

## Indian Rupee Posts Biggest Weekly Gain in 2 Months

**NEW DELHI:** The government expects little impact of Standard & Poor's decision to downgrade the credit ratings of nine European countries on the Indian economy, although market players are predicting some nervousness when stock and currency markets resume trading on Monday.

"The impact will be only through an impact on progress of efforts to resolve the problems in Europe. The reaction of European leaders will be important and it may be favourable, which will be good for everyone," C Rangarajan, chairman of the Economic Advisory Council to the Prime Minister, told TOI.

On Saturday, S&P removed the risk-free tag on bonds issued by governments in France and Austria, when it downgraded their sovereign ratings by a notch from AAA to AA+, a level that they now share with the US. Spain and Italy too were downgraded, leaving the UK, Germany and Finland in the rapidly shrinking AAA-club.

German Chancellor Angela Merkel has already called upon European leaders to step up efforts to find a solution to the sovereign debt problem, which has pushed countries such as Greece to the brink of default. "The decision confirms my conviction that we have a long way ahead of us before investor confidence returns," she said.

"Any rating downgrade in Europe is an indication of the continuing financial uncertainty. We should keep watching the situation closely," Planning Commission deputy chairman Montek Singh Ahluwalia said over the phone.

While the stock markets may not see much of an impact, the rupee is expected to weaken against the dollar, at least temporarily.

"The dollar will gain and the euro will weaken and there will be volatility. But in a few months, we may see a revival of the euro just as we saw in the case of the dollar. There is no need for hysteria," said currency expert Jamal Mecklai. The rupee closed at 51.53 against the dollar on Friday, and 65.95 against the euro. The Indian currency had hit a life-time low of 54.31 last month but has regained some ground since then.

"There will be some knee-jerk reaction in the stock market and this will push the rupee to 51.90-52.20 range against the dollar," said Moses Harding, head of global markets at IndusInd Bank.

The government is hoping that with some better economic data coming over the past few weeks - ranging from lower food inflation to better industrial growth - the Indian stock markets too would get back some of its lost lustre. On Monday, inflation based on the wholesale price index is expected to fall below the 9% mark after several months. Economists are predicting that it could ease to a two-year low of 7.4-7.5%.

"India's attractiveness as an investment destination will continue," said Thomas Mathew, joint secretary in the finance ministry. The government and the RBI are yet to issue a formal comment on the development.

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With uncertainty in Europe, the government expects that foreign institutional investors will look to invest more in India. Over the past few months, they have pulled out funds from India in the wake of complaints of few policy action and poor economic environment. In 2011, FIIs withdrew Rs 2,812 crore from the Indian stock market.

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*<http://timesofindia.indiatimes.com/business/india-business/EU-ratings-cut-unlikely-to-hit-India/articleshow/11503947.cms>*