



Article Side

Interest Rate and India by [Market Review](#)

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Now the thing that is worth noticing is that all the major indices all over the world have regained the level from where they started the year and drifted downwards, and India is the only nation which is 24 percent down from the levels we started the year 2011.

Now with the inflation easing and the P/E of market in sync with the other BRICS nation India is headed towards a good year so get ready and enjoy the ride.

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Interest rate has been the talk of the town for quite some time in India, to be specific, for last one and a half year. So what is the interest rate that the people are talking about and is implications of the interest rate to the normal people.

Interest rate is a topic on which thousands of books have been written in the past and many more can be expected in our lifetime. The interest rate is a integral part of the Indian financial system a, not only Indian financial system but any financial system.

Define interest rate: interest rate can be defined as cost of money that is to be paid on the sum taken as loan to enjoy the money borrowed.

Quite simple as we all know that we have to pay interest to the bank if we take a loan, be it a home loan, auto loan, personal loan, overdraft, cash credit, credit card, and so on all these are ways of using the financial resources that does not belong to us and for using what does not belongs to us we have to pay rent .in this case the rent is the interest that we pay. Now if a person has surplus fund with him and is not going to use it in foreseeable future he can lend the money to someone and generate interest income. Not a bad idea at all, to make money work. Stock markets and interest rates have a love-hate relationship.

Now comes the twist in the tale. A close relative to interest rate is the inflation rate, they are both expressed in percentage, and that's the only thing similar between them. Otherwise they make the other uneasy with their presence. Market breadth was strong, with 1,328 advances against 718 declines on the BSE. 85 stocks were unchanged. Interest rate sensitive will perform well in 2012. So there will be a chance for a "buy" on IT stocks at current levels.

Define Inflation: Inflation rate is the rate by which a basket of randomly selected good gets expensive over a set period of time. That is to say if one kilogram of wheat is available for Rs. 100 per kilogram at the beginning and the inflation rate being 10 percent for the given period, then at the end of the period 1 kilogram of wheat will cost Rs. 20 more than what it used to cost earlier. Stock

markets are affected in same manner by inflation as the economy

Now if a person is holding one hundred rupee and the interest rate is 10 percent and inflation rate is 20 percent then in that case only a fool will lend money to same one else because if he is looking forward to buy one kilogram of wheat at the end of the period he will fall short by 10 rupees. Do the calculations it is easy.

Now in the case of India and all over the world this time the inflation was led by the supply side although it had some demand side push also.

A brief explanation of demand, supply relationship. There are ten people and hundred rupees each and exactly ten kg of wheat so each can buy one kilogram of wheat. Now somehow one of them manages to have two hundred rupees and now can demand for more wheat and thus sending the price of wheat up because of increase of disposable income. This was demand led inflation. Now in the same ideal scenario if the supply of wheat is nine kilo gram then also the prices will go up. This is the supply side inflation. This is why stock tips providers or say financial advisors caution even retirees to keep some percentage of their assets in the stock market as a hedge against inflation.

India has been facing the supply side inflation. And to counter attack or at least to create a frontier against it to stop from increasing and to drag it down to the "comfort zone" the Reserve Bank of India has increased the key policy rates i.e. the repo and reverse repo rates to continuously in thirteen successive policy review meetings.

The motive behind the increasing the rates is to maintain the supply of money in the system and hence in the hand of common man.

This has led to slowing down of the economy as the cost of money has risen beyond the "comfort zone" of the corporate India. Loans a prime source of fund for any venture companies get into and the escalating rates have forced the corporate to push new business plans to back burner. Profitable stock tips research will be needed to make sound decisions when placing hard-earned money into the constantly changing investments markets.

The rising interest rates have also led to slowing down of the "on-going" business.

This has led to the withdrawal of FII funds from the Indian markets. Which in turn have made Indian investors sad for the time being.

The rise in interest rates have been for the well being of the economy as whole because it would have haunted the corporate the other way round in form of the escalated input costs. So it is futile to debate over the rise of interest rates.

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