

Free fall sends jitters all around

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MUMBAI: The sharp depreciation of the rupee has set alarm bells ringing. On Monday, the rupee sunk to its lifetime low of Rs. 58.15, down nearly 2 per cent against the dollar, sending shock waves in the economy even as the Reserve Bank of India (RBI) remained a mute spectator.

"The rupee is on an uncharted territory, it is difficult to forecast the next support level. It is on a free-fall due to the absence of any statement from the government and the RBI. Everybody is buying dollars (in panic)," said forex expert Moses Harding, Head - ALCO and Economic & Market Research at IndusInd Bank.

The dollar is gaining against the rupee due to an improvement in the U.S. job scenario and due to a sign of weakness in China's economy, said experts.

The free fall of the rupee will lead to prices of petroleum products and gold going up in India even though the international prices of these commodities are declining. Companies dependent on im-

ports and those which have borrowed from overseas markets will now come under a cloud.

"All import-intensive sectors such as auto, chemicals, capital goods, metal products, petro-products and power will be affected as the rupee has suddenly fallen sharply from around Rs. 55 to Rs. 58 which is over 5 per cent in the last 10 sessions," Rajesh Mo-kashi, Deputy Managing Director, CARE Ratings, told *The Hindu*

"A depreciating rupee is good for exports and troublesome for imports. In the current situation, where exports are not growing... we can expect the trade balance to come under pressure at the macro level, while at the industry level, it will tend to be more negative than positive. Corporate profitability will be impacted if the depreciation goes sharper," Mr Mokashi added.

Bad for students

Parents of students studying abroad will see their expenses going up by 8 to 10 per cent, when taken into account that the rupee has al-

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ready depreciated over 7 per cent in the last 40 days.

"Those students working part-time will mitigate the risk but those completely dependent on remittances from home will see an impact of 7 to 8 per cent more on their parents," said Vijay Bhambwani, CEO, BSPL India.com, an investment advisory firm.

For students entering American colleges this year—which normally starts in August—the burden will be high. "To my mind, for a two-year study, one should buffer in an increase of 6-8 per cent starting from March 31 2013 as additional cost which can be scaled down," said Mr. Mokashi.

Foreign travel will be costlier and airlines which pay their lease rentals, maintenance fees and part of salaries in dollars will bear the brunt.

The likely rise in fuel prices may impact their profitability.

"Overall* it (free fall of rupee) remains a concern. I don't see foreign travel being impacted in this quarter as people have already booked, but there is concern in the next quarter. The exchange rate impact will be substantial on airlines as most cost is dominated by dollar payment. If the rupee hits Rs. 60, then it is a matter of concern " for the whole economy," said Kapil Kaul, CEO, South Asia, Centre for Asia Pacific Aviation.

Foreign Institutional Investors (FIIs) are puffing out, fearing further erosion of their value of their stocks. Foreign investors have sold over \$2.5 billion of domestic debt in the last two weeks. This will further impact India's current account deficit. However, there is a silver lining. Exporters, including IT companies and oil companies from the private sector, are rejoicing as their income is in dollar terms. On Monday, the stock prices of Infosys and HCL Tech went up due to this.