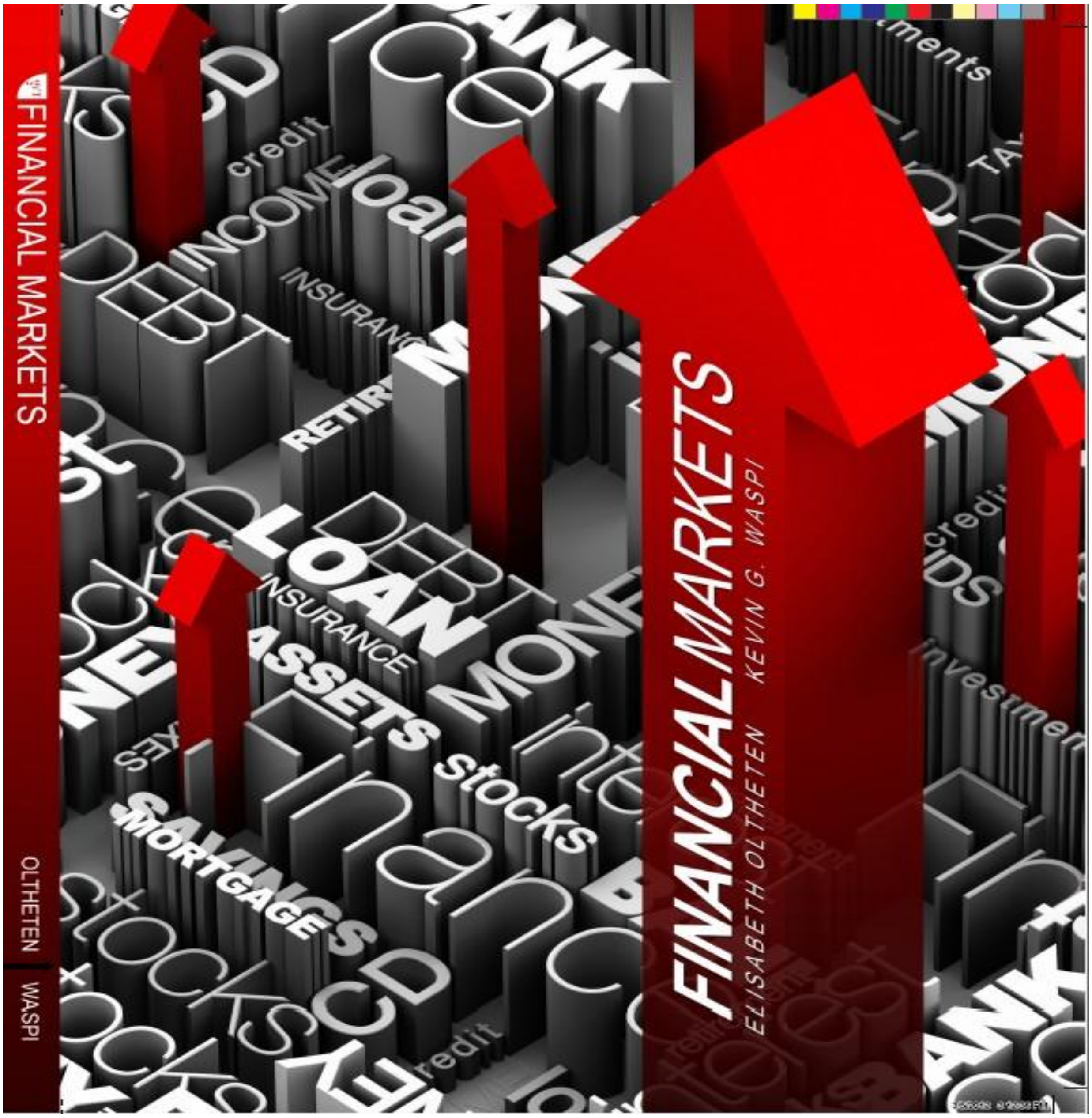

THE FINANCIAL BUG

From the Editor's desk

The Financial BUG, a newsletter prepared by the BFM students is an initiative which helps to disseminate information about important news and events which affect the economy of our country. The aim is to inculcate a practical understanding of our learning's.

The newsletter contains different segments or sectorial news covered by the committee. The newsletter is prepared under the guidance of Pratik sir and Pooja Ma'am. We hope it is appreciated and students get the most benefit out of it.

Lastly,

An initiative is always taken up by a few people, we the BFM's editorial team invite everyone who wishes to put forth there ideas or articles in the journal. Simply mail us your article at ejournalbfm@gmail.com.

We would be happy to put up your articles on the bulletin. Articles could be regarding to any topic or event that has occurred in the recent past. Suggestions regarding the same will be looked upon.

-Ratika Khandelwal

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INDIA TO BENEFIT AS OIL PRICES FALL MORE AFTER CHINA DEVALUES YUAN

Indian consumers can expect fuel prices to decline as crude oil prices fall more tracking the devaluation of the Chinese currency even as Organization of Petroleum Exporting Countries (OPEC) continues to pump in more, helping the country save big bucks on energy imports.

China, the world's second-biggest consumer of oil, devalued its currency yuan for the second consecutive day on Wednesday to support the slowing Chinese economy, aggravating concerns that energy demand from the country would fall more, adding to the glut in the market.

While demand continues to decline, OPEC, which accounts for 40 per cent of world's crude oil output, has been pumping in more oil after Iran restored output after international sanctions were lifted.
Oil prices will continue to be subdued as OPEC is not cutting down production and alternative sources of energy are adding to the supply. It is good news for India as it will substantially reduce our import bill and also benefit manufacturers as their input cost would go down. Rating firm ICRA estimates that for every $1 per barrel decline in crude prices, India saved Rs. 6,500 crore on the import bill.

Japan resuming its first nuclear reactors since the Fukushima disaster in March 2011 is likely to weaken the sentiment further on expectations that the country will slowly scale up nuclear power generation and cut down use of oil and natural gas. Analysts said LNG prices may soften too, giving relief to Indian consumers who have long-term contracts which offer most expensive prices in Asia.

We are yet to see any rebalancing happening globally where lower prices can drive up the demand for crude oil. But as of now, prices would be subdued and energy companies will continue to scrap high cost projects.

While global energy majors are cutting capital expenditure, Indian state-run oil firms have lined up investments of over Rs 76,565 crore on capital expenditure for 2015-16, up 5% on year. Of this, explorer ONGC alone would invest Rs 36,250 crore. The fall in crude prices have improved cash position, giving a stronger position to invest more.

Source: The Economic Times

-Colated by Nalini Gupta

THE TROUBLED TEN

The currencies are melting down all over. For a long time Morgan Stanley, American multinational financial services corporation has kept a list of Emerging Market currencies that were running the worst account deficits and faced the greater risk of being devalued against the Dollar. The Fragile Five which were identified as the worst performers of 2013 included:-

- Indian Rupee
- Indonesian Rupiah
- Brazilian Real
- Turkish Lira
- South African Rand

The Fragile Five have suffered as rising global interest rates made it more difficult for the countries to finance their current account deficits and these countries have suffered considerably against the rising Dollar over the past few years. Now the Fragile Five has become a history and the strategists at Morgan Stanley were worried about what could be called the Troubled Ten as China is giving some of the countries a double whammy. These include the currencies which are particularly at risk since China devalued the yuan. These have trading ties with the world's second biggest economy and so this description makes them susceptible to a slowdown in China. China is the top export destination for most of the countries on the Troubled 10 list. In 2014, China accounted for 37% of South Africa's export and 30% of South Korea's. The strategists say that it's all about vulnerability as the victims of the policy change this time are currencies of countries with high export exposure and export competitiveness with China. The Troubled 10 includes:-

- Brazilian Real
- South African Rand
- Columbian Peso
- Chilean Peso
- Taiwan Dollar
- Singapore Dollar
- Thai Baht
- Russian Ruble
- South Korean Won
- Peruvian Sol

The Brazilian Real and South African Rand were part of Fragile Five and now are figured in Troubled Ten too .Investors were startled as China implemented the biggest depreciation of the yuan since 1994 , raising concern that authorities plan to use a lower exchange rate to shore up the weakest growth in more 2 decades. Japan is not on the list even though Yen is the worst performing country and their economy as per today's GDP is clearly in a recession.

When the Indian Rupee figured in Fragile Five nearly 2 years ago, it had plunged to a new low of 68.83 to a dollar but since then the fall of the Indian Rupee has been limited to 5% but many developing market currencies crashed by more than 20%.

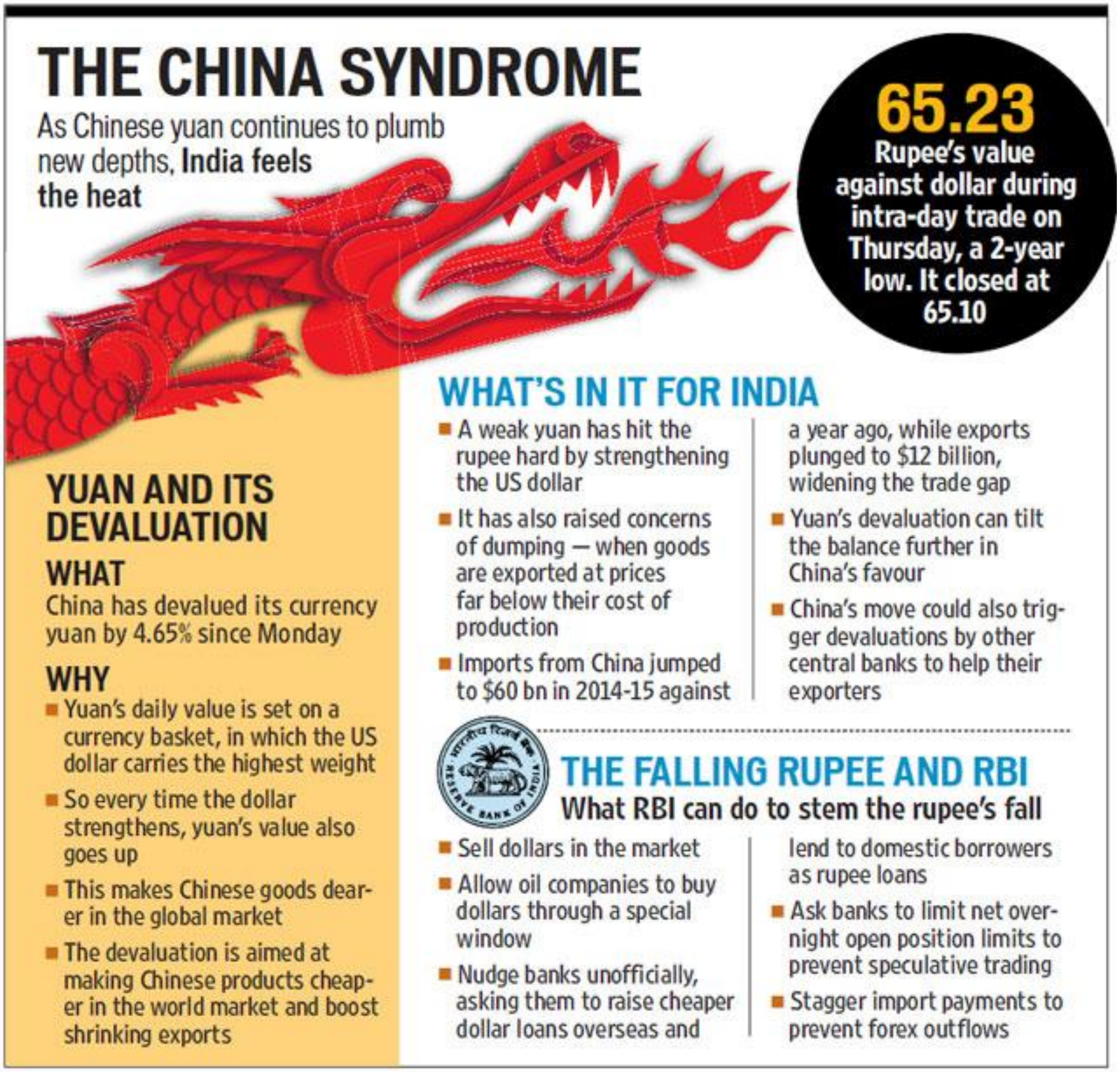
Source: Bloomberg Business

-Colated by Anvi Ghiya

EFFECTS OF DEVALUATION OF YUAN ON INDIAN RUPEE

According to the Finance Ministry, the devaluation of Chinese currency- The Yuan will only have a temporary impact on the rupee as India has adequate foreign exchange reserves as compared to other BRICS countries. India's current account deficit is at a comfortable position and Indian exports are less reliant on Chinese domestic demand and most product do not compete directly with those from China.

In August 2013,when US Fed gave time to phase out easy money policy, India figured in the pack of 'fragile five' emerging market currencies that could come under pressure. But, this time round, after the yuan devaluation, the rupee is not in the basket of 'troubled ten' currencies. Though the rupee has dipped recently and could be led to slide slowly, its depreciation so far has been one of the lowest in EM. However, yuan devaluation has affected Indian rupee in the following way-



1) **Rupee volatility**: The sharp fall in the rupee has already rattled stock markets, which fell for a fourth straight session today. If the rupee continues to fall sharply, imports will become costlier, stoking inflation. This will force the Reserve Bank to hold on to high interest rates, which will hamper the ongoing economic recovery. Since India runs a trade deficit (imports are more than exports), chances are the current account deficit will also rise, which will further pressure the

rupee. Falling rupee is bad for those companies that have dollar-denominated loans and also for foreign flows because stock market returns become unattractive.

2) **Pressure on exports:** In normal course, falling rupee would have aided domestic exports, which have contracted for seven straight months until June 2015. However, analysts are betting against a rise in domestic exports because of a global slowdown. The fact that China and India compete for several export items such as textiles, gems and jewellery, etc. will also go against domestic exporters, analysts say. "The large overlap between Indian and China in markets and also products highlights the threat Indian exporters face from China," said DK Pant, chief economist of India Ratings and Research. The economic slowdown in China - which is among the top five countries for Indian exports - is another negative for Indian exporters, analysts say.

3) **Dumping of Chinese goods**: There's fear that the sharp devaluation in yuan will help China dump goods into the Indian market, which will impact domestic manufacturers. The fear is already playing out on the Dalal Street with tyre stocks and steel makers falling sharply over the last two days.

Source: The Economic Times
-By Ratika Khandelwal

THE IMPACT OF GST

Goods and Services Tax (GST) is a comprehensive indirect tax on manufacturing, sale and consumption of goods and services proposed to be introduced at the Centre in order to replace the existing regimes of central excise, service tax, value added tax (VAT), octroi tax, and local body tax (LBT). At the state level, the GST will replace State VAT. According to the present Finance Minister Arun Jaitley, the GST could add up to 2% to the growth of Asia’s third-largest economy, India. GST will have an impact on the other various sectors too:

1. To The Economy – The proposed structure of GST seeks to broaden the tax base and create a common market across states. This in turn is expected to increase compliance and increase India's tax-to-gross domestic product (GDP) ratio.
2. To The Corporate Sector - GST also seeks to reduce the average tax burden on companies making it beneficial to the corporate sector. Reducing production costs will make exporters more competitive.
3. To The Exporters - The subsuming of major Central and State taxes in GST, complete and comprehensive setoff of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports.
4. To Industry - Manufacturing sector in India is one of the highly taxed sectors in the world. A complex and high taxation structure has the tendency to render products uncompetitive in the international market. As in the current indirect tax laws, even under GST, set-off will be available in respect of taxes paid in the previous stage against the tax levied at the time of sale, thus reducing manufacturing costs. GST, when enforced, would

eliminate complexities in the present taxation structure and consequently help India to get the advantage of lower manufacturing costs over the western nations.

5. To Indian e-commerce avenues- The e-commerce model which provides logistical support in addition to serving as a marketplace for various products, ends up paying service tax as well as VAT, for they not only deal with goods but also act as service providers. With the enactment of GST, the industry expects the supply chain to become more cost-effective which in turn would translate into better value and experience for the consumers. This would further help resolve issues which often crop up in warehousing operations like the one faced by Amazon at the hands of Karnataka Government.
6. To The Centre And State – According to financial reports, a considerable sum of yearly profits are predicted by the government with the implementation of GST as it is speculated to bring about a rise in employment, promotion of exports and consequently a significant boost in overall economic growth. "The implementation of a comprehensive GST in India is expected to lead to efficient allocation of factors of production thus leading to gains in GDP and exports.
7. To The Individuals And Companies - With the collection of both the central and state taxes proposed to be made at the point of sale, both components will be charged on the manufacturing cost and the individual will benefit from lowered prices. It is expected that this process will subsequently lead to increase in consumption thereby profiting companies.

Economists also predict that implementation of GST within the Indian framework will lead to commercial benefits which were untouched by the VAT system and would essentially lead to economic development.

Source: Business Standard
Colated by Rujuta Shah

FIVE REASONS WHY VENEZUELA MAY BE THE WORLD'S WORST ECONOMY

With 68% inflation, the highest across the globe, Venezuela comes in just ahead of war-torn Sudan and heavily-sanctioned Iran. Here are five reasons why this country could be the world's worst economy:

1. Political instability: The Venezuelan government, led by Nicolas Maduro, who succeeded Hugo Chavez after his death, has become increasingly authoritarian. In February his government has taken over a supermarket chain, and arrested the mayor of Caracas, Antonio Ledezma.
2. A food crisis: Venezuelans wait for hours in lines outside supermarkets to buy milk, sugar and flour. There are food shortages at grocery stores across the country because the government can't pay to import food**.** Sugar, flour and other basic imports, account for 70% of Venezuela's consumer goods.
3. Oil: From riches to rags**:** Venezuela is getting crushed by low oil prices. A barrel of oil now costs about $51 on the global market, losing about half its value from just six months ago. That's exacerbating the economy's acute problems. Venezuela has the largest oil reserves in the world, and once flourished on its treasure chest of crude.

Maduro said on Venezuela's state-owned television that China has offered aid. But in return, Venezuela is giving China free oil. Experts say that Venezuela isn't selling enough of its oil for profit, given these agreements. Plus, Venezuelans pay next to nothing for gas. One U.S. penny now pays for about five gallons of gas in Venezuela.

4. Default: The country owes $11 billion in debt payment this year. Some experts see Venezuela defaulting in October, when the country must pay $5 billion.

Source: CNN
-Colated by Harsh Mehta

BANKS TO REMAIN CLOSED ON 2nd and 4th SATURDAYS FROM SEPTEMBER 1

Banks will be closed on 2nd and 4th Saturday starting September. At present, all PSU and private sector banks work half-day on Saturdays. Bringing cheers to lakhs of bank employees, the government has accepted the long-pending demand of workers to declare second and fourth Saturdays holidays, with effect from September 1.This is a welcome move. This will be a big relief to employees and will improve the productivity of employees. In case of a month having five Saturdays, banks will be closed only on second and fourth Saturdays.

Link- http://www.financialexpress.com/article/industry/banking-finance/banks-to-remain-closed-on-2nd-4th-saturdays-from-september/122986/

Source: The Financial Express

-Colated by Yukti Sadrani

THE ANTICIPATED ECONOMIC REVOLUTION

Mr. Anil Bokil (a key member of *arthakranti sansthan* ,a pune based economic advisory body constituting of CAs and engineers) was granted 9 Minutes appointment with our Hon'ble prime minister Mr. Narendra Modi to explain the *arthakranti* proposal and to much amusement the meet lasted for 2 long hours with willing approval of Mr. Modi.

What is the *arthakranti* ?

Arthakranti assures to solve all prevailing nationwide problems ranging from racism, gender inequality, corruption, terrorism, ransom, black money, price hike, etc. *Arthakranti sansthan* proposed the following amendments as a solution to the above problems:

1. Withdrawal of existing taxation system completely except customs (i.e import duty).

2. Every transaction above a specific limit (say Rs. 2000) routed through bank will attract certain deduction in appropriate percentage as transaction tax which will be universal for all the banks.

3. Government should make legal provisions to restrict cash transactions above a certain limit in order to promote banking system.

4. Withdrawal of high denomination currency (say above Rs. 50)

Some key impacts supposed to occur if this amendment is put into action:

1) No tax will lead to very high disposable income in the hands of the people leading to high investments and substantial growth of all sectors due to capital availability with government.
2) High valued transactions will lead to proper safety and definite authenticity of all transaction without any doubt of black money involvement
3) Prices of commodities expected to fall which will lead to stabilisation of commodity market and maintaining affordability to even normal income groups
4) Foreign investments will actually be put to optimum use like infrastructural development, overall economic development etc and will no longer remain a medium to boost corruption and black money.
5) Money in circulation will all be official money and so it will be more easier to calculate the annual economic growth, GDP, etc. The actual financial position picture will be possible to portray which will lead to currency value appreciation and improved economic status of the country.
6) The high volatility of the financial markets could then be bit more controlled and will become relatively less risky to invest.
7) The debarring of all high value currency will lead to conversion of major currency to white money and end of black money bringing at once extremely large sums of capital in the market for new business developments
8) Real estate market will come down to the set common benchmark level flat prices for almost a decade or so.

Source: arthakranti.org
By Shreya Chande

"THANK YOU"