PUNE BRANCH OF WICASA OF ICAI

The Institute of Chartered Accountants of India

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NEWSLETTER

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Mr. Dhananjay Bajaj
Vice-Chairman
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Hello all my dear pals,

I wish you all a very happy and prosperous new year and congratulate you for completing one more year with joy, happiness and full of learnings. May the new year bring more learnings and more joyful events in your lives.

Friends, I writing this communication when we are in middle of all due dates and full of workloads, and exam preparations for some students as well but In all these circumstances do not compromise on your Health. The new calendar year has so many new things with itself about new goals, new ambitions, new resolutions and many more. I hope you will complete all resolutions by end of this year and All the best for that.

Last month of December was one of the best months for Pune Branch of WICASA of ICAI as we hosted the precious International Conference for CA Students, 2019 in Pune. Friends, it was one of the best conferences hosted in all over the country by ICAI. The 2500+ student attendees, more than 25 guests from other countries, 15 paper presenters from different regions of India, and eminent speakers and guests. There were many noticeable things about the conference but one of the main attractions was the formation of 'CA logo' with Human Chain, which went viral and shared by everyone across country. Involvement of more than 300 students gave that logo the shape of enriching joy of prosperity. The two-day event involved the team of around 100 volunteers giving their time and effort to make this event successful and memorable for every attendee. Later on it was fun to visit many places in nearby region with our guests from Srilanka, Nepal and different parts of India as well. A month of so much efforts and enthusiasm for all of us was because of the support from all the students in Pune who again showed up their faith in their WICASA team.

Lastly, I would wish you all the great year again and Pray to god for blessing you all with Good Health and wonderful life ahead. Thank you!!!

Kunal L. Lunawat

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Interest Rates – Impact on Economy and Individuals

Abstract: How many of us have not at one time or another complained about the high cost of borrowed money? Probably most of us have, because no home buyer, businessman, or other borrower likes to pay a lot of interest when he has to borrow money. On occasion some of us may have had the opposite complaint of not getting a high enough return on our savings or on the money we lend to others. But other than for these personal considerations, most of us have probably given little or no thought to what determines the price of borrowed money and there ward for saving, which is known as the interest rate. And even fewer of us have given any thought to what purpose interest rates serve in this complex economic world of ours. If we think about it for a while, we find that the interest rate is, in fact, an important actor on the economic stage. It would, therefore, be wise to know more about its role and

how it impacts individual as well as economy. This paper attempts to touch the complex interlinked impacts of Interest rates.

- INTRODUCTION -

Interest rate is the price you pay to borrow money (or on the flip side, the payment you receive when you lend money). They're generally framed as percentages. Each year you either pay (if you're borrowing) or receive (if you're lending) this percentage of the total amount of the loan. For example, for a Rs.100 loan with a 10% interest rate, the borrower would have to pay the lender Rs.10 at the end of the year.

Interest rates are one of the most important numbers in the economy because they influence how likely people are to borrow money. If interest rates are really high, it's expensive to borrow money. When they're low, it's much cheaper. When people borrow money, they're usually using it to invest in big things like a house or a new business. These investments ripple to the rest of the economy and can boost job growth or even wages.

This is why economists are so obsessed with interest rates. **This one number can be thought of as a massive lever that can either spur loads of investments (with low rates), or slow things down when everyone is getting a bit too excited (with high rates).**

So, who gets to decide the interest rate? As you might imagine, economists fight about this. As with other things, supply and demand plays a big part; how many people want to take loans and how many want to lend money. But central banks also have a ton of influence on the interest rate. By buying and selling government debt, central banks can alter the supply and demand for credit, and nudge interest rates up or down. This strategy is one of several central bank tools labelled monetary policy, a topic that's been very important, and controversial in the recovery from the 2008 financial crash!

- What is Interest Rate? –

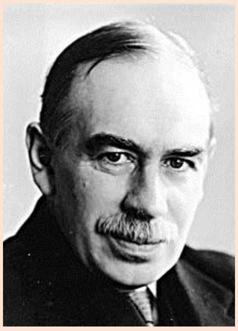
'Interest rate defines the cost of credit in an economy'.

More specifically, it is the yearly price charged by a lender to a borrower in order to obtain a loan. This is usually expressed as a percentage of the total amount loaned *(Irving Fisher, 1930).*

It is the price that relates to present claims on resources relative to future claims on resources. The price a borrower pays in order to be able to consume resources now.

The Real Interest Rate-

An interest rate **adjusted for either realized or expected inflation**-is the relative price of consuming now rather than later. As such it's a key variable in important theoretical models in finance and microeconomics- such as the consumption based asset pricing model (Lucas, 1978).



According to **John Keynes (1936)**, **interest rate represents the cost of borrowing capital for a given period of time.** Due to the fact that borrowing is a significant source of finance for many firms, prevailing interest rate are of much concern to the firms due to the indexing of interest rate on borrowing arrangements of the firms ultimately affecting growth.

- How Interest Rates Are Determined? –
- Who Determines Interest Rates?–

- **Central Banks** raise or lower **short-term** interest rates to ensure stability and liquidity in the economy.
- **Long-term interest** rates are affected by **demand for 10- and 30-year Treasury notes/Bonds.**

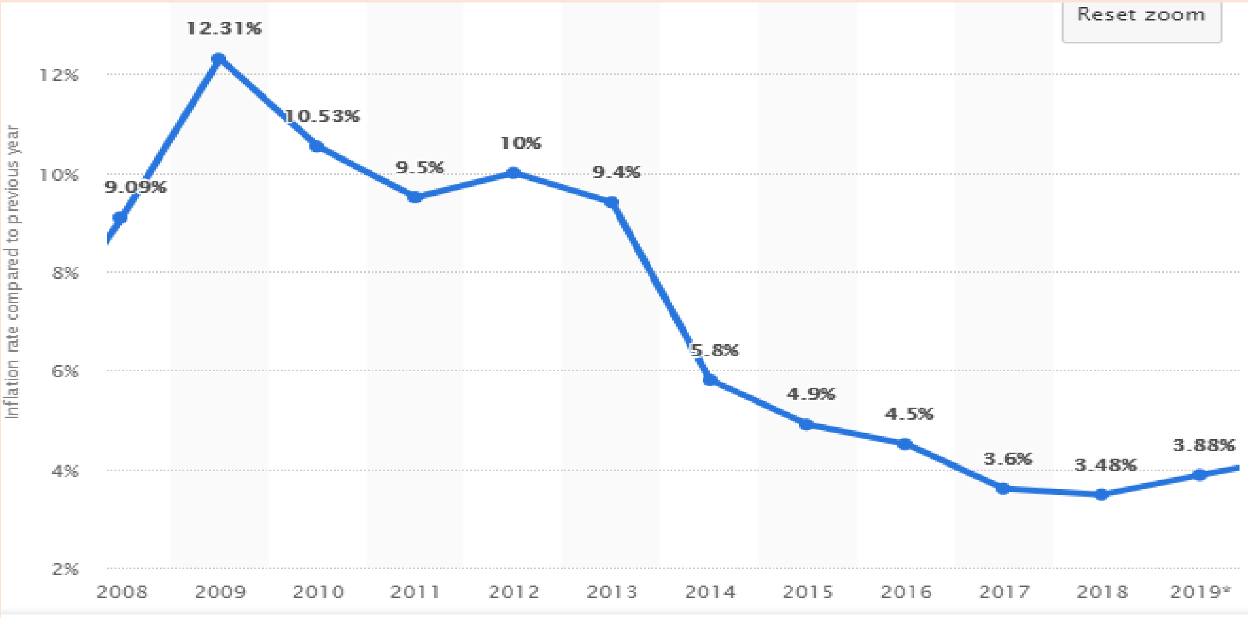
- Low demand for long-term notes leads to higher rates, while higher demand leads to lower rates.
- **Retail Banks** also control rates based on the market, their business needs, and individual customers.

Now we have got the basic understanding of what is the Interest Rate and how they are determined. **Now let's discuss the impact of these interest rate changes on Economy as well as Individuals.**

In simpler terms when the **interest rates go up**, Individual has to pay more interest on his/her borrowings and gets higher returns on the investment. In case of **interest rates going down** which is currently happening in Indian economy, borrowers have to pay less interest and investors get less return on their deposits. This is the direct impact of changes in the interest rates on the Individual. But there are so many complex things happening in an economy on account of changes in Interest rates which also have indirect impact upon individuals which many people aren't aware of. These indirect impacts on Individual and Macroeconomic changes in the Economy will be discussed in further deliberation.

Before that let's go through the **changes in interest rate over last 10 years in India:**

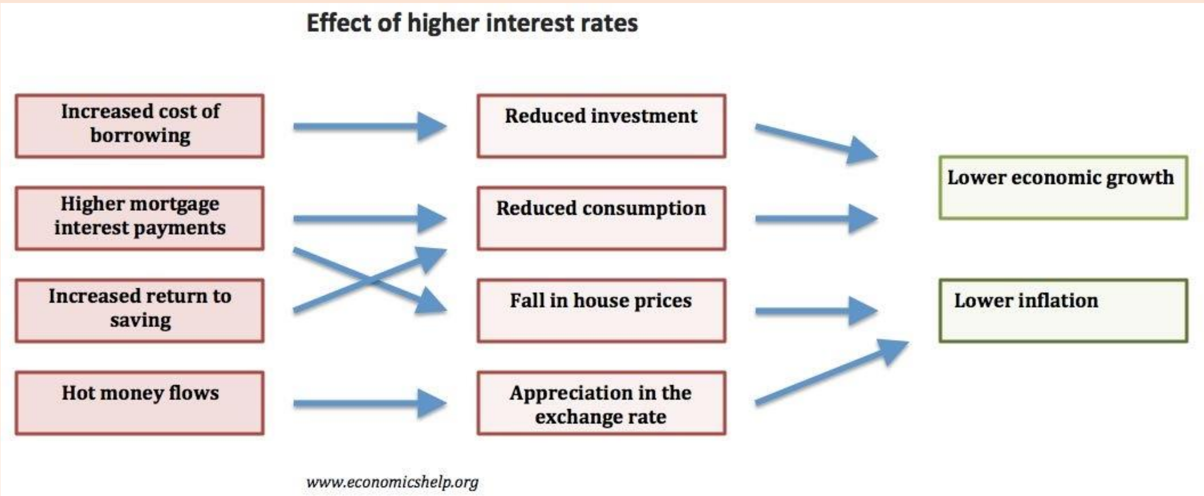
Inflation Rate over last 10 years in India:



Looking at the graph, it is clear that in Indian economy, Interest rates rose substantially after 2010 and started to lower after 2015 and saw steep decline since 2018. In another chart showing inflation rates from 2008 onwards, it is understood that during initial years inflation was in double digits which reduced over the period of time.

Now Let us see the impact of rising interest rates.

- Impact of Raising/Rising Interest Rates -



The Central Bank usually increases interest rates when inflation is predicted to rise above their inflation target. Higher interest rates tend to moderate economic growth. They increase the cost of borrowing, reduce disposable income and therefore limit the growth in consumer spending. Higher interest rates tend to reduce the rate of economic growth and inflationary pressures.

Higher interest rates have various economic effects:

1. Increases the cost of borrowing. With higher interest rates, interest payments on credit cards and loans are more expensive. Therefore this discourages people from borrowing and spending. People who already have loans will have less disposable income because they spend more on interest payments. Therefore other areas of consumption will fall.

2. Increase in mortgage interest payments. Related to the first point is the fact that interest payments on variable mortgages will increase. This will have a significant impact on consumer spending. This is because a 0. 5% increase in interest rates can increase the cost of a Rs. 100,000 mortgage by Rs. 60 per month. This is a significant impact on personal discretionary income.

3. Increased incentive to save rather than spend. Higher interest rates make it more attractive to save in a deposit account because of the interest gained.

4. Higher interest rates increase the value of a currency (due to hot money flows. Investors are more likely to save in Indian banks if India's rates are higher than other countries) A stronger Rupee makes Indian exports less competitive – reducing exports and increasing imports. This has the effect of reducing aggregate demand in the economy.

5. Rising interest rates affect both consumers and firms. Therefore the economy is likely to experience falls in consumption and investment.

6. Government Debt Interest Payments Increase. The India currently pays over 5 lakh crore per year on its national debt. Higher interest rates increase the cost of government interest payments. This could lead to higher taxes in the future.

7. Reduced confidence. Interest rates affect consumer and business confidence. A rise in interest rate discourages investment; it makes firms and consumers less willing to take out risky investments and purchases.

   Therefore, higher interest rates will tend to reduce consumer spending and investment. This will lead to a fall in Aggregate Demand (AD).

So to sum up the impact at personal and economy level as follows:

Effect of increase in interest rates

Personal	Economy
• Increased cost of borrowing • Improved return for savers • Higher mortgage interest payments • Increased cost of bank loans. • Banks may be more willing to lend. • Could reduce confidence of borrowers	• Currency will appreciate • making exports less competitive, imports cheaper • Inflation – will tend to be lower • Economic growth – will tend to be slower • Unemployment – could rise • Government will see rising borrowing costs

- Impact of Lowering Interest Rates -

As discussed above in the case of Increasing Interest Rates, there will be opposite impact in case of lowering of interest rates. **India is currently experiencing the cycle of reducing interest rates by RBI**. In past over one year, RBI has reduced the Interest Rate by over 135 basis points due to various reasons, consisting economic slowdown a major one.

The Effects would be **Lower Cost of Funds For Borrowers**, it is intended to make cost of capital cheaper **to encourage businesses** to increase economic activity which will eventually add up to the economic growth.

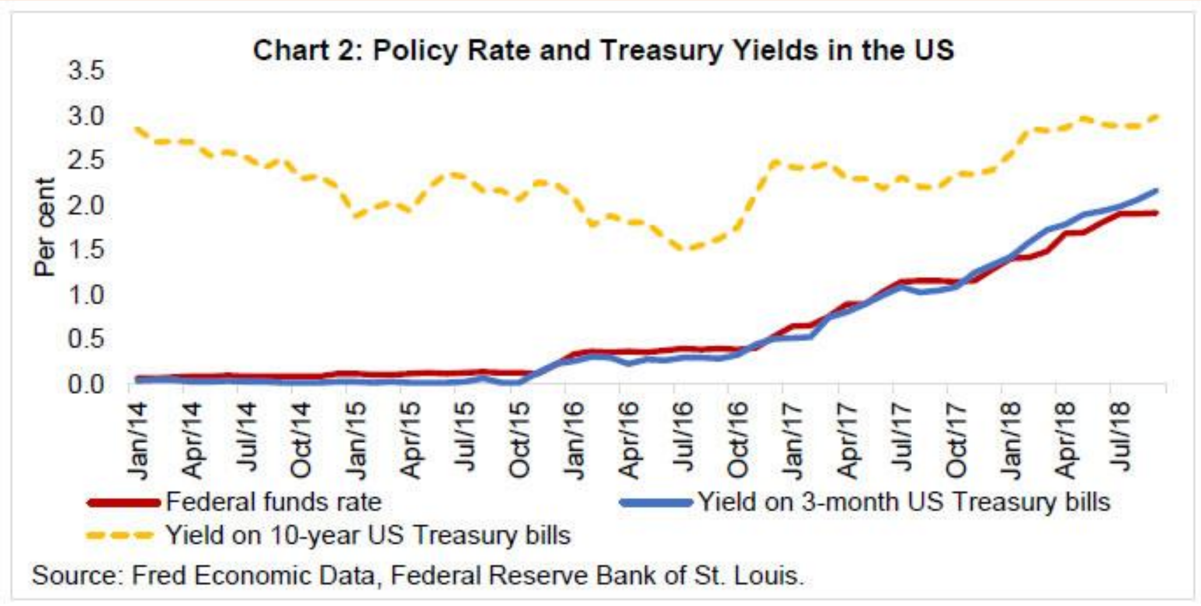
On the other hand people investing in Debt Securities and Bank Deposits suffer due to less return on account of reducing interest rates.

Another major impact of lowering interest rates could be seen on **Depreciating Currency** which has bearing on the flight of capital by foreign investors which will be discussed further.

- Impact of Change in Interest Rates of Global Economies -

Till now we discussed about the impact of change in interest rates in the domestic markets/economy of a nation on its own people and fiscal position. But due to the globalisation, economies of world have integrated and interlinked to a greater extent. This results in spill over effect of changes in the interest rates of other countries on the domestic economy.

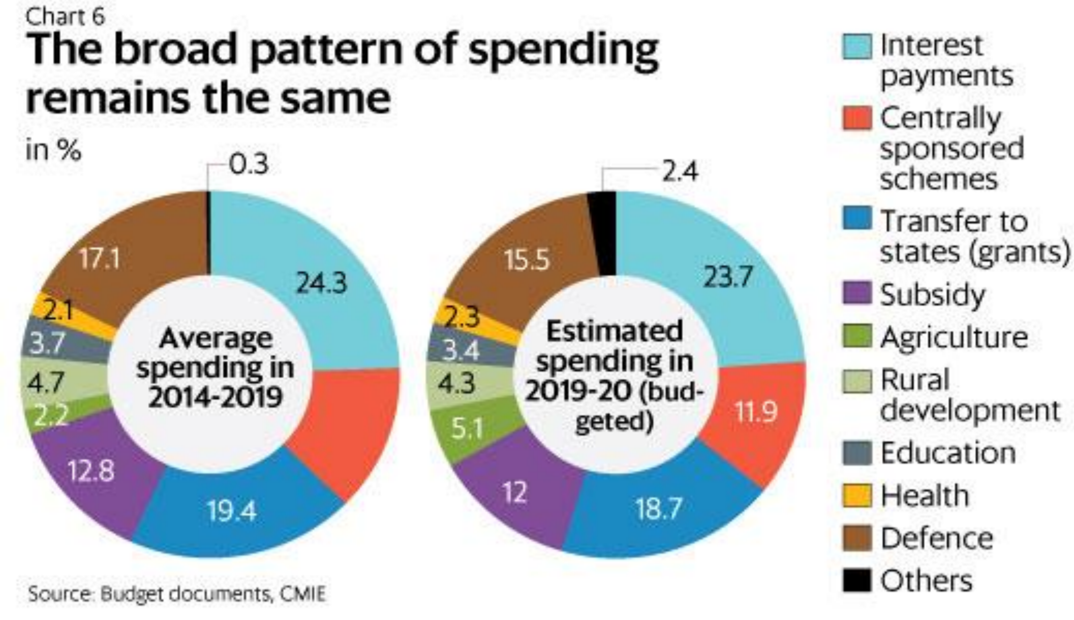
I will explain this phenomenon for Indian economy with respect to changes in rates by US central bank i.e. Fed rates.



From the above chart, we can identify that Fed rate and Treasury yield have been rising since late 2015. Bond yields have touched and hovering around 3% which is significantly on the higher side comparing with past years. On the contrary, interest rates in India have been falling over the same period.

Now what happens is that **a rate hike in the US leads to a stronger dollar and a weaker rupee, which will lower investment returns for foreign investors and prompt them to sell.** This results into flight of capital from emerging market like India. Also it further **weakens the Indian Rupee due to outflow of capital.** Thus there is double dent for Indian economy due to rise in the Fed rates in the US.

- Impact on the Fiscal position of India -



From the above graphics, the light sky-blue shaded portion denotes the share of Interest payment in the overall expenditure budget of India. For past years, the **share of interest payment has been close to 25% i.e. a quarter of total budget expenditure.**

Now if domestic and or international interest rises, it will result into additional interest costs which will further weaken India's fiscal position and the vice versa.

- Impact on Markets -

When the interest rates are on the lower side, it benefits the equity markets as the equity becomes lucrative when interest rates are low. As cost of capital for businesses is low which results into higher profit. Also debt markets are less remunerative due to low interest returns so naturally money flows to equity.

But when the interest rates are on the higher side, the debt markets become more lucrative as compared to the equity markets though there are many other factors affect these.

- CONCLUSION –

- Interest rates have **high influence on both growth and inflation.** Higher the interest rate, higher is the cost of capital and contributes to slowdown investment in the economy.
- Interest rates are a **significant factor in determining the economic environment** in which investment has to take place, especially when many companies are not cash rich.
- High interest rates also **impact FDI** due to the uncertainty in the exchange rate as the market expects interest rates to eventually fall.
- L**ower the interest rate, higher is the supply of money** in the economy and greater purchasing power of individuals. This will result in increase in the price of Goods, since there is more demand and less supply of the goods.
- Thus Interest rate is amongst the most significant components of the cost of many companies and uncertainty of this variable only amplifies overall uncertainty in which investment decisions have to be made.
- Interest rate has few direct impacts on the individual but it has many indirect consequences due to the impact on the Macros of economy.
- Never to forget that Interest Rates are the **Backbone of the Monetary Policy Framework of any Economy.**

Thank You

Neha Bhagat
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ABSTRACT PAINTING

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FOCUS

A word that each person hears lots of time in life. Maybe he might be student, teenager adult, old. Each person needs to have it in whatever work they are doing.

Focus and concentration can be difficult to master but many people keep trying it.

We live in a noisy world and constant distractions can make focus difficult.

In order to focus on one thing, you must, by default, ignore many other things.

Let me put it in a better way. Focus can only occur when we have said yes to one option and no to all other options for it. Of course, focus doesn't mean a permanent no to other things but a present no. You always have the option to do something else later, but in the present moment focus requires that you only do one thing. Focus acts as a key to productivity because as you say no to other options your efficiency for completing the current option increases.

Most times what happens is people don't have trouble with focusing but they have problem with deciding. What I mean is that most humans have a brain which is capable of focusing if we get the distractions out of the way. Have you ever had a task that you absolutely had to get done? What happened? You got it done because the deadline made the decision for you. Maybe you took it for a granted basis beforehand, but once things became urgent and you were forced to make a decision, you took action and completed it.

Many a times many people fail to choose between options and then they end up choosing multitasking to convince themselves. But I feel it's ineffective.

Have you ever been in the middle of writing an email when someone interrupts you? When the conversation is over and you get back to the message, it takes you a few minutes to remember what you were writing and get back on track. Something similar happens when you multitask. Multitasking forces you to pay a mental price each time you interrupt one task and jump to another. This reduces your efficiency.

Focus often fades because of lack of feedback. The first thing you can do is to measure your progress. Your brain has a natural desire to know whether or not you are making progress toward your goals, and it is impossible to know that without getting feedback. From a practical standpoint, this means that we need to measure our results.

We all have areas of life that we say are important to us, but that we aren't measuring. That's a shame because measurement maintains focus and concentration. The things we measure are the things we improve.

The second thing you can do to maintain long-term focus is to concentrate on processes, not events. All too often, we see success as an event that can be achieved and completed. If you want to be a great writer, then having a best-selling book is wonderful. But the only way to reach that result is to fall in love with the process of writing.

If you want to become significantly better at anything, you have to fall in love with the process of doing it. You have to fall in love with building the identity of someone who does the work, rather than merely dreaming about the results that you want.

Same goes with the process of becoming chartered accountant, focus on the journey and fall in love with the process of completing it. Don't do it just for the sake of completion but with the own energy and willingness of achieving it. Be consistent with the focus and enthusiasm that you had at the time of entering the course.

Start being different and innovative through your thoughts. Rather than having thoughts like it's boring and difficult course ,have a new perspective towards it….think as in you will be interacting with lots of new people……getting exposures of lots of new industries and at the end a huge box of opportunities.

Think this course not as difficult but different and enjoy the journey.

So, to conclude don't focus on what you are going through but focus on where you are going to. Because it is commonly said, "Difficult roads always lead to beautiful destinations."

INTERNATIONAL CONFERENCE FOR CA STUDENTS, 2019

Inaugural Photo of WICASA Committee with Dignitaries

AUDIENCE OF INTERNATIONAL CONFERENCE

GROUP PHOTO OF VOLUNTEERS

TREE PLANTATION

VISIT OF FOREIGN DELEGATES

CA HUMAN CHAIN

UNVEILING STRATEGIC IDEAS AND FUNDA'S FOR CA EXAMS