

BUZZWORDS OF THE YEAR

A Rollercoaster Ride for the Indian Rupee

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Did you know that the exchange rate of the Indian economy in 1990 was a mere Rs18 per dollar? Since liberalization in 1991, the Indian currency has depreciated significantly. This article explores the causes of the depreciation of the Rupee, the decline in India's growth rate and the subsequent reforms adopted to boost economic growth post 2010.

The unprecedented gross domestic product (GDP) growth rate of 9.3% in 2010-11 has diminished to a mere 4.4% in 2013-14. Consequently, the Indian rupee has depreciated from Rs 45 per dollar in 2010 to a staggering Rs 61.54 per dollar in January 2014. This can primarily be attributed to the weakening of industrial growth- the manufacturing and the agricultural sector both witnessed a decline in their growth rates. This was partially due to the tight monetary policy adopted by the Reserve Bank of India (RBI) in order to keep inflation and inflationary expectations under control. The RBI nearly doubled the repo rates in 2012 and, in effect, managed to reduce inflation rates. However, this resulted in a slowdown in economic growth. In 2013, it slashed Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR), which then created a disincentive for Foreign Institutional Investor (FII) inflows.

The Euro-Zone crisis and slow growth in advanced economies such as members of the European Union, the United States and China has also adversely impacted the Indian economy. Through dynamic linkages with the Indian economy, uncertainty in global trading nations has influenced Indian trade, with a noticeable fall in the exports and rise in imports. In 2010-11, the rate of growth of exports was 40.5%, which fell to an astonishing 21.3% in 2011-12, a decline of nearly 50%! A rise in domestic prices of petroleum, oil and lubricants (POL) as well as those of gold and silver contributed significantly to the increase in imports, thus widening the current account deficit.

Recessionary growth in the industrial sector, persistent inflation, subdued global financial markets and high crude oil prices had augmented the government budget deficit. However, not all was amiss. The government was forthcoming and pushed for immediate reforms when the Rupee plummeted to an all-time low of Rs 57.22 per dollar in June 2012.

The process of economic revival began with a series of reforms aimed at completion of infrastructure projects in major fields such as coal, railways, roads, power, petroleum, gas and so on. The Prime Minister Mr. Manmohan Singh outlined the process of reforms through the consolidation of both fiscal and monetary policy. Consequently, a 3-member committee headed by Mr. Vijay Kelkar, the Chairman of the 13th Finance Commission, was established to discuss

policy instruments to be used for fiscal consolidation. Furthermore, the Cabinet Committee on Investments (CCI), was also set up to fast track major investment projects budgeted above Rs 1,000 crores. The major objective of the committee was to smoothen the process of approvals and permissions that a project required in order to be implemented.

The most prominent reform adopted entailed a hike in petrol and diesel prices, slash in subsidies on LPG cylinders, reduction in fertilizer subsidies and liberalization of FDI norms. The Kelkar Committee predicted a reduction in subsidies to 1.8% of GDP 2014-15. The government generated revenues through a Rs 5 per litre increase in the price of diesel and capping of number of subsidized LPG cylinders to only one per household, along with a reduction of Rs 50 in their subsidy. In addition to a reduction in subsidies, the government fast tracked 209 major investment projects, with an approximate budget of Rs 4 lakh crores. The primary areas of focus were coal, power, roads, railways, petroleum and natural gas, steel, shipping and the aviation industry. Pricing policies for natural gas were modified, investments in oil increased and collaborations with Coal India Limited (CIL), the prime supplier of coal, were made. The power sector has remained the biggest beneficiary of the investments budget allocation, with 83 projects acquiring clearances towards implementation. Coal India Limited has signed fuel supply agreements, with over 18 coal mining projects having benefitted. Five oil and gas projects and 14 projects in steel, shipping, road transport and railways, have got the green signal for implementation.

In May 2013, gold and oil imports reigned over the Indian economy. The RBI, using its monetary policy instruments, issued

inflation-indexed bonds, to curb gold and oil imports, thus contracting the current account deficit. These bonds provided a much higher return than regular bonds as they used the real interest rate (adjusted to prevailing levels of inflation), rather than the nominal interest rate. This tool of monetary policy acted as an effective measure to divert the public from purchase of gold and silver, towards public investment for the economy.

The government also targeted micro, small and medium enterprises (MSMEs), considering it a potential avenue for the largest scale of employment creation known to the Indian economy! It is estimated that 2,500 ventures would have been initiated by the year 2022. The CCI, along with the Special Project Monitoring Group (PMG) is set to resolve pending cases and complete the relevant paperwork to facilitate implementation of projects. This includes India's biggest ever FDI proposal- Posco's Rs 53,000 crores integrated steel plant in Odisha, which approached the Cabinet Secretariat in June 2013 for help in expediting clearances and land acquisition.

In January 2014, the Government of India signed nine pacts with the Korean Government, thus enhancing their bilateral ties. The government officials explored the possibility of constructing a Korean Industrial Park in India. This is an effort for India to not only boost its exports through ties with the Korean economy, which boasts of a trade surplus, but also to get integrated into the global supply chain. In the area of science and technology, a joint fund of US \$ 10 million has been set up to finance several practical projects. A memorandum of understanding (MoU) on joint applied research has been signed by both the parties. Issues of Korean security, development in North-East India and Korea were also raised.

The Indian economy boasts one of the highest growth rates in the world. While the prime focus of the Indian government is on recouping the earlier growth and exchange rates, it must be done through the process of social inclusion and economic integration. India, being the second most populous country in the world, witnesses antithetical diversity- both culturally and economically. High saving rates provide a massive potential for public investment in the areas of education, technology, research and human development. The government ought to concentrate equally on both economic growth and development, as it is only when the per capita income of the country and the standard of living of its people increases, will the country be better recognized globally. Inclusive growth translates to a more equitable distribution of resources and a bridging of the gap between rich and poor. While the key challenges of alleviation of poverty, better education, health and indeed higher growth rates still persist, we hope to witness revolutionary reforms in the coming years!

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The Excruciating Cry of the Indian Rupee

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Mr Raghuram Rajan, the new governor of the apex banking institution of our country, has indeed brought about miraculous changes in the state of the Indian economy, but the Indian economy has been dancing to a very low tune of late because of the poor performance of the rupee. The rupee, as we all know, has given a very poor show in the past few months and there are umpteen number of factors responsible for it.

To begin with, the value of any currency depends upon the demand and supply of dollars in that economy. The demand for dollars in India has been continuously mounting whereas its supply is diminishing, which has led to excess demand and thereby the depreciation of rupee.

To add to our woes, the economy is dealing with two major deficits, the first being the current account deficit or CAD while the other is the fiscal deficit. Starting with the CAD first, the imports in our country far exceed the exports, which means more foreign exchange is needed by our country. This deficit is primarily because of the excessive import of crude oil and gold. Now, the other deficit is the fiscal deficit, which indicates that our expenditure is way ahead than our revenues, reflecting very poorly on our economy.

The above paragraphs tell us why the demand for foreign reserves is increasing, but along with it the supply of foreign reserves is also decreasing. The FIIs are