

"Hard work never killed anybody, but why take a chance?"

- Edgar Bergen

EDITORIAL

Karnataka State Industrial Times

Arrest sliding rupee against dollar

The Government's helplessness over a falling rupee is understandable. Although the rupee has been on a downslide against the US dollar in recent days, the extent of depreciation has been particularly striking. Depreciation in rupee is not a bad news for the Indian economy, though it will have some implications for the industry. Falling rupee will definitely hurt those companies which have borrowed in the overseas markets. Those who borrowed abroad will have to pay more. The Indian rupee last week plunged to 32-month low of sub-51 level against dollar on persisting demand for the US currency from banks and importers. While the depreciating rupee will make imports dearer, it will provide a boost to exports.

The gap in current account deficit and the critical reliance on short-term capital flows to bridge it are adding to the pressure on the rupee. Recent export figures have dashed hopes that exporters would continue their good performance of the first seven months and help in containing the merchandise trade deficit. The sharp demand contraction in the traditional export markets -the US and Europe -has begun to take a toll. The European situation is highly risky and uncertain. The core of the problem has to be solved by US and Europe, otherwise nobody can help those countries which are connected through capital flows with the

European banks, in the event of any kind of major crisis in euro area, will spill over to India.

Decline of rupee makes India's imports costlier. Indian rupee appreciation against dollar impacted heavily on the following: Exporters, Importers and Students. Exports from India are of handicrafts, gems, jewellery, textiles, commodities, ready-made garments, industrial machinery, leather products, chemicals and related products. The export items contribute substantially to foreign receipts. The rupee depreciation is towing away the profit margins of exporters and BPO service providers alike.

Imports to India are of petroleum products, capital goods, chemicals, dyes, plastics, pharmaceuticals, iron and steel, uncut precious stones, fertilizers, pulp paper etc. Fuel prices move upwards due to rupee depreciation. Imports become costlier which could be passed on to consumers, thereby contributing to control inflation.

Many items, notably petroleum, have an inelastic demand. The import bill is bound to go up. Moreover, the falling rupee has offset the recent declines in the prices of certain imported commodities. The fall in the value of rupee against other major currencies will push up petroleum prices as well as inflation. Oil and other importers were scrambling to buy dollars at the inter-bank foreign exchange market as the value of the rupee was falling sharply with an increasing current account deficit

and fears over unstable Eurozone and gloomy global economy.

So, if interest rates cannot be raised and capital flows cannot be curbed, the Indian economy must learn to live with the prospects of a falling rupee. Unless the government gets serious about controlling its bloated expenditure—particularly subsidised energy, most of which we import—the economy remains vulnerable to hot money flows. As it is, the 2011 capital flight has caught our policymakers on the wrong foot. India's tight monetary and loose fiscal stances are working at cross-purposes. This inconsistency has been allowed to linger since the RBI started on a series of 13 interest rate hikes in March 2010.

Planning Commission Deputy Chairman Montek Singh Ahluwalia said the rupee value was reflecting only the global economic situation. But the rupee would regain its value. But a section of students who left for further studies in the United States to join the 'Fall' semester in August this year are contemplating completing their studies within three semesters instead of four. The loan amount (in rupees) borrowed from Indian banks has increased with the depreciating value of rupee against the dollar. Students would have to raise the extra amount from their sources. Thus, the depreciation of rupee is not good news for importers and students. The Government has to pitch in to manage the sliding currency and arrest the slacking growth.

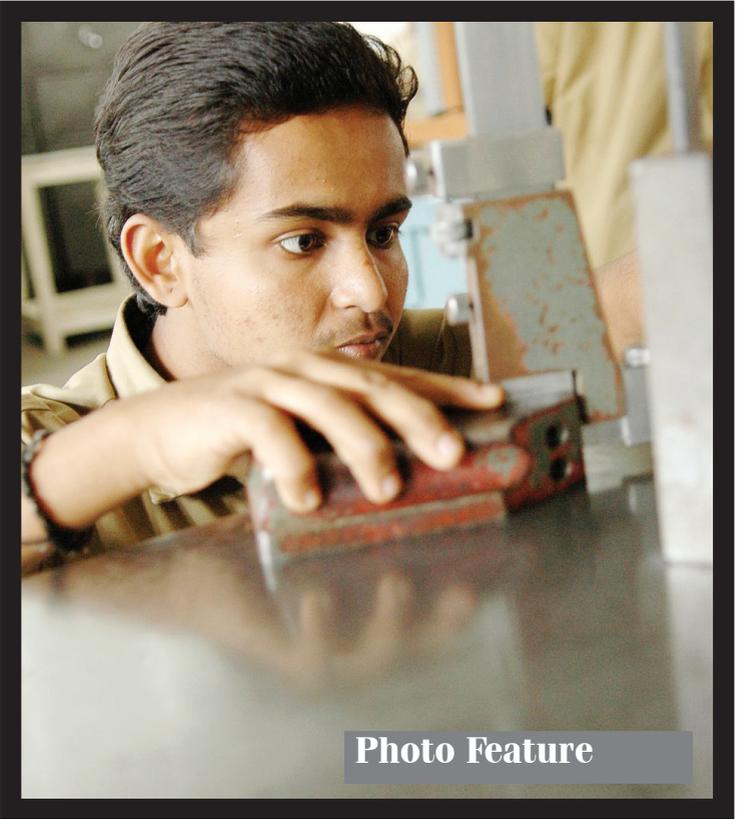


Photo Feature

Spotlight

Bringing companies under RTI is not good idea: Infosys

■ GOUTHAM. S

There are many regulatory bodies here and the investors can get information about companies through these bodies, says S Gopalakrishnan.

Leading IT major Infosys has disapproved the idea of bringing corporates under the ambit of the Right to Information Act by saying that they were already accountable to several regulators in the country. "We are reluctant (that) we should be included (under the Right To Information)," Infosys Executive Co-Chairman S Gopalakrishnan said at a CII conference at Chandigarh.

Many land scams and corruption in the Government sectors have surfaced, following the availability of documents under the RTI Act. Many ministers have been facing the music of law and even went to jail following revelations under the Act.

The Infosys co-executive was responding to a query on whether the Indian corporates should be brought under the purview of the Right to Information (RTI) Act.

Noting that public companies are answerable to many regulatory bodies, Gopalakrishnan said any decision with regard to the expansion of RTI jurisdiction to cover companies should be taken "very carefully". "The RTI was

created for a specific purpose to bring in certain level-playing field between citizens and the government... but to expand that... beyond that... we should be very careful," he said.

"There are so many regulatory bodies here and the investors can get information about companies through these bodies," he said indicating that the RTI may create constraints for companies.

Stating the IT industry had become globally competitive now, he said changes could always be brought in regulatory bodies if something beyond was needed to be done.



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ISSUE

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Exclusive interview with
Mr. Ripon K Malhotra
Chairman, Rippsons Group of Companies

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