two-year bond interest rates have shot up to 110.75%. The worst of all, the economy seems to contract at 5.5% by the latest unofficial estimates (IMF puts the forecast at 6%). A good quality of life was seen among the public when the going was good, that is, with tax evasions and high levels of corruption. But now when the going is tough, Paul Thomsen, the IMF mission chief in Greece, told reporters in a conference call, "I think one of the things we have seen in 2011 is that we have reached the limit of what can be achieved through increasing taxes". The truth is that the structural reforms have fallen too short of expectations. One viable option seems to completely cut down public spending and let public work harder and pay for what they have enjoyed in the past.

This is where those institutions must come in. The European Financial Stability Facility (EFSF) is one such institution financed by members of the Eurozone in 2010 to combat the European sovereign debt crisis. Since then the EFSF has worked towards bailouts for Ireland and Portugal. This EFSF looks promising, since in October 2011, the European Council announced that the member states had reached agreement to increase the effective capacity of the EFSF to €1 trillion by offering insurance to purchasers of Eurozone members' debt. This is one hope for Greece.

The IMF is now pushing Greece and urging the nation to pursue aggressive reforms. According to it, structural reforms have not yet delivered expected results, in part because agreed reforms are not being implemented. For instance, two flagship reforms—on collective bargaining and liberalizing restricted professions—have yet to deliver substantial results. IMF can lend, but not until the party at the other end of the transaction shows signs of activity.

The European Central Bank is another "institution" that Greece can pin its hopes on. Rescue operations involving sovereign debt (not only Greece) has included temporarily moving bad assets off the balance sheets of the weak Central Banks of the members into the balance sheets of the ECB. Such actions may result in an inflationary threat, whereby the strong member countries of the ECB shoulder the burden of monetary expansion (and potential inflation) in order to save the weak member countries.

Hence, ECB gives nations such as Greece two options:

- Allocate considerable national income to servicing debts
- Scale back a wide range of national expenditures (such as education, infrastructure, and welfare transfer payments) in order to make their payments.

Looking at the above two options, Greece may be at the same position where it started, requiring its leaders to cut spending and implement austerity measures. "Institutional support" also requires some amount of political will be shown in pursuing reforms.

Naveena Vejella—PGDM 'A'

$1 = Rs. 54.24!!!!

India as a giant country has seen the "Best to Worst days Cycle" in last 2000 years. Rated as the poorest country 60 years ago it has rediscovered itself from past 10 years. Indians are known for sacrifice and they believe in Karma. They are known to punish themselves by fasting or rolling on the floor, or by lashing themselves with cords. In this way Reserve Bank of India is depreciating the value of our Indian currency with the notion of increased health of Indian economy but punishing the growth of the economy bluntly.

Indian Rupee has been devalued by 90% over last 63 years when the population rose three fold, industrial production rose tenfold, its human exports in the form of educated immigrants rose thirty times to western countries, the software rose 100 times and GDP also rose with the fastest rate in past few years.

Historical Indian Rupee Rate (INR)

Year	INR/USD	Year	INR/USD	Year	INR/USD	Year	INR/USD
1973	7.66	1984	11.36	1995	32.43	2006	45.17
1974	8.03	1985	12.34	1996	35.52	2007	41.20
1975	8.41	1986	12.60	1997	36.36	2008	43.41
1976	8.97	1987	12.95	1998	41.33	2009	48.32
1977	8.77	1988	13.91	1999	43.12	Last 37 Years	
1978	8.20	1989	16.21	2000	45.00		
1979	8.16	1990	17.50	2001	47.23		
1980	7.89	1991	22.72	2002	48.62		
1981	8.68	1992	28.14	2003	46.60		
1982	9.48	1993	31.26	2004	45.28		
1983	10.11	1994	31.39	2005	44.01		

Average annual currency exchange rate for the Indian Rupee (Rupees per U.S. Dollar) is shown in this table: 1973 to present.

In 1950 the exchange rate was Rs 4.7619 to Rs 53.58 today – 91% devaluation. Indian commodities were sold out almost free of cost. Indian exports were very inexpensive and made the imports of essential commodities expensive to almost entire Indian society.

How currency is valued?

The strength of the currency is the price of that currency in terms of other currencies. If the demand of the currency increases than the supply, the value of the currency increases and vice versa. The demand of the currency increases either by investments in that currency or the exports that the others want to buy. The Governments through central bank of the nation regulates the value of the currencies in the international market to control large amount of fluctuation. If the value of the currency falls more than what is acceptable then the central bank buys the currency. If the currency is appreciating too much it sells it.

Inflation due to devaluation of Indian Rupee

Most of the commodity prices are denominated in US dollar. After years of trading through derivatives to lower the commodity prices, the financial crisis brought them to halt. This continued devaluation of rupee by RBI called "sterilization operation", caused increase in higher prices of rupees due to higher commodity prices. This happened due to weak Indian rupee. This forces the local producers to increase the prices thus inflation arises.

SEBI introduced future and options in the most inopportune time. Most of the commodities are non-delivery based and cash settled in rupee terms. Due to high paper prices of such commodities, the physical market too gets fillip to get higher resulting in higher inflation.

RBI promotes inflation by either devaluing the money or restraining its natural rise. This is done by "sterilization measure". The other way of devaluing is by restraining the foreign funds by giving them better "off market rates" instead of allowing them to buy Rupee in advance from the free market. The cut in the oil subsidiary in 2010 by letting the market forces determine the price of petrol and diesel, just a mere 6% rise in oil price caused the inflation to reach double digits which forced the RBI to increase the increase the interest 3 to 4 times. China like India is a highly populated and developing country few years back. But now it has grown so much that it has trade surplus unlike India. Even when the oil prices fell in global market the prices didn't change in India.

Effect of appreciation of Indian Rupee

If the rupee is appreciated by at least 50 % India's external debt would reduce to half, thus interest borrowing cost of the government in that case could come down saving Rs 25,000 crores annually. Due to appreciation the stock markets could also rise by 35% at least which can be used by the the Government to sell its stake in many of Government owned companies to realize cash from the market instead of levying taxes on citizens.

Lower interest rates, higher rupee, lower import costs especially oil prices, lower commodity prices in rupee terms thus reducing the inflation and higher rupee saving s in the hands of individuals and corporate would raise GDP substantially which in near future will help in surpassing China.

Stark necessities dictate demand not the weak or strong currency. Major export industry of India is "Software" which is mainly a service industry, so the outsourcing won't stop but fastens. And those companies who want to outsource would use India as it is the only English speaking country with indispensable talents. Higher rupee could also cause migration of student overseas due to cheaper education by 25-50%. So the corruption reduces as the overseas window is open.

Appreciation of money increases flow of money from overseas. The overseas investors would buy more equities or increase FDI that would help massive power, road, and infrastructure companies. Government of India will benefit most with "Rupee Rise Game". Higher rupee note may act as antidote against higher oil price. Nation's oil explorers like ONGC, GAIL, PETRONET, RIL/Essar can make more strategic acquisitions overseas with stronger rupee. Their cost of acquisition would come down by almost 50% resulting into higher inflow of feed stocks at cheaper prices.

Government of India will become one of the richest Governments in the world. It holds and controls more than 200 state owned enterprises many of which are listed entities. No government in the world, including USA, own that many listed enterprises. It can also dilute its stake and privatize them at much higher prices than now.

Thus, RBI will have more roles in managing monetary policy than inventing economic policy which is core function of the government or law makers. So, the new symbol should start its journey with the position of strength.

Aditya Rathi

Rupee has fallen 19% this year. A year back after Lehman crises no body every though that rupee will fall to such an extent. In fact experts predicted that rupee will appreciate as Indian economy was growing at 9%. As of 14-dec, rupee was trading at 53.23 lifetime low. NRI's are having a goodtime diverting the money to the home country but foreign tours are becoming expensive. Let's look at three C's to look into declining rupee

Causes for rupee crises

RBI inability to handle the crises is one of the main reasons of rising rupee. RBI is of the view that country may not have adequate foreign exchange to interfere in the market. Current foreign exchange reserve if $306 billion just adequate enough to pay for imports and external balances

Another reason that can be attributed to rupee crises is slowdown in euro zone. Investors are cautious and withdrawing money from the market and waiting for the market to get less volatile and stable. Withdrawal of funds by institutional investors from Indian market is another reason that can be attributed to depreciating rupee.

And lastly credit rating agencies are increasingly looking to downgrade credit rating of Indian government bonds. Recently a credit rating agency downgraded credit rating of State Bank of India (SBI). This is because of continuous protest by opposition parties over reforms like FDI in retail, UID, Pension bill, food subsidy act etc, and giving wrong signal to international market about Indian government inability to work towards development and most importantly "Change". All these is breaking the confidence of overseas investors in Indian economy

Consequences

Someone's pain is someone else's gain. Companies like Hero Honda, TATA, Dish TV, Renuka sugar booked higher losses in the last quarter because of higher foreign exchange losses. Whereas IT companies like TCS, HCL are taking advantage of rising dollar or depreciating rupee.

Foreign borrowings were cheaper but with rupee declining, companies with exposure to foreign borrowings are majorly hit. DLF is one such example with huge debt on its books. Depreciating rupee is raising the cost of debt from international market which was cheaper and easier few months back

Prices of food items are increasing because items like olive oil are imported from other countries and hence government is paying high prices for imports. Also oil prices are continuously rising because of rising rupee. World over petrol prices are reducing because of crude is trading at $105 barrel as of December, but petrol prices are still high in India because of rupee crises increasing subsidy burden on government.

Conclusion

Hedging strategies are not working and market is really in a big mess. The need of an hour is strong policies by government and RBI to undertake reforms and improve the confidence of investors globally. Government is strongly considering FDI in retail sector to facilitate inflow of foreign exchange. It's a wakeup call for the government

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