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Editorial

From the start of this financial year, the Indian Rupee has depreciated by 6.86 per cent and it was the worst performer among major Asian Currencies. Rupee Appreciation is considered bad for companies where major part of their revenue comes from export. It is good for companies that depend on import from other countries. Any rupee appreciation will hit software and textile industries hard. The investors in export oriented sector will be hit by any appreciation in rupee.

Rupee depreciates is when it loses value against the dollar. For a nation like India where import is more than export, Rupee Depreciation makes things worse because imports get expensive. This increases the deficit. Rupee Depreciation is not a good signal except for export driven companies. When a currency loses its value, it creates many problems for the economy. It leads to high inflation, as India imports around 70 per cent of its crude oil requirement and the Government will have to pay more for it in rupee terms. Due to the control on oil prices, the Government cannot easily pass the increased prices to the consumers. Further, this higher import bill will lead to rise in fiscal deficit for the Government and will push the inflation, which is already hovering around the double-digit mark.

On the other hand, India Inc. will also have to pay more in rupee terms for procuring their raw materials, despite drop in global commodity prices, only because of a depreciating rupee against the dollar. Corporate, who have foreign currency loans on their books, will get affected by their loan and interest. Individually, traveling abroad becomes more expensive as travel cost can go up by at least 10 per cent. Students studying abroad too will be hit as more rupees will go out to pay for the courses and stay. Depreciation of Rupee also affects the money flow in the Indian Stock Markets. FIIs, the investors in the Indian Equity Markets, also start withdrawing their investments from the markets, fearing loss of value.

The Reserve Bank of India, over the past couple of years, has moved towards a policy of a market-determined exchange rate. But if the objective is growth of jobs and financial stability, we need to go back to managing the exchange rate in order to maintain the external value of the Rupee around a level which would keep the current account deficit within +/- 1% of GDP. If the cost of intervention and sterilization becomes unaffordable, the solution would be to impose controls on capital movement, rather than giving up management of the exchange rate.

The Sixteenth Issue (Vol-8, No-2) of the SMART Journal of Business Management Studies consists of seven articles, written by authors of repute, on different themes of contemporary relevance. I hope readers would find the journal academically challenging and strategically stimulating.

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