Chapter: V Summary, Conclusions and Recommendations.

Summary and Conclusions:

In the introduction, the selection of the topic, identification of the problem and precisely states the objectives and hypothesis of the research have been presented.

Chapter I looks at the basic nature of the Indian foreign exchange market and its growth over a period, briefly covering the exchange rate risk and then makes an in-depth analysis of the rupee exchange rate volatility by calculating coefficient of variance and standard deviation and plotting graphs against that data and looks into the reasons behind that volatility.

Volatility of the Indian foreign exchange market is on rise due to increase in the cross-border trade, huge capital flow in and out and integration of the international financial market. It is observed that particularly after liberalization of the Indian economy the market has become volatile and thereby affecting the revenue and expenditure of the corporates. The rupee with major currencies has started exhibiting volatility; the need for effective risk management tools is felt more today.

This chapter has fulfilled the first objective of the research work, i.e., ‘to conduct an in-depth analysis of volatile nature of India’s foreign exchange market’.

Chapter II deals with the huge derivative losses made by the Indian corporates due to sudden rupee appreciation against US $ in late 2006 and 2007 and its impact on India’s foreign exchange market, and how it affected proceeds of Indian exporters. This sudden appreciation of the rupee against US dollar disturbed the partial equilibrium, which led them to enter into the complicated derivative contracts to minimize their losses, and how they finally ended up in huge losses. The chapter further examines where corporates went wrong in taking positions and how hasty selling by bankers led to the usage about the effectiveness of derivatives in managing the currency risk. Thus, it emphasis the need for systematic efforts to track the currency movements to check the unavoidable
exposures. The chapter led the researcher to the thought of developing a support system that will provide some kind of guideline particularly for SMEs.

Chapter III presents the results of the direct interaction with the foreign exchange market participants, namely Authorised Dealers, and small and medium scale corporates and in-depth interview with the RBI officials concludes that the Indian foreign exchange market is still in a nascent stage as compared to the market in developed nations, and puts a question mark on the feasibility of derivative tools in the Indian foreign exchange market.

With the help of secondary data this chapter provides the ‘know-how’ to analyze the factors affecting the exchange rate of the home country and trading country. It uses statistical technique called ‘SPSS’ to find out correlation between variables that affect the exchange rate during a particular period. The chapter further explains how this correlation will enable the corporates to know the most determinant factor of the prevailing exchange rate.

Chapter IV is devoted to the presentation of the survey results and regression exercise. The researcher has designed a “Decision Support System”, particularly meant for small and medium enterprises who do not have any forex expertise working for them, hiring services of external agencies or using Reuters would be a costly affair in order to hedge their foreign currency exposures.

Therefore, this system will help them to,

- Understand their risk.
- Analyze the market forces.
- Measure them correctly.
- Know-the pay-off profile and then put in place the good risk management policy.
- Understand products available and use what is best suited to their needs.

The second and third objectives of the research work have been fulfilled partially in Chapter II and Chapter IV. Second objective was to study the
impact of derivative tools towards managing currency risk involved in the 
foreign exchange market in India. And third one was to find out the ways 
and means for managing currency exposures, so as to serve as a basis 
for decision support system to SMEs (small and medium enterprises).

Towards the fulfillment of above objectives, the hypotheses have been 
tested in the following chapters:

Chapter (I)- Hypothesis 1- ‘In view of the fact that the rupee with major 
currencies has started exhibiting volatility, the need for effective risk 
management tools is felt more today’.

Chapter (II) and Chapter (IV)- Hypothesis 2- ‘Users of the foreign 
exchange market have realized the significance of derivative tools to 
protect their currency exposures’.

Chapter (II), Chapter (III) and Chapter (IV)- Hypothesis 3- ‘The 
effectiveness of the risk management tools depends upon orderly 
development of derivative market and the systematic analysis of the 
exchange rate movements by the corporates’.

Recommendations:

The title of the research is about the “feasibility and scope of the foreign 
exchange derivatives market in India”, and the researcher has proved that 
as the rupee with major currencies started exhibiting the volatility 
particularly after post liberalization, there is a tremendous scope for the 
use of derivative tools in the foreign exchange market.

The researcher recommends that the wide choice for the hedging 
techniques in the market and analytical basis for the use of hedging tool 
will definitely improve the market efficiency. The recent introduction of 
‘currency futures’ in Indian foreign exchange market is a step towards the 
market diversification as regards the use of hedging tools. Further the 
“Decision Support System” so developed particularly for SMEs would go
long way in enhancing feasibility and further scope of foreign exchange derivative market in India.

Thus, to sum up the Decision Support System, so developed is precisely the contribution of the researcher. The support system would give an indication about the currency movements to SMEs and is expected to serve as a guiding factor in covering the unavoidable exposures in cross-border trade transactions.

**Scope for further research:**

There is a further scope to carry out the research by focusing on single derivative tool and critically analyzing various facets thereof in managing the currency risk by corporates.

The Decision Support System so developed can be converted into a software programme, so as to avoid the possibility of human error that may creep in compilation and processing of the data.

There is also scope to work on foreign exchange derivative market in developed nations in comparison with Indian foreign exchange derivative market.
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