EXPONENT
Empowering The Common Man

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Hope for Better

Every day unfolds a new event a new twist to the life. If one were to go thru the events over the last six months one would definitely understand what I mean by it. Look at the twist and turns in the political events globally and as well as in India and one can imagine what lies in store for us. But with God with us we are saved and we can hope for a better future, better world to live in.

Global political scenario has already changed with the polarization and with the refugee crisis and the countries joining hands for fighting against the ISIS. Even with the latest weapon and modern techniques the big barons of the world are finding the ISIS to be a tough animal to curtail.

India has seen a different type of the political events with the opposition in no mood to let the government go thru some of the key legislations. The entire last session of the parliaments seemed like a washout with no bill being able to be cleared and various issues being raised by and against the opposition. The key bill being the GST bill is still far away from the Government deadlines. The Budget session has begun and we hope that the NDA government would be able to sail thru the Fiscal budget and get some of the key bills passes which are long overdue. Much is being done by the BJP government but much more needs to be done to transform India into a Global Super Power.

In the present article, we cover the following topis

- Article 1 by Shri Avinnash Gorakssarkar on the Key Budget 2016 proposals and how the same will help the agricultural sector and the Poor man. It also highlights the key direct and indirect tax proposals.

- Article 2 by Dharmesh Sinha Trivedi on the topic of the investing in the high dividend paying stocks. It enlist the strategy of investing in companies which have paid consistently high dividend year on year.

- Article 3 by Rohan Talkalkar on the topic of review of the Solar manufacturing Industry. It has very well explained the global scenario and the Indian Sectors and certain key developments.

- Article 4 by Shital Durgawala on the topic of the interest rates , this is a sequel to the first part and explains the different type of the interest rates prevailing in the country.

- Article 5 by Yamini Sood on the topic of the figure the finances for a fragile life. It very well explains that a single person in the family must not be the only person in charge of the financial management. The same needs to be shared with the wife and children as well.

- Articles 6 by shital Durgawala and Rohan Talkalkar on the topic of changes in the interest rates and how it effects the world economy.

In the end we always wish that “ all is well that ends well” and wish for a better future for ourself and the generation to come.

Agri and Poor Mans Budget

- Avinnash Gorakssakar

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Mr Arun Jaitleys Budget today was a average budget in a difficult global economic scenario. However the government posted a pleasant surprise by sticking to the pre-announced fiscal deficit target of 3.5% of GDP.

This move is likely to have a far reaching impact on the macro economy by preserving stability. More importantly, today's show of fiscal discipline makes it easier for the RBI to continue with its accommodative stance

The government demonstrated laudable restraint by sticking to the pre-announced fiscal deficit target of 3.5% of GDP in FY17 from 3.9% in FY16. This was not easy for a government which was trying to protect growth as well as preserve macro stability. Yet, it did bit the bullet.

The silver lining, however, was that the fiscal deficit target of 3.9% was met and target of 3.5% has been maintained for FY17.

This raises expectations of a rate cut from the RBI. The two other big positives are the Rs2 lac crore capital expenditure on roads and railways and continued flow of funds and autonomy from Centre to State (Share of states at 35% v/s 27% in 2014-15).

We believe government is likely to achieve the fiscal deficit target with better revenue prospects due to reasonable growth assumption and prudent management of expenditure.

Receipts are expected to grow at 8.7% to Rs 19.6 lakh crs. Target for tax revenues (11.2% growth, 7% of nominal GDP) looks reasonable with nominal GDP growth assumption at 11% comments. However, the 24.9% growth (2.1% of nominal GDP) in non-tax revenue looks ambitious.

The disinvestment target is set at Rs 565 bn (Rs 360 bn disinvestment and Rs 205 bn strategic sale). Given the historical trend, where the actual disinvestment has been below the target, the target is still ambitious but to a lesser extent.

Total budgeted expenditure increased by 11% to Rs19.8 lakh crs. Non-planned expenditure has been controlled and is projected to grow at a slower rate of 9% to Rs14.3 lakh crs. Planned expenditure allocation was higher than expectations and increased by a high 15.3% to Rs5.5 lakh crs which is positive for growth and on guided lines of the government.

This budget rests on nine pillars - agriculture, social programs, rural development, education (with a focus on skills development), infrastructure, financial reforms, policy reforms (with a focus on ease of doing business), fiscal discipline, and tax reforms. These pillars are precariously balanced, leaning more towards the rural economy and with industry and sectoral reforms taking low priority.

The key area of neglect is the banks - the real pillars of the economy and the key to its revival. The proposed support for their recapitalisation, at around 14% of the actual requirement, can hardly patch the gaping hole.

Agricultural reforms, rural roads, rural electrification, digital literacy in rural areas - and rural development in all - has been allocated Rs 878 billion. The aim of the government is to double the income of farmers in five years.

Given the global economic uncertainty and huge negative expectations, the actual budget had no negatives and hence it was positive! Sticking to 3.5% Fiscal deficit as per FRBM act ensures that global investors continue to be overweight on India despite the selloff in other emerging markets as well as lay ground for a rate cut. The budget has rightly focused on agriculture. However, there are no stimulus to revive growth and hence corporate profitability is likely to struggle.

In conclusion with this budget not resulting in any major negative, the equity market is likely to start focusing on global cues and earnings. With many small structural reforms especially on financial sector, it lays foundation for strong growth in coming years. With valuations being in line with long-term averages and hopefully earnings downgrade cycle slowing, it would be good time to build an equity portfolio.

Some Key Announcements mase in the Union Budget today –

For the Agriculture Sector

FM minister Mr. Arun Jaitley has allotted Rs 35,984 Crs for the agriculture and farmer welfare. Pradhan mantra krishi sanchai yojana to be implemented in mission mode. Implementation of 89 irrigation projected under AIBP will be fast tracked.

Programme for sustainable management of ground water resources with an estimated cost of Rs 6,000 crs will be implemented through. 5 lakh farm ponds and dug wells in rain fed areas and 10 lakh compost pits for production of organic manure will be taken up under MGNREGA.

2,000 model retail outlets of Fertilizer companies will be provided with soil and seed testing facilities during the next three years.

Allocation under Pradhan Mantri Gram Sadak Yojana increased to Rs 19,000 crs. Will connect remaining 65,000 eligible habitations by 2019.

Stock to Watch: - Dhanuka Agritek, Jain Irrigation, Kaveri seeds, PI industries, M&M

For the Rural Sector –

Rural Sector is again the most benefited sector among all the other sectors Rs 87,765 crs.

Govt has allotted Rs 2.87 lakh crs will be given as Grant in Aid to Gram Panchayats and Municipalities as per the recommendations of the 14th Finance. 100% village electrification by 1st May, 2018. New scheme Rashtriya Gram Swaraj Abhiyan proposed with allocation of Rs 655 cr.

For the Healthcare sector and social sector –

Infrastructure New health protection scheme will provide health cover up to Rs 1lakh per family. For senior citizens an additional top-up package up to Rs 30,000 will be provided. 3,000 Stores under Prime Minister's Jan Aushadhi Yojana will be opened during 2016-17.

National Dialysis Services Programme' to be started under National Health Mission through PPP mode.

- Stock to Watch: Kovai medical, Dr. Reddy's, Apollo Hospitals

For the Infrastructure and investment sector -

- Total investment in the road sector, including PMGSY allocation, would be Rs 97,000 crs during 2016-17. India's highest ever kilometres of new highways were awarded in 2015. To approve nearly 10,000 kms of National Highways in 2016-17.
- Allocation of Rs 55,000 cr in the Budget for Roads.
- Additional Rs 15,000 cr to be raised by NHAI through bonds. Total outlay for infrastructure Rs 2,21,246 crs. Comprehensive plan, spanning next

15 to 20 years, to augment the investment in nuclear power generation to be drawn up. 100% FDI to be allowed through FIPB route in marketing of food products produced and manufactured in India.

- Stock to Watch: Torrent power, Larsen & Toubro, Suzlon energy, Inox Wind, Reliance Infrastructure .

For the Banking and NBFC Sector -

- The comprehensive Code on Resolution of Financial Firms to be introduced. Statutory basis for a Monetary Policy framework and a Monetary Policy Committee through the Finance Bill 2016.

- A Financial Data Management Centre to be set up. RBI to facilitate retail participation in Government securities. New derivative products will be developed by SEBI in the Commodity.

- Amendments in the SARFAESI Act 2002 to enable the sponsor of an ARC to hold up to 100% stake in the ARC and permit non institutional investors to invest in Securitization Receipts.

- Comprehensive Central Legislation to be bought to deal with the menace of illicit deposit taking schemes. Increasing members and benches of the Securities Appellate Tribunal.

- Allocation of Rs 25,000 cr towards recapitalization of Public Sector Banks.

- Target of amount sanctioned under Pradhan Mantri Mudra Yojana increased to Rs 1, 80,000 crs. General Insurance Companies owned by the Government to be listed in The stock exchanges.

- New derivative products will be developed by SEBI in the Commodity Derivatives market. General Insurance Companies owned by the Government to be listed in the stock exchanges.

- Stocks to Watch: State bank of India, State bank of travancore, Bank of Baroda, IDBI bank etc.

For boosting employment and Growth –

- Increase the turnover limit under Presumptive taxation scheme under. section 44AD of the Income Tax Act to Rs 2 crs to bring big relief to a Large number of assesses in the MSME category.

- Extend the presumptive taxation scheme with profit deemed to be 50%, to professionals with gross receipts up to Rs 50 lakh. New manufacturing companies incorporated on or after 1st March 2016. to be given an option to be taxed at 25% + surcharge and cess provided they do not claim profit linked or investment linked deductions and do not avail of investment allowance and accelerated depreciation.

- 100% deduction of profits for 3 out of 5 years for startups setup during. April, 2016 to March, 2019.

- MAT will apply in such cases. Non-banking financial companies shall be eligible for deduction to the extent of 5% of its income in respect of provision for bad and doubtful debts.

- For Resource Mobilization for Agriculture, Rural economy and Clean environment –

- Additional tax at the rate of 10% of gross amount of dividend will be payable by the recipients receiving dividend in excess of Rs 10 lakh per annum.

- Surcharge to be raised from 12% to 15% on persons, other than companies, firms and cooperative societies having income above 1 crore.

- Infrastructure cess, of 1% on small petrol, LPG, CNG cars, 2.5% on diesel cars of certain capacity and 4% on other higher engine capacity vehicles 13 and SUVs. No credit of this cess will be available nor credit of any other tax or duty be utilized for paying this cess.

- Excise on readymade garments with retail price of Rs 1000 or more rose to 2% without input tax credit or 12.5% with input tax credit. Excise duties on various tobacco products other than beedi raised by about 10 to 15%.

For Technology for Accountability -

- Expansion in the scope of e-assessments to all assesses in 7 mega cities in the coming years. Interest at the rate of 9% p.a. against normal rate of 6% p.a for delay in giving effect to Appellate order beyond ninety days. 'e-Sahyog' to be expanded to reduce compliance cost, especially for small taxpayers.

Union Budget 2016 Highlights

1. Rs. 35984 crores allotted for agriculture sector.
2. Rs. 17000 crores for irrigation projects.
3. Two new Organic farming scheme for 5 lakh acres.
4. Rs. 19000 crores for Gram Sadak Yojana
5. Rs. 9 Lakh Crores Agriculture Credit Target.
6. Rs. 38500 crores for MANREGA, highest ever.
7. Rs. 2.87 Lakh crores to be spent on Villages in total.
8. Rs. 9000 crores for Swach Bharat Mission.
9. Rs. 97000 Crores for Roads.
10. Total Outlay on Roads and railway Rs. 2.18 Lk Crores.
11. Rs. 2.21 Lakh Crores on Infra Projects.
12. NHAI to raise Rs. 15000 crores via NHAI Bonds.
13. More benches for SEBI Appellate tribunal.
14. Registration of Company in One Day for Start-ups.
15. Rs. 25000 crores for Banks rehabilitation.
16. 100% FDI for food processing.
17. Non planned expenditure of Rs. 14.28 Lk Crores.
18. Planned expenditure increased by 15.3% .
19. Relief Section 87A Rs. 2000 to Rs. 5000
20. Relief Sec 80GG Rs. 24000 to Rs. 60000
21. Section 44AD limits Rs. 1 crores to Rs. 2 crores. Rs. 50 Lakh for professional
22. Accelerated depreciation limited to 40%
23. New manufacturing companies will pay tax @ 25%.
24. LTCG on unlisted securities limited to 2 years.
25. 100% tax deduction for companies building houses upto 30 sq. mtrs.
26. Additional interest deduction for first house.
27. No service tax for building houses upto 60 sq mtrs.
28. 10% dividend tax for recipient over Rs. 10 lakh per annum.
29. TCS on purchase of asset over Rs. 2 Lakh in case and luxury cars.
30. VDS Scheme @ 30% + surcharge, Ist June to 30th September 2016.
31. Dispute resolution for appeal pending before Commissioner(Appeals).
32. Penalty for concealment of Income from 100-300% to 50-200%.
33. Rationalisation of TDS provision

INDIRECT Taxes Proposals

- Propose changes in customs duty to push Make in India plan
- Exempt svc tax on general insurance plans in Nirmaya scheme
- Committed to implementing GAAR from Apr 1, 2017
- Asset recast cos' income to be taxed at hands of investors
- Propose special patent regime to power innovation, research
- Services provided by EPFO exempted from service tax
- STT of 0.05% on options contracts
- Service tax waiver for houses of less than 60 sq mtr
- Service Tax exempt for svc under rural electrification plan
- To give excise duty exemption to ready-mix concrete
- Excise of 12.5% with input tax credit on jewellery
- To abolish 13 cesses by ministries
- To amend Central Value Added Tax credit rules
- To amend CENVAT credit rules
- Taxation panel to fix demand under retrospective tax cases
- Hope old cases on retrospective tax reach conclusion soon
- No retrospective taxation to be undertaken
- 1-time no-interest liability in retrospective tax cases
- To up excise duty on various tobacco products by 10-15%
- Cos incorporated post Mar 1 to be taxed at 25%+

surcharge

- Doubles clean energy cess on coal to 400 rupees/ tn
- To up excise duty on some tobacco pdts by 10-15%
- Infra cess of 2% on diesel cars
- 4% infra cess on high capacity vehicles, SUVs
- To levy 1% infra cess on small petrol, LPG, CNG cars

DIRECT TAX Proposals

- Plan simplification, rationalisation of taxes
- Tax rebate on rent paid upped to 60,000 rupees vs 24,000
- Tax changes to support Make in India, affordable housing
- To give relief to small taxpayers
- To launch steps to move towards pension society
- To give relief to small tax payers
- Withdrawal upto 40% from Natl Pension plan to be tax exempt
- To allow lower corporate tax for some cos from FY17
- Reduction in corporate tax has to be calibrated
- Faster depreciation rate under income tax act at 40% FY17
- Reduction in corporate tax has to be caliberated
- Detailing roadmap for phasing out corporate tax exemption
- Propose 0.5% Krishi Kalyan cess on all taxable svcs Jun 1
- Propose Krishi Kalyan cess
- To raise surcharge on income over 10 mln rupees to 15%
- 10% tax on recipient if got dividend over 1 mln rupees/yr
- Some home buyers to get extra exemption of 50,000 rupee/yr
- No changes in income tax slabs
- To rationalize tax deducted at source for small tax payers
- Penalty of 200% of tax for misreporting of income
- Penalty of 50% of tax for under-reporting of income
- Penalty to be 50% of tax in income under-reporting cases
- Modifying scheme of penalty under Income Tax Act
- Revenue secy to head committee on taxation
- Committed to stable, predictable taxation regime
- To focus on bringing to book people with black money
- Prosecution immunity for undisclosed income declaration
- 300,000 tax cases worth 5.5 trln rupees pending
- New dispute resolution scheme for taxation proposed total 45% Tax
- Compliance window for undisclosed income Jun 1-Sep 30
- 7.5% surcharge on undisclosed income in compliance window
- Govt committed to removing black money
- To move towards low tax regime with non litigious approach
- Limited period compliance window on undisclosed income

Investing in Dividend Paying Stocks

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Every person one today wants to invest in stock market and earn from it. We hear from every person whom we meet that saying that "hey I invested in so and so stock and I made so much profit".

We look for short term gain always and look for tips from our friends who have made profit and whom we feel have been successful in stock trade. Everyone wants gives advise and becomes a financial advisor to others based on his /her success story. Thus today everyone want to be a investor and make quick returns from investment in stock exchange.

Not everyone is lucky to buy at low and sell at high. There is an old saying "that u can never buy and bottom and sell at top". It is very difficult to time the market.

To understand the human psychology we should know why do people invest in stocks.

Rational for investment in stocks

There are only two rational for investment in shares

- To earn Capital appreciation by way of profit (either short term or long term)
- Wealth creation over a long term period of time.

In doing the above, most people do forget that since everyone does not gain in short term, one should look at one more angle to and rational for investment in stocks and that is to be a long term investor and get decent tax free returns in form of dividend.

The following are the advantages of investing in dividend paying stocks

- Getting a regular flow of income year on year alongwith capital appreciation
- Dividend paying companies are consistent performers
- Returns from dividend are tax free (as it is taxed at company level)
- Income by way of dividend in most good companies also helps beat the inflation

How does one invest and generate dividend income from stocks

- Look for companies which year on year give dividends go for companies which have given more than 100 pc in last 5 years
- study the consistency of the income of the companies in last five years and see the growth potentials
- Study the promoters of the companies. This is very important since good promoters believe in both capital appreciation and steady regular flow of income.

In short, the ideal investment strategy is to invest in stock keeping in mind

- capital appreciation by investing in good companies and
- look at investing in companies which give good returns by way of dividend

We have identified a few companies which have given consistently good dividend over the last five years.

% terms

Name of the Company	March 2015	Mar 2014	March 2013	Mar 2012	Mar 2011
Financial technologies	850	400	400	400	400
NMDC	855	850	700	450	330
KSE	500	200	100	110	100
Polaris consultant	300	125	100	100	90
CARE	790	280	200	100	65
Coal India	207	290	140	100	39
Infosys	1190	1260	840	940	1200
JB chemicals	700	150	150	2050	100
Oil india	200	215	300	475	375
Vedanta	410	325	10	400	350
Clariant Chemicals	390	300	275	600	300
Canara bank	105	110	130	110	110
ONGC	190	190	190	195	175
VST Industries	700	700	625	650	450
HInduja Global	200	200	200	200	200
sonata	700	375	175	75	200
Hexaware Technologies	472	555	270	200	150
Accelya kale	360	490	700	235	20
Gujarat Minerals	150	150	150	150	150
HCL Tech	1500	500	600	600	375
Swaraj Engines	330	350	330	130	100
Hinduja Ventures	150	150	150	150	125
TCS	7900	3200	2200	2500	1400
HIL	200	50	200	185	160
Tata investment Corp	170	170	160	210	160
Tata steel	80	100	80	120	120
Hindustan Zinc	220	175	155	120	50
PNB	165	100	270	220	220
Tata chemicals	125	100	100	100	100
Gandhi special tube	150	120	120	120	100
Maharashtra seamless	100	120	120	120	120
IL&Fs	65	65	75	75	75

-source BSE website

Conclusion

Invest in good dividend consistent paying companies and generate a steady income year on year.

Solar Manufacturing Industry

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Recent climate summit at Paris was under debate for blame game between developed and developing nations on cutting emission of greenhouse gases. Our Prime Minister gave stern reply to developed nations about shifting blame on developing nations on current climate changes. We will take a look whether our words meet our actions, by looking at growth in solar industry and also problems faced by it. Solar industry is also emerging as good investment option as rising demand for solar power cells in the country & internationally too because of global warming cues.

1. India's energy imports have risen sharply from \$43 billion in 2005-06 to \$167 billion in 2013-14 & also contributed to \$139 billion in the same.
2. Solar power is strategic need of the country as solar power can potentially save \$20 billion of fossil fuel imports annually by 2030 and domestic manufacturing can save \$ 42 billion of equipments imports by 2030.
3. Solar manufacturing can also create 50000 jobs in next 5 years assuming that domestic manufactures capture 50% of market share & 10% of global market share.
4. Another 125000 jobs will be created indirectly by supply chain of these products. India also need to get firm place in solar market industry at the early stages, with rising concern about global warming and nations taking more interest in providing solar energy for future energy demand

Indian Solar Manufacturing Industry

Indian Solar manufacturing industry has strategic importance but it is yet to have the intended effect. 40% of Indian solar manufacturers have shut down because of only 21% utilization of market. Industry faces threats like sudden slump in price due to over supply in global market by China, lack of support from the government by providing various capital subsidies, tax holidays easy access to technology support. Indian cost of production is higher than china which makes it net exporter of solar equipments.

Since the newly formed government is very optimistic about solar manufacturing industry growth. It has taken adequate measure to setup new solar power plants. Private involvement also increased in recent years. Government also plans to increase the limit of solar energy to state from 3% to 8%. Government has also put restriction on purchasing 50% of solar equipments through imports & has made compulsory other 50% from local manufacturers. These measures will definitely help in accelerating growth in Indian solar manufacturing industry. Government's major leap in solar energy production is JNN Solar Mission (*Jawaharlal Nehru National Solar Mission*) which was launched in 2011 by Prime minister Dr. Manmohan Singh . JNN solar mission aims at generating 20,000 MW capacity of solar energy by 2022. This mission is divided into three phases. Starting 11th Plan and first year of the 12th Plan (up to 2012-13) as Phase 1, the remaining 4 years of the 12th Plan (2013-17) as Phase 2 and the 13th Plan (2017-22) as Phase 3 . Newly Formed Government under the leadership of Shri Narendra Modi has expanded the target to Install Capacity of 100,000 MW (100GW) by 2022.

Impact of Initiatives

Looking at energy needs of India & its burden on conventional energy production solar energy is the need of an hour . Reforms in FDI has made easy for the foreign firms & companies to start business in the country. Domestic manufacturers also welcomed this change and are looking forward for the opportunity to partner them in the business. Today major Indian companies are loosing grip of market as there products are expensive compared with similar Chinese products by 10%-12%. Such initiatives by Government also empower local manufacturers by enjoying economies of scale with foreign partners.

Recent Partnership & Joint Ventures

1. Welspun Energy signed MoU with China's Trina Solar to setup photovoltaic industry park to produce 500Mw of PV cells & 500Mw of PV modules in India during prime ministers recent visit to china.
2. In the same visit Essel group also entered into JV with China's energy firm JA solar to manufacture Solar cells and module in India.
3. Vikram Solar and German institute Fraunhofer institute of solar energy.
4. Systems ISE and Swiss companies meyer burger & German company centhrotherm.
5. There was also agreement between Adani group and America's largest solar company Sunedison to establish JV to set up largest photovoltaic manufacturing unit worth $4 billion.
6. Azure Power has also planned to setup 100 MW plant in Rajasthan under JNN solar mission which is about to cost 1500 crores. Company will supply solar energy to Solar Energy Corporation of India for 25 years. Company is also in partnership with U.S solar giant Sunedison to set up new plants inn India. Last year Indsolar bagged deal for supplying largest solar cells for the project with Azure power ltd.

Talking about investments about above projects many big investment banks such as Morgan Stanley, Goldman Sachs, Standard Chartered have plans in the pipeline for big investments in Solar manufacturing industry. Goldman Sachs earlier also invested $375 billion in Renew power and also looking forward for more such investments. Ministry of Renewable Energy has received mandate from Prime Minister to complete the target of 100000 Mw by 2019. If the target is to be acquired India needs investment of $110 billion. Major portion of this investment is from foreign funding as domestic investment won't alone fulfill the basket. Sun Edison bidding lowest at Rs 4.63 per unit, but industry may also see lowest bid in coming years . Sun Edison Global CEO Ahmad Chatila points that construction cost of solar power projects have seen 80% decline in last 5-6 years & also points at further 30% decline in coming 5 years. He also emphasized on the point that Exchange rate fluctuations are affecting foreign companies in generating their profit. Manufacturing modules in India increases cost by Rs 1 per unit because of tariff structure . If the cost of producing does not decline and prices do it would be hard for foreign investors to survive in Indian solar industry .

There is no doubt about importance of solar energy in current times. At such an early stage India still lacks in technology & assistance which needs to updated with immediate efforts. China with its comparative advantage in the industry is flooding global market which is hampering indian markets too . Recent developments by government are giving good results & are also promising for the long run.

For example, Welspun Energy signed a memorandum of understanding with China's Trina Solar to jointly set up a photovoltaic industry park to produce 500 Mw of PV cells and 500 Mw of PV modules in India during the prime minister's recent China visit during May 14-16. In the same visit, Essel Group entered into an agreement with China's energy firm JA Solar to launch a joint venture for manufacturing solar cell and modules in India.

At Hannover Messe, the world's biggest industrial fair ..

Read more at:
http://economictimes.indiatimes.com/articleshow/47494798.cms?utm_source=contentofinterest&utm_medium=text&utm_campaignw=cppst

Interest Rate (Part - II)

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When we compare Indian interest rates with those in other countries, particularly with advanced countries, we can see that the flexibility and variability of interest rates abroad have been much more than that prevailing in India. Short-term interest rates in India have usually higher and long-term interest have lower rates than the rate prevailing abroad. But after 1985, the long-term interest also showed an increasing trend.

India has witnessed three phases of interest rate policy

- First phase (1950-60):-

It was characterized by more or less free interest rate.

- Second phase (1961-85):-

It was characterized by administered or regulated interest rate system.

- Third phase (1985 onwards) is the phase of gradual and progressive deregulation of interest rates, received a big push in 1991, and is still continue

In the world there are various types of interest rate in India. The structure, trend & policies regarding interest rate have their own peculiar nature & varied behavior. Some important interest rate in India are:-

- **Bank rate** – The Bank rate is the rate of interest on loans that the central bank makes to commercial banks. It is the minimum rate at which the central bank of a country provides loans to the commercial banks of the country. Bank rate is also called as discount rate because the central bank provides finance to the commercial bank by rediscounting the bills of exchange. A central bank uses discount rate lending not only to control money supply but also to help financial institutions when they are in trouble. The bank rate is fixed by the RBI from time to time. CRR,SLR,RR(REPO Rate),RRR(REVERSE REPO rate),MSF(Marginal standing facility),SLR(Statutory liquidity ratio) all these rates are included in Bank rate.

Here the current Bank rates are(w.e.f.29/9/2015) :-

1. Bank Rate - 7.75 %
2. Cash Reserve Ratio (CRR) - 4 %
3. Statutory Liquidity Ratio (SLR) - 21.5 %
4. Repo Rate (RR) - 6.75 %
5. Reverse Repo Rate (RRR) - 5.75 %
6. Marginal Standing Facility (MSF) - 7.75 %

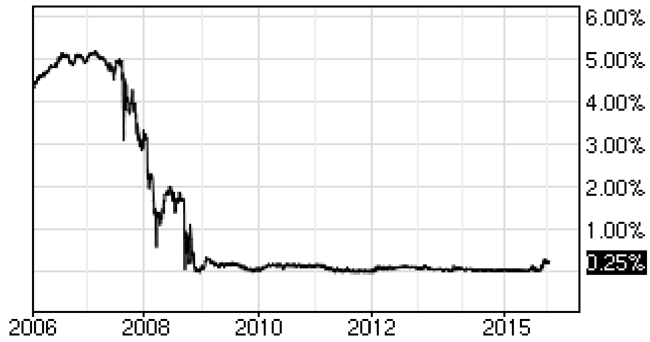
- **Prime lending rate**:- Prime lending rate is the rate of interest rate charged by banks on their short term loans. Bank lending rate in India reported by Reserve Bank of India. The following chart gives more information of bank lending rate in India which was unchanged at 9.70 percent in January from 9.70 percent in December of 2015.

In above chart Prime lending rate is continuously declined which was 10.25% in April 2015 it was declined 10% in July 2015 after that 9.95% in Oct.2015

& it was 9.7% in Jan 2016.

- **Commercial paper rate**:- Commercial paper is a Money market instrument & issued in the form of a promissory note. Commercial paper introduced in India in 1990 for the purpose to enable high rated corporate borrowers to raise short term borrowers by this additional type of instrument which was till that time was not available in India. Commercial paper shall be issued in denominations of Rs.5 lakh & multiples thereof. Commercial paper maturity between 7 days to one year.

- **Treasury bill rate**: Treasury bills are government securities (bonds of debt) with maturity of less than one year. T-bills are issued to meet short term needs & to fill the gap between government expenditure & receipts. T-bills are issued by Reserve bank of India on behalf of government. T – Bills are short term securities that mature in one year or less from their issue date. T-bills are issued for 91 days, 180 days, 365days.



In above chart 3-month Treasury bill rate shown as on 16 Jan.2016. Treasury bill rate was 0.25% on 16 Jan.2016.

- **Bank deposit rate**:- This is one kind of interest rate which imposed by banks on their deposits. There are number of types of deposits such as fixed deposit rate , Current deposit/account,Saving bank/ Saving fund deposit & Recurring deposit etc.

Figure The Finances For a Fragile Life

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Death seldom comes as good news unless it is a pest in your house and by pests I purely mean lizards, cockroaches or rats. Death can be an even more painful event if it is that of a near or a dear one. And it can get gruesomely painful to know that the one deceased had yet years to live by, responsibilities to fulfil, a life to envisage and decades yet to give. Today, I have witnessed one such heart breaking events of my life.

Sonu was 37 years old, healthy, smart, handsome, intelligent, successful, happily married, a blessed father and a dutiful son. I say this without exaggeration. He drowned yesterday to an untimely death. He was devoured by the swimming pool where he was playing with his son. The family is desolate of course. He leaves behind two boys and the wife completely clueless about how to handle this thing called Life from hereon. Sonu did everything. He made the money, he saved the money, he invested it and he spent it. He planned the vacations; he planned the parties and much more. I do not mean to disregard the wife's contribution but he was in charge of the 'monies' saved or spent. What happens now that Sonu is not around? After all he may have budgeted for many a things but death was not what he budgeted for. Well, Not Yet!!

So, after all the gloom settles down and when Sonu becomes only a memory, memory of all the past times, What next??? As they say, the Show Must Go On. Picture Abhi Baaki Hai Mere Dost. Sadly, memories do not buy you ration, fondness or love does not pay the school fees, tears may wash away some of your pain but they will never wash away the hardships of life. Those, have to be faced up close. I hate to break this to anyone who has any doubts but Money still remains the most sought after commodity on this planet only after oxygen that is. Thankfully, Oxygen is free but Money does not yet grow on trees.

So, if you haven't done it yet, make a checklist today and ensure a few pointers:

Does your spouse (be it the husband or the wife) know where are all the papers related to your bank accounts, investments, tax returns, etc are? I personally maintain one hardcopy of each investment made and store it in a folder. This folder contains all our investments be it mutual funds, insurance or the land deal I made with Robert Vadra (Yes! Don't under estimate the power of Yamini Sood)

Do you have life insurance? And by that I mean term insurance. U better have it unless you have been told by a Nadi astrologer that you will live till 80. And if you have believed that enough to ignore insurance, you may also want to believe that you can still wear diapers under your pants and look cool.

We live in an e-world with most things online. Collate all such money related information, passwords as per your convenience and share the location with your better half.

Demat Accounts, Mutual Funds have the wonderful option of Nomination. Ensure that your spouse has been nominated under all your investments. Putting your spouse's name as the second holder in the bank account is not just wise but also very convenient for all the extra ordinary times when you may not be physically around (travel, etc) while some bank work

needs to be attended to.
Let your spouse know about your monthly liabilities, EMIS, utility bills. Chances are he/ she may already be aware but its better if you are not trying to be a super man/super woman keeping all the thorns to yourself and showing your spouse that life is a bed of roses.

If you have a huge housing loan, it is advisable to have a home insurance too. You may be paying your EMI diligently and may have plans to pre pay the loan soon but there is something known as contingency planning. Devil lies sometimes in detail and sometimes in unserviceable EMIs

Be prepared for the unexpected. I am not saying be prepared to die. But, if ur Karma is not a bitch, your organisation may choose to be so. Be prepared to lose your job, face a large unanticipated medical calamity or worst of all you may decide to produce 'Prem Ratan Dhan Paayo' and go bust (I have advance sympathies for Rajshree Productions)

Above all, try to spend less and save more. Save first and then spend the remaining. Learn about investing. You can start with many You Tube videos if reading blogs or opinion pages sounds scarier than watching a Kamal R Khan movie.

Changes in Interest Rate and Effects on World Economy

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Changes in the interest rate in one economy has repercussions at global level too as they have ability to change the flow of money from one country to another. When economy is facing deflationary pressure it is important to generate inflation by increasing liquidity. Raising liquidity means lowering interest rates which helps in accelerating consumption cycle. However interest rates also affect exchange rates. Higher interest rate makes the currency of that country more valuable and able to attract more foreign investments. There are many more such aspects to change in interest rate .lets take a look at how interest rates are determined and what is the status of basic rate in various economies.

For example in India RBI (Reserve Bank of India) decides the short term lending rate which is also known as Repo rate ,the rate at which banks borrow money from RBI .Repo rate has maturity of 1 day .Similarly Reverse repo rate is the rate which banks receive when they deposit money with the RBI .On the other hand Europe has different system of interest rate which is known as Euribor (Euro Interbank offered rate) which is average interest rate at which selection of banks provide short term loan to each other. There are Euribor rates for maturities from 1 week to 12 months. Banks also provide 1 day maturity rate is also known as Eonia . Interest rate management system changes with structure of monetary management in the economy. Following are the current interest rates with changes in recent period. This decade has seen many ups and down in the interest rates of developed nations which are now at bottom level. On the other hand Developing nations having high marginal efficiency of capital & increasing demand for credit have competitive level of interest rates among them.

Summary of current interest rates of a large number of central banks

Name of interest rate	country/region	current rate	direction	previous rate	change
American interest rate FED	United States	0.500 %	↑	0.250 %	12-16-2015
Australian interest rate RBA	Australia	2.000 %	↓	2.250 %	05-05-2015
Banco Central interest rate	Chile	3.500 %	↑	3.250 %	12-17-2015
Bank of Korea interest rate	South Korea	1.500 %	↓	1.750 %	06-11-2015
Brazilian interest rate BACEN	Brazil	14.250 %	↑	13.750 %	07-30-2015
British interest rate BoE	Great Britain	0.500 %	↓	1.000 %	03-05-2009
Canadian interest rate BOC	Canada	0.500 %	↓	0.750 %	07-15-2015
Chinese interest rate PBC	China	4.350 %	↓	4.600 %	10-23-2015
Czech interest rate CNB	Czech Republic	0.050 %	↓	0.250 %	11-01-2012
Danish interest rate Nationalbanken	Denmark	0.050 %	↓	0.200 %	01-19-2015
European interest rate ECB	Europe	0.050 %	↓	0.150 %	09-04-2014
Hungarian interest rate	Hungary	1.350 %	↓	1.500 %	07-21-2015

Name of interest rate	country/region	current rate	direction	previous rate	change
Indian interest rate RBI	India	6.750 %	↓	7.250 %	09-29-2015
Indonesian interest rate BI	Indonesia	7.000 %	↓	7.500 %	02-18-2016
Israeli interest rate BOI	Israel	0.100 %	↓	0.250 %	02-23-2015
Japanese interest rate BoJ	Japan	0.000 %	↓	0.100 %	02-01-2016
Mexican interest rate Banxico	Mexico	3.750 %	↑	3.250 %	02-17-2016
New Zealand interest rate	New Zealand	2.500 %	↓	2.750 %	12-10-2015
Norwegian interest rate	Norway	0.750 %	↓	1.000 %	09-24-2015
Polish interest rate	Poland	1.500 %	↓	2.000 %	03-04-2015
Russian interest rate CBR	Russia	11.000 %	↓	11.500 %	07-31-2015
Saudi Ariabian interest rate	Saudi Arabia	2.000 %	↓	2.500 %	01-19-2009
South African interest rate SARB	South Africa	6.750 %	↑	6.250 %	01-28-2016
Swedish interest rate Riksbank	Sweden	-0.500 %	↓	-0.350 %	02-11-2016
Swiss interest rate SNB	Switzerland	-0.750 %	↓	-0.500 %	01-15-2015
Turkish interest rate CBRT	Turkey	7.500 %	↓	7.750 %	02-24-2015

Japan's Negative interest rate policy

Interest rate fluctuations are subject to the economic environment in the country as well as outside the country. Recently, Japan introduced negative interest rate to stimulate consumption and investment in the economy. Theory behind negative interest rate is to provide loans to companies and consumers at very almost zero borrowing cost. But, this policy has higher risk as banks are asking depositors to give money to hold their cash. Prior to Japan many European countries adopted negative interest rate as their QE program. Currently market is volatile as many economies are holding their key rates low to make their currency competitive .Japan's move to reduce rates to below zero level is because ,China is devaluing it currency & Japan is major exporter to China. However Japan argues that it is to generate inflation domestic economy. Negative interest rate depresses exchange rate and depressed exchange rate raises inflation.

No one can ignore the truth that interest rate plays crucial role in defining domestic economy as well as global economy too. World in the race of globalization has become a single village So fever to one country can cause sniffing to other economies too.

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