Issue 1

Infineeti newsletter

Editors
Shilpi Ghosh
Vedika Ganeriwala

From the Infineeti Newsletter Editors

Hello Friends!

Welcome to the maiden edition of the Infineeti newsletter! This brainchild of Cashonova and Infineeti is an attempt at serving our Infineeti quarterly magazine readers with more frequent updates to lap up in the world of money, finance and the economy, garnished with some humor. We are encapsulating for you news and opinions from various countries as well as presenting to you the views of people within our own campus community.

In this edition we are excited to present to you the summer internship experiences of two of our batchmates, Karan Malhotra and Chinar Gupta, who interned at Citibank and Edelweiss, respectively. We also share with you our take on a European Tobin Tax as well as the Dollar's reign as the world reserve currency. In addition, we take you across various stages of China's evolution as it transitions to a market economy.

Some of our faculty members have rich insights for us on happenings around the world, but only if we made the time to interact with them beyond the classroom! We have in this issue for you a few precious words on the current status of the economy from one of our finest faculty, Dr. Jaydeep Mukherjee.

We hope that you would enjoy reading our newsletter as much as we enjoyed preparing it!

Warm regards,
Infineeti Team

Contents

THE DOLLAR'S REIGN AS THE WORLD RESERVE CURRENCY

The world reserve currency is the currency which is primarily used in international transactions, and serves as a benchmark for comparisons of all other currencies. It serves as the pricing currency for goods traded on the global market and accounts for a significant proportion of the foreign exchange reserves of the Central banks and governments of many countries worldwide. Due to the presence of a relatively large market for the reserve currency, the government of the issuing currency benefits from the opportunity to borrow funds at low rates, as the world has confidence in the ability of the currency and its country.

The Bretton Woods Agreement, 1944, included an obligation for each country to adopt a monetary policy that maintained the exchange rate by pegging its currency to the U.S. dollar. After the WWII, the U.S. held more than 60% of the global gold reserves and the Dollar was pegged to Gold at $35 per ounce of gold. The nations stood ready to exchange Dollars for gold in order to maintain their pegs within a band of 1%.

However, with the financial crises and increasing debt and deficit levels of the U.S. government, investors may soon question the ability of the U.S. government to honour its obligations and the Dollar might have to share its current monopoly position as the world's reserve currency with other currencies of the world or be replaced altogether by a single new world reserve currency.

The world reserve currency must have a stable value and the backing of credible and fundamentally strong economic power to support it. The country issuing the reserve currency must have a deep and efficient capital market in order to attract funds from all over the world and must have significant political and military power. There are 2 currencies which somewhat satisfy the above desired factors, are viable alternatives to the U.S. Dollar and currently threaten its monopoly as the world reserve currency – the Chinese Yuan and the Euro.

The Dollar is the world's safe haven as investors flock to it during crisis due to the exceptionally high liquidity of markets of dollar denominated instruments.

To enable other nations to maintain BOP surpluses so that they could keep Dollar reserves, the U.S. emerged as the biggest importer of goods and services, thus maintaining a trade deficit. After WWII, another factor contributing to the supremacy of the U.S. Dollar was that all major European countries were in debt and thus exchanged large amounts of Gold for the U.S. Dollar. The Dollar also has characteristic features which account for its monopoly as the global reserve currency. The depth of markets in dollar denominated debt securities and the market size allows dealers to offer low bid-ask spreads. The Dollar is the world's safe haven as investors flock to it during crises due to the exceptionally high liquidity of markets of dollar denominated instruments. The reputation of immense stability of U.S. Treasury Securities is primarily responsible for the immense popularity of the Dollar in the international market. The Dollar also benefits from a dearth of alternatives as other countries are too small for their currencies to account for more than a small proportion of international reserves. Today, the conditions stand changed…

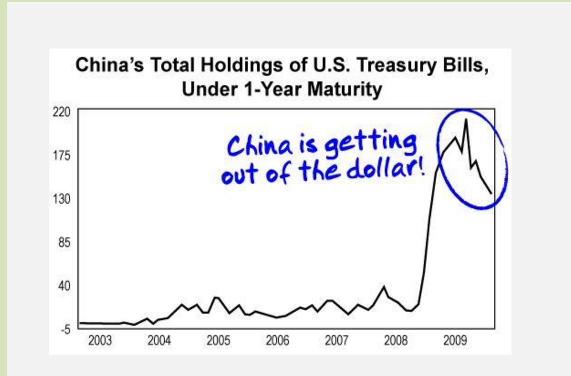
In 1971, President Richard Nixon unilaterally terminated the convertibility of Dollar to Gold, which was a significant reason of its dominance. Advanced technology today permits easy conversion of currencies and makes it convenient for traders to quote prices in multiple currencies. Hence, modern technology is to some extent, undermining the Dollar's monopoly as the reserve currency. U.S. debt has been steadily increasing along with rising inflation and unemployment. In this new monetary world, U.S. will no longer be able to finance its large trade and current account deficits as the appetite for U.S. Treasury securities on the part of foreign central banks is expected to decline, making deficit financing more expensive and indicating insolvency. There is a danger that the dollar`s status as a safe haven may be lost as this is based on the history of the U.S. government of fulfilling its obligations.

Though China is fast emerging as an economic superpower and rapidly internationalizing its currency, the Yuan will have to be revalued for it to become the world reserve currency. The Yuan today stands around 50% undervalued to the Dollar as the Chinese exert controls over the Yuan to keep it artificially undervalued in order to boost exports.

However, because of the quantitative easing policy of the Federal Reserve, the Dollar has been losing its value and the Chinese have had to accelerate their Dollar purchases in order to prevent the Yuan from appreciating against the U.S. Dollar and hence to maintain the peg. This has led to high rates of inflation including unprecedented rates of high food inflation. In a developing country like China, where a major portion of the consumer's budget is allocated to food even today, the current situation is likely to cause unrest and would eventually lead to the de-pegging of the Yuan, hence an appreciation of the Yuan against the U.S. Dollar. Also, it is required that the Yuan come in to competition with the Dollar in the realm of international trade. This requires that the Yuan turn into a convertible currency, which in turn requires its value to be determined by the interplay of market forces. Convertibility of the Yuan would in turn require removal of all financial and trade barriers, and foreign access to the Chinese securities market among other changes. China has been taking steps towards convertibility of the Yuan by involving in currency-swaps with Argentina, Hong Kong, Malaysia and other countries of the world, which obviates the need for China`s trading partners to use the U.S. Dollar as an intermediary currency in dealing with China.

The huge Dollar assets of the Chinese would also act as a hindrance in the replacement of the Dollar with the Yuan, though there has been a slight shift from long term to short term securities. The Euro represents the largest size economy and hence has the prospects of more countries adopting it as the reserve currency. However, the ongoing European debt crisis has undermined the strength of the Euro and made it an unstable currency. Thus, in the current situation, where the Euro itself is in a crisis, it seems unlikely that the Euro will replace the Dollar as the reserve currency.

A third alternative to the U.S. Dollar is the SDR (Special Drawing Rights). SDRs represent potential claims on the currencies of IMF members and can be used to convert into any currency a borrower requires at exchange rates based on a weighted basket of international currencies with a weight of 44% for the dollar, 34% for the euro, and 11% each for the yen and pound sterling. This was suggested as a feasible alternative to the Dollar a couple of years ago and could be another competitor to the Yuan and the Euro.



The U.S. has the world`s largest and most stable financial market in the world and its political system is characterised by flexibility and low levels of corruption. The U.S. Dollar accounts for around 60% of the foreign exchange reserves of central banks and governments even today. A sudden replacement of the Dollar as the reserve currency would lead to the collapse of not only the Dollar itself but a collapse of the world. A collapse of the Dollar would lead to capital flight away from Dollars with a simultaneous decline in the demand for U.S. Treasury securities. This would create a situation of excess demand for funds by U.S. investors and push up interest rates in the U.S. This would provide a negative boost to investment spending, push up inflation rates, the consequences of which would be unemployment, recession and eventually a worldwide depression. This is not to say that the Dollar's reign as the world reserve currency will continue forever. Though many factors point to the end of the Dollar's reign as the reserve currency of the world, there is no perfect substitute to the Dollar and hence it is very likely that the Dollar will continue to reign as the world reserve currency in the near future.

TOWARDS A EUROPEAN TOBIN TAX

"National economies and national governments are not capable of adjusting to massive movements of funds across the foreign exchanges, without real hardship and without significant sacrifice of the objectives of national economic policy with respect to employment, output, and inflation." According to American economist James Tobin, currency speculation undermines the democratic process. In 1972, Tobin introduced the Tobin tax, also referred to as the Robin Hood tax with the objective of discouraging speculative activities in the foreign exchange market by taxing all spot conversions of currencies. The idea was originated by John Maynard Keynes in 1936. Trade in stocks and bonds were to be taxed at the rate of 0.1% and derivates at 0.01%. The idea was that a tiny tax on the vast amount of financial transactions in the globalized world would promote exchange rate stability and provide revenue to the governments. The Tobin tax was a founding demand of ATTAC – a Paris based globalization critical network.

On September 28, 2011, president of the European Commission Jose Manuel Barroso made a proposal to create a new financial transactions tax that would be levied on all financial transactions between financial institutions, when at least one party to the transactions is located in the EU. If adopted, the tax would be implemented from January 1, 2014 and would raise €57 billion per annum. A proportion of the tax revenues would be shared among the member states of the European Union and remaining would serve as EU common funds and be used to help member nations in

Proponents of the tax suggest that the tax would help stabilize currency exchange rates and interest rates, whereas opponents argue that the tax would prevent profit-making from financial transactions and would drastically reduce trading activity in the economy.

Studies indicate that a unilateral imposition of the Tobin tax would cause a shift in trading volume to the untaxed market and reduce volatility by increasing liquidity. However, it would decrease market efficiency in the taxed market. If introduced in markets worldwide, it would reduce the overall trading volume, leaving price volatility and market efficiency unchanged.

The calculations by Ernst and Young suggest that imposing the tax across Europe without similar measures being in place elsewhere in the world would hit European jobs and prosperity.

By shifting trading activity from European markets to other untaxed markets in the world, particularly to New York and Singapore the Tobin tax would certainly provide the much needed revenue to the cash-strapped governments but would have large distortionary effects on the economy by discouraging investment activity, particularly short-term speculative activity. According to James Tobin, speculative activity causes immense fluctuations in financial markets and is of little social value.

The tax was introduced with the objective of discouraging speculative activities in the foreign exchange markets and promoting exchange rate stability.

Based on the experience of Sweden, the Tobin tax would reduce derivative transactions by 90%. It has been estimated that adoption of the Tobin tax by the European Union would cause a long-run decline of 0.5% of its GDP. To prevent the tax from having effects on the real economy, household and corporate loans could also be kept out of the purview of the tax. This tax would help to reduce competitive distortions, discourage speculation and complement regulatory measures aimed at avoiding future crises. In order to be implemented, the proposal requires unanimous acceptance by the 27 member nations. Austria, Belgium, Finland, France, Greece, Germany, Italy, Portugal and Spain are supporting the implementation of the Tobin tax, whereas Great Britain, Sweden, Czech Republic and Bulgaria are opposing it. A recent Euro barometer poll of more than 27,000 people published in January 2011 found that Europeans are strongly in favour of the tax and a majority of them believe that if a global agreement cannot be reached, the tax should initially be implemented in just the EU. The UK government is expected to use its power of veto to block the proposal unless the tax is introduced universally. However, US' strong disapproval of the tax implies that universal introduction of the Tobin tax is very unlikely. The finance ministers from Austria, Germany and Belgium have suggested that the tax could be initially implemented in the 17-nation Euro zone, hence excluding the countries that are opposing the proposal. Former French President Nicholas Sarkozy and German Chancellor Angela Merkel stated that if the Tobin tax cannot be imposed globally throughout the Euro zone, or Europe-wide France and Germany will implement it alone. The most pressing question that arises in this context is whether Europe should adopt the Tobin tax…

With the widespread use of electronic trading, trading activities have reached enormous volumes. In 2010, $63 trillion worth of stock traded hands in the global markets, while $1 quadrillion was traded on currency markets.

Such rapid and huge volume trading can hamper market stability. Speculative gains can cause firms to increase leverage, and on the event of a financial crisis, it can be destructive to the economy when firms are forced to unwind that leverage quickly.

As evidenced by the financial crises in the past, the costs can be very large and spread beyond the firms and individuals making the risk-taking decision. Taxing speculative activities would reduce such activities but would simultaneously reduce the revenues accruing to the governments from this tax.

The Tobin tax can improve efficiency by forcing firms to pay the full cost of their speculative activities, provide more stability to the nations adopting the tax and prevent their rapid fallout during financial crises. The question arises as to whether the Tobin tax can be an effective solution to the ongoing Euro crisis…

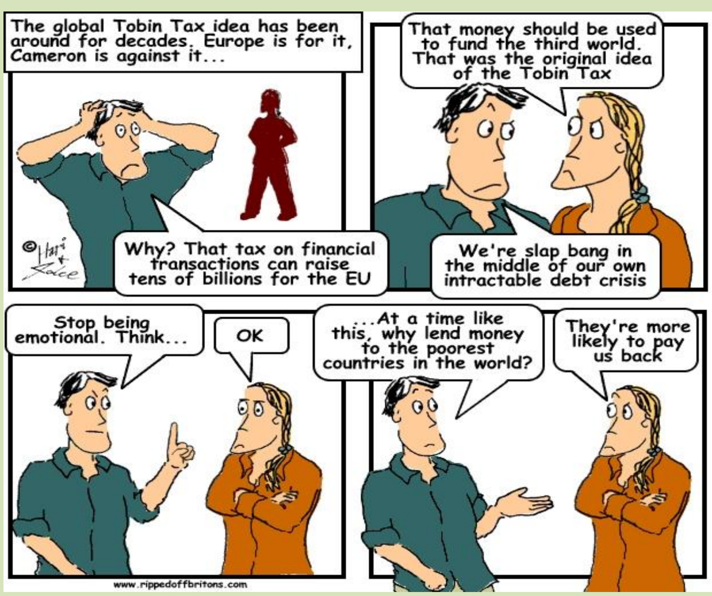
The tax was introduced with the objective of discouraging speculative activities in the foreign exchange markets and promoting exchange rate stability. The irony of the situation is that as members of a monetary union, Euro zone members have no national currencies to attack and enjoy a relatively high degree of exchange rate stability.

The theory of the present crisis of capitalism contained within the Tobin tax idea is that the financial sector has an important responsibility in the economy and that whilst the economy is generally sound, a few bad financial transactions are bringing down the economy. By taxing them and redistributing the revenue, the economy could reach much greater heights. However, the idea of the financial transaction tax as an income redistribution tool misses the point as this tax would entrench rather than reduce the existing income inequalities. The Tobin tax would hit hard the retail investors and would probably eliminate stock lending transactions. It would remodel the financial services industry by encouraging the use of passive funds. The main rationale for adopting the tax today is that it would serve as an alternative source of revenue for bailouts and other expensive public actions that have until now been funded by the taxpayer.

However, if implemented throughout the European Union, it would raise only about €57 billion per annum. This is a pittance compared to the Euro zone's deficits and debts, and would fall short of funding Europe's permanent rescue facility.

A European Tobin tax would reduce financial transactions to some extent, but it would neither raise a significant amount of revenue for the heavily indebted governments, nor would it solve the current crises of the Euro zone. Though a European Tobin tax would itself be a fresh change to the financial sector of the economy, it will not cause any significant change in the economy…

The Euro zone's enthusiasm for a Tobin tax seems to be more political rather than economic. The current crisis situation demands that the productivity gap between weaker and stronger currencies in the Euro zone close and requires a weaker currency for the Euro zone so as to improve its competitive position in the world. It seems likely that the strong political will of the Euro zone will hold it together as leaders of financially robust member nations will continue to support bailouts despite grumbling from their citizens about shouldering the lion's share of the cost, whereas weaker nations, such as Greece and Ireland, will continue to accept austerity measures despite protests from their citizens about cuts in government services.



CHINA'S TRANSITION TO A MARKET ECONOMY – THE PAST, PRESENT AND FUTURE

Eleven years ago when the world was at the brink of the 2001 slowdown, the global economy was expanding at a rate of close to 5% and China accounted for just over one-tenth of that growth. In 2010, as the world bounced back from the recession, growth was once again close to 5%, and China contributed to almost one-third of global growth. Meanwhile, it had become the world's second-largest economy. In 2001, China's current account surplus stood at less than 2% of GDP, and its foreign exchange reserves at $166 billion, or 14% of GDP. In 2010, China's current account surplus exceeded 5% of GDP. These numbers illustrate some tremendous economic achievements for China. At the same time, there are several challenges that the country still faces as it gradually transitions to a market economy.

The planned economy

China's transition from a planned economy to a market economy began at the end of 1978. When China started the process, the government did not have a well-designed plan. Prior to that, the traditional system which was in place had been created for the industrial development of the country.

In addition to providing cheap food for industrialization, agriculture was also the main foreign exchange earner. If China had to import capital goods for industrialization, it needed agricultural production to be at its best. To this end, the government instituted the collectivization agriculture, in which there was a mass mobilization of rural labor to work on projects such as irrigation and flood control, and increase agricultural yield through traditional methods such as closer planting and careful weeding. The remuneration system although in theory, aimed at paying people as per their individual contribution, ended up compensating workers almost equally because tracking each individual's performance was extremely difficult.

The policies induced a total imbalance in the supply and demand for credit, foreign exchange, raw materials, and other living necessities. Moreover, the state monopolized banks, foreign trade, and material distribution systems.

A recent study showed that the Chinese economy has achieved a level of 73% marketization of its economy judged by the parameters perceived important by the USA and the European Union.

The traditional planned economic system in China was shaped by the adoption of a heavy-industry-oriented development strategy (HIODS) in the early 1950s. This strategy was developed and implemented by the central government despite lack of sufficient capital. Apart from the HIODS, the policies adopted in China were also shaped by socialist ideology, the Chinese Communist Party's experience during the revolution, and the Chinese government's political capacity of pursuing its intended goals.

After China's involvement in the Korean War in 1950, with its resulting embargo and isolation from Western nations, catching up to the industrialized powers had become a necessity for national security. The Soviet Union's success in nation building in the 1930s provided the Chinese leadership with both inspiration and experience for adopting a HIODS. Therefore, after recovering from wartime destruction in 1952, the Chinese government set heavy industry as the priority sector of economic development. The goal was to rapidly build the country's capacity to produce capital goods and military materials.

The government adopted a policy of low interest rates and overvalued exchange rates to reduce the costs of interest payments and of importing equipment. At the same time, to secure enough funds for industrial expansion, a policy of low input prices – including nominal wage rates for workers and prices for raw materials, energy, and transportation – evolved alongside the adoption of this development strategy. The assumption was that the low prices would enable the enterprises to create profits large enough to repay the loans or to accumulate enough funds for reinvestment. Meanwhile, to make the low nominal-wage policy feasible, the government had to provide urban residents with inexpensive food and other necessities.

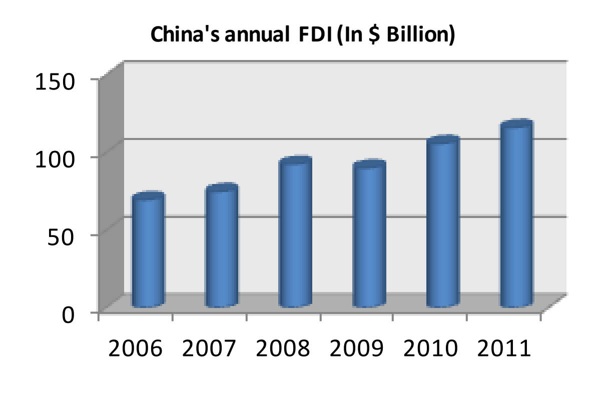
However, China paid a high price for this achievement. The economy was very inefficient because of low efficiency in resource allocation, deviation of the industrial structure from the pattern dictated by the comparative advantages of the economy, and low technical efficiency, resulting from managers' and workers' low incentives to work.

Reform

Reforms mainly began by the replacement of collective farming by a household based system. This system involved leasing a collective's land and dividing the procurement quotas to individual households in the collective.

Reform in the state enterprises was initiated by the government and underwent four stages. The first stage (1979-83) emphasized several important experimental initiatives that were intended to enlarge enterprise autonomy. The measures included the introduction of profit retention and performance-related bonuses and permitted state enterprises to produce outside the state plan. The enterprises involved in exports were allowed to retain part of their foreign exchange earnings for use as per their own discretion. In the second stage (1984-86) the emphasis shifted to legalizing the financial obligations of the state enterprises to the government and exposed enterprises to market influences. From 1983, profit remittances to the government were replaced by a profit tax. In 1984, the government allowed state enterprises to sell output in excess of quotas at negotiated prices and to plan their output accordingly.

During the third stage (1987-92), the contract responsibility system, which attempted to clarify the authority and responsibilities of enterprise managers, was formalized and widely adopted. The last stage (1993-present) attempted to introduce the modern corporate system to the state enterprises. In January 1994 China saw the establishment of a managed floating system. At each stage of the reforms, the government's intervention was reduced further and the state enterprises gained more autonomy.



The present

A recent study showed that the Chinese economy has achieved a level of 73% marketization of its economy judged by the parameters perceived important by the USA and the European Union. The stability of the equity market and the stock exchange scenario, the interest rate and currency are some of the features that prove the country has been doing well on the economic front over the last quarter of a century.

Another feature essential to the improved performance of the market economy in China has been the removal of monopoly from the traditionally government controlled sectors such as telecommunication, electricity supply, railway transportation as well as civil aviation, allowing for more domestic and foreign equity participation. The diversified banking system and sale of equity of state-run banks to foreign investors in international exchange and bond markets show that China is on the path to rapid economic expansion.

China is now one of the investor's preferred destinations with more and more foreign investors coming to the region because of its political and economic stability. Stable interest rates have also meant that 'capital flight' from the Chinese economy is now low. Foreign investment has produced millions of urban jobs and institutional infrastructure which has helped in domestic technological innovation. China is now one of the largest exporters in manufactured electronic goods and textile products. As a mark of its improved performance, China also revalued its currency by 2.1% against the US dollar in July 2005 and moved to a new exchange rate system which references a basket of currencies. China also had the largest recorded current account surplus in 2006 of nearly $180 billion.

But the effect of the market economy in China is still restricted to consumer goods whose prices are market determined with the remaining in the purview of a planned economic system. More so, the labor market is not yet totally regulated, with many inter-state controls on the movement of labor still present. Wage rates are not totally market determined and issues like Intellectual Property Rights protection are inadequate for supporting technological innovation.

The tragic feature of the Chinese economy is the presence of 'surplus labor' in rural areas. Agriculture still employs about 40% of the population with only about 10% accounting for its GDP share. Growth with foreign capital has been limited to coastal provinces and the government has been failing to sustain the rural poor.

Challenges for the future

The challenges that lie in front of the Chinese government are to check the increase in rural unemployment with large areas of arable land falling prey to industrialization and ensuring sufficient job creation for new entrants to the labor-force and people laid off from state enterprises. China must shift to a strategy based on its comparative advantages. In addition, as the Chinese economy becomes a more mature market economy and is more integrated with the global economy, it is essential to establish a transparent legal system that protects property rights so as to encourage innovations, technological progress, and domestic as well as foreign investments in China.

SUMMER INTERNSHIP AT CITIBANK

Student: Karan Malhotra
Major: Finance
Profile: Banking Operations

Q. In a nutshell could you please describe for us the glimpse of banking operations that you caught through your project?

A. Well, you have two major parts of banking – retail banking and corporate banking. O&T is a division, and under corporate banking O&T, you have subdivisions such as, Global Transaction Services (GTS) and Fixed Income, Currencies and Commodities (FICC). Under GTS, there are two subdivisions: Security and Fixed Income Services (SFS) and Treasury and Trade Services (TTS), which is where I worked. TTS basically handles all the trade financing that Citibank does for corporate banking. The actual way in which a transaction happens from start to finish is handled by O&T. Although the number of clients are fewer, corporate banking is always much larger than retail banking and each subdivision such as TTS Operations stands as an independent unit under corporate banking. Citibank has a dotted line reporting structure. Therefore, employees are responsible for reporting to more than one person for their work.

My role was primarily to optimize corporate communications within the bank, with respect to email alerts.

Q. What skills or learning from IIFT do you think was useful for your project?

A. My knowledge of trade finance really helped. I was familiar with some of the terms such as bank guarantees and bill of exchange because of my exposure to them in some IIFT courses.

Q. What skills did you develop while working at Citibank that you believe will be useful in your future career?

A. I developed certain soft skills which I believe will definitely help me in the future. Working in an MNC typically requires you to coordinate with people spread across geographies and the art of communicating effectively with them to get the necessary information is something that I developed during the course of my work. The art of following up is another thing that was repeated to me by the management in a positive way and this is something I would like to communicate to the subsequent batches as well – “Always remember to follow up.”

Q. Describe a typical day for an intern at Citibank.

A. The day would normally start around 9:30 am although the company was not very stringent about the timings. Work during the day required a lot of communication with various people across different geographies to gather information. The information then needed to be organized and analyzed to find something useful for the organization.

Most of the work especially in my project involved using Excel extensively to find patterns and trends in the data. I also had to contact people a lot over the phone and follow up regularly with the people I interacted to ensure proper progress in my work. I spent about 40% of the time working on Excel, 40% of the time calling customers and 20% time waiting for data.

Q. What challenges did you encounter during the course of the project? How did you tackle them?

A. Gathering data was a big challenge and it required a thorough understanding of the system that Citibank had laid out for the purpose. This challenge arose mainly because of the vastness of the organization. I ensured that I learned the protocol Citibank had established so that I could gather data as effectively and efficiently as possible.

Q. Tell us something new that you learned about the company while you were working there.

A. The company has a very good work culture. People are extremely helpful and almost every single person I encountered had very good communication skills. The organizational structure is fairly horizontal in nature, so employees at different levels share an ease of communication with each other and are able to interact informally as well.

Q. What would an employee at the company be doing in the profile given to you for summers?

A. The employee would be interacting with a lot RMs (relationship managers) from various corporate organizations and working to reduce communication costs.

Q. What were the expectations of the company from you?

A. The company expected a high degree of professionalism, proactive behavior and proper analysis of information for the company’s use. My guide was really good and I was given regular feedback on my work apart from the mid-term and final review.

SUMMER INTERNSHIP AT EDELWEISS

Student: Chinar Gupta
Major: Finance and Trade
Profile: Commercial Banking

Q. In a nutshell, could you please describe for us the glimpse of commercial banking that you caught through your summer internship experience?

A. Edelweiss is a 17 year old organization focused on wholesale banking and has recently begun focusing on retail business. Recently, it has entered into SME lending, involving working capital financing and equipment financing among other fields. Most of the banks and NBFCs have already defined their end-use for SME lending. However, Edelweiss has not specifically defined the end-use. Edelweiss is looking forward to expanding its business in the domain of SME lending. My project was in the domain of equipment financing in the SME lending domain, particularly, the financing of construction equipments. It involved examining the feasibility of expansion in the SME lending domain-whether, when and how to enter new segments, and the entry strategies to be adopted.

Q. Could you please share with us some details on your project?

A. I initiated my summer project with research on the product for 2-3 days. This was followed by developing a strategy for how I would move ahead with the project. I studied different credit policies, risks, attitudes and branch cultures to gain a deeper understanding of the same. I also undertook secondary research to gain an understanding of the industry and various NBFCs. The work then involved primary research, whereby, I had to meet various industry people, Relationship managers of various banks and people from various divisions of Edelweiss to develop a good understanding of the industry, the product and the corporate values and culture. After conducting research, I developed a feasibility plan and entry strategy for Edelweiss in the SME lending domain.

Q. What skills or learning from IIFT do you think was useful for your project?

A. At IIFT I learned how to manage several tasks at one time. Participating in several activities while fulfilling my academic commitments taught me to prioritize and execute deliverables on time. These skills were very useful for me during my internship.

Q. What skills did you develop while working at Edelweiss that you believe will be useful in your future career?

A. I learned how to communicate effectively to the top management of the company. Additionally, I realized how to best present IIFT to others around me as a brand ambassador of this institute. I learned how to crack formal organizational structures in an informal manner.

Q. What challenges did you encounter during the course of the project? How did you tackle them?

A. Understanding and defining Edelweiss' and other banks' credit policy was tough. I had to work with information regarding how Edelweiss performs credit appraisals for its current clients.

Q. Tell us something new that you learned about the company while you were working there.

A. I discovered that Edelweiss is a totally entrepreneurial organization. Employees are given the freedom to showcase their skills and this is an all-pervasive attitude throughout the various levels of organization of Edelweiss.

Q. What would an employee at the company be doing in the profile given to you for summers?

A. The employee would be handling credit evaluation, followed by due diligence on cases and approval of current projects.

Q. What were the expectations of the company from you?

A. The company expected a lot of commitment from the interns. The company was very particular about the projects given to interns since they were considering entry into these businesses in the near future.

They also expected us to work with the same dedication on the CSR projects as well which were through the EdelGive Foundation, which oversees the CSR activities of the organization. My project was mainly about creating a financial literacy module for a particular target segment. It required a lot of creativity to judge their level of understanding.

Special comments: The company organized an off-site trip for the interns for two days that involved fun-filled leadership-building activities. The senior management was present to give tips throughout and we learned that the organization values risk a lot. They constantly reminded us of a thought that is very important to their organization: Ideas create, values protect.

FACULTY INSIGHT

DR. JAYDEEP MUKHERJEE'S VIEW ON STAGFLATION

Q. What is your opinion on the current macroeconomic situation in India?

A. The recent stagflation in the Indian economy is a consequence of supply side shocks, which have resulted in pushing up inflation and reducing growth. The 3 main causes are:

1) A series of populist measures taken by the Government since 2008
2) Depreciation of the Rupee against the USD
3) Negative investment scenario adversely impacting economic output.

Q. What are the factors causing inflation in the Indian economy?

A. Today, a section of people in India, particularly the rural population, has been benefitting from a rising trend in purchasing power. With rising purchasing power and a high marginal propensity to consume, this section of society has generated a lot of demand. Supply has been unable to keep pace with the rising demand, hence leading to an increase in price levels. With the Rupee depreciating at a fast pace against the USD, there is a consequent upward pressure on India's import bill. Since a major portion of India's imports includes raw materials and crude oil, there is an upward pressure on input costs. Both demand-supply imbalance and rupee depreciation have been responsible for causing inflation in the economy.

Q. The RBI has lowered interest rates several times in the past few quarters. However, this has not been able to control the stagflationary situation in the Indian economy. What could be done to keep inflation within the Government`s comfort zone and to put the Indian economy on a high growth trajectory once again?

A. The policymakers in India need to prioritize their concerns. The current situation involves a debate of growth versus inflation. Hence, it is required that the Government act in tandem with the RBI. The RBI alone cannot solve the current economic issues. It can only act as a complement to the Government of India. The current stagflationary situation in India cannot be solved immediately. The policy measures taken today will have effects after a gestation period.

Q. Does the Euro zone crisis have a role to play in the worsening economic situation of India?

A. The resilience of the USD is partly because of the unstable Euro. This has been one of the factors causing rupee depreciation. Another important fact is that Europe is an important trading partner of India. Taking into account the widening trade deficit in the Indian economy, it is important to boost India's exports.

"Recovery of the Euro zone is a necessary condition for the Rupee to recover, to build investor confidence and to boost domestic output and economic growth."

FINCAPSULE

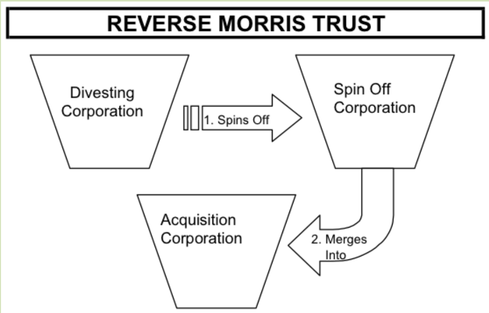
In this edition we have a few finance terms and a couple of the latest news briefs for the FinCapsule segment

Daisy Chain: A series of fictitious transactions on a security intended to give the impression of heavy trading volume, and to artificially inflate the price of the security. The unusually high trading activity tends to draw many outsiders into the chain. Eventually, the daisy chain initiators sell their positions, leaving the new investors with overpriced securities.

Scalping: A trading strategy in which positions are held for short time intervals in an attempt to profit from the bid-ask spreads. Scalpers believe that small moves in stock price are easier to catch than large ones and that many small profits can compound into large gains if exit policies are adopted in the face of large losses.

Reverse Morris Trust: A tax-avoidance strategy that is increasingly deployed by corporations seeking to dispose off unwanted assets without paying taxes on any gains from the assets. A divesting corporation spins off a subsidiary which then merges with an external company to create an unrelated company. This company then issues shares to the divesting corporation. If the divesting corporation ends up owning a controlling interest in the post-merger corporation, it qualifies for a tax-free treatment. The Reverse Morris Trust is complete and the parent company has effectively transferred the assets tax-free to the external company.

Momentum trading: A trading strategy guided by the idea that price of a security is more likely to move in the same direction rather than changing direction. A momentum trader relies on short term movements of stock prices and uses technical analysis rather than focusing on fundamental analysis.



NEWS UPDATES

Can you trust your bank's interest rates?

A scandal sparked by the revelation that Barclays manipulated Libor has taken away much of the trust that banks are setting rates on loans fairly and honestly. Libor is the benchmark rate used by banks to set interest rates for loans, and may be the single most important data point that affects trillions of dollars worth of credit. Manipulating the Libor helped banks post huge profits. Suspicion has now fallen on the other 17 banks that help to set Libor and investigation is ongoing.

Iran just can't stop pumping oil

Despite sanctions that have cut Iran's oil exports by a million barrels a day, the country continues to produce oil at full tilt as shutting off oil fields is a complicated process and may harm future production. 17 tankers and 7 small ships owned by Iran are anchored in the Persian Gulf and have become floating storage facilities for oil that no one is willing to buy.

Green signal for MCX-SX to start equity trading

The regulated stock exchange business in the country is set for another round of intense competition. The Multi Commodity Stock Exchange (MCX-SX) got a go ahead from the regulator to start full-scale operations, and is to launch equity trading on its platform from October. It would be the third national exchange after the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) to host equity trading.

Government directs banks to cap bulk deposits at 15%

The state banks were asked to take measures to reduce the proportion of bulk and certificates of deposits (CDs) to a combined 15% of total deposits. This is an attempt to improve the asset-liability management and reduce reliance on high cost funds. The government has directed the banks to reduce the bulk deposits to 10% of total deposits and CDs to 5% from an average of 25-30% now.

FDI inflows dip on gloomy global economic scenario

Net FDI fell over 56% to $1.4 billion, from $3.2 billion a year ago as inflows into the country slumped amid a worsening global economic environment and the wary mood among the investing community on India. Inflows, which include equity and reinvested earnings, are estimated to have declined from $4.2 billion in May 2011, to $1.9 billion this May. Indian companies as well as international investors have been blaming the government for a series of steps that have hit investor confidence. The long list includes retrospective amendments to the income tax law to enable the government to tax mergers and acquisitions involving foreign companies that have assets in India. Besides, the proposed general anti-avoidance rules (GAAR) have not gone down well with FIIs and the government is busy trying to devise ways to comfort them.

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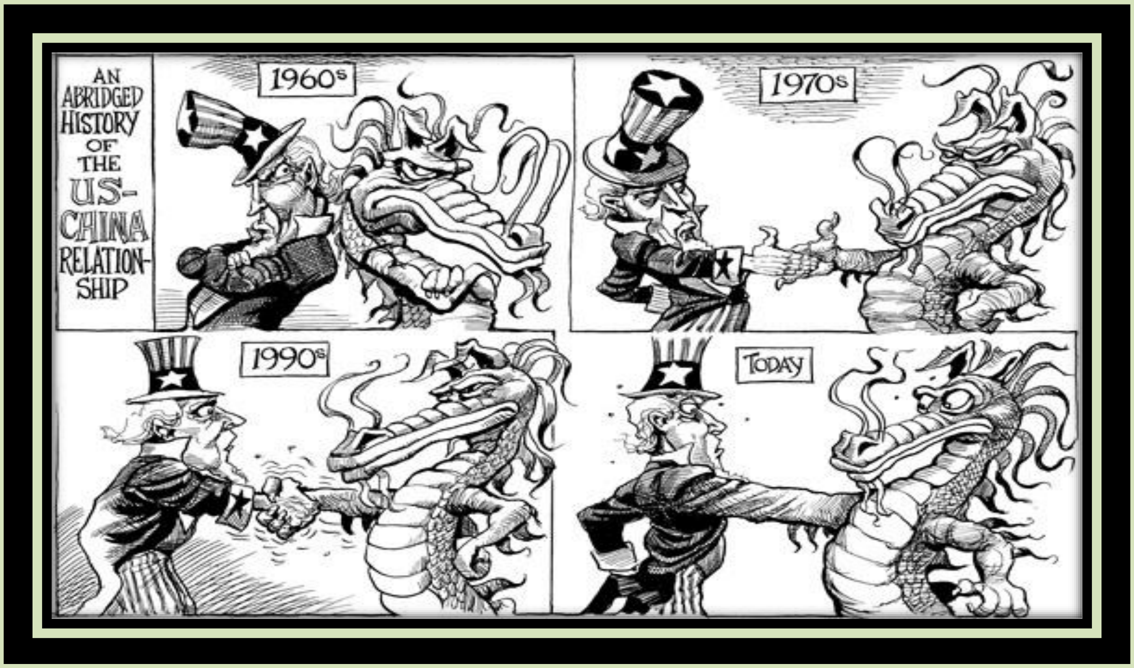
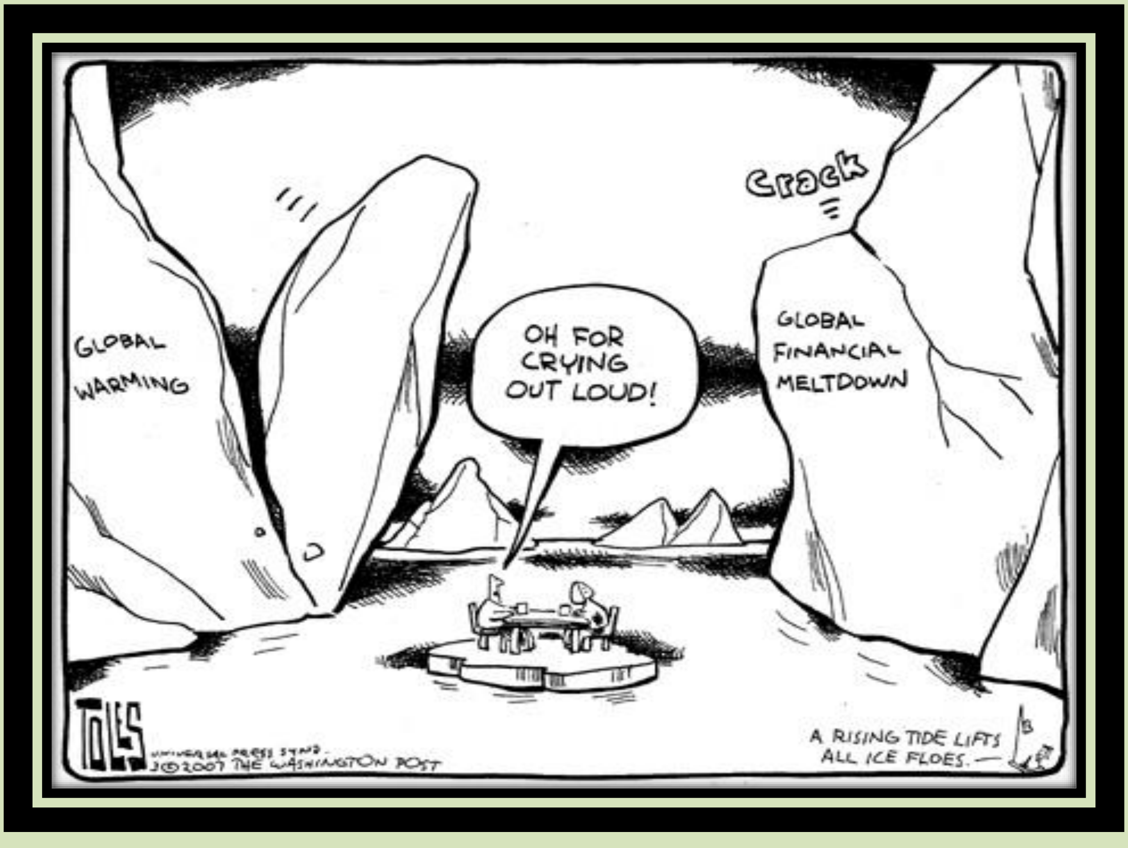


Source: www.orthocuban.com



Indian Institute of Foreign Trade, New Delhi
B-21, Qutab Institutional Area,
New Delhi - 110016