

Coping with “Financial Melt Down”



Dr. S.K. Rao addressing on COPING WITH FINANCIAL MELT DOWN on 20th November, 2008 at FAPCCI. (L to R): Sri M.V. Rajeshwar Rao, Mr. Chirag Satelrad, Sri K. Harishchandra Prasad, Sri V.K. Srinivasan, Sri Suraj Prasad Agarwal, Sri Suraj Prasad Agarwal, Sri S. Thirumalai, Sri Laxmi Prasad Agarwal and Dr. U. Subrahmanyam.

The Open House Discussion was jointly organized by FAPCCI and Indian Institute of Economics, Hyderabad. The Guest Speakers for the day were Dr. S.K. Rao, Director General, ASCI, Sri V.K.Srinivasan, (Retd. IAS), Vice-Chairman, Indian Institute of Economics, Sri S. Tirumalai, Past President, FAPCCI and Partner, Deloitte Haskins, Sri Chirag Satelrad, Sr. Fund Manager, HDFC AMC Ltd.Mumbai.

Dr. Subrahmanyam, Director, IIE invited the distinguished guests after which Sri Suraj Prasad Agarwal, President, FAPCCI, welcomed the gathering. He made reference to the current financial crisis in which India has to face challenges, at the same time pursuing its economic reforms and shaping policies concerning security and foreign aspects to ensure conducive external environment for its transformation.

Sri Laxmi Prasad Agarwal, Chairman, Economic and Civic Affairs Committee, FAPCCI, observed that economic recession is a new subject under Globalization today, which is caused by combination of several factors like, inflation, currency crisis, speculation, national debt etc. The Government is required to take appropriate measures to control this economic recession.

The discussion began with an introductory remark on the subject by Dr. Meera Lal, Senior Consultant, IIE. She pointed out the disastrous steps taken by the US government when it de-regulated the financial institutions in the US by a number of Acts passed during 2000-2007. India has remained isolated due to the prudential norms and RBI checks adhered in the financial structure. She advocated containment of the crisis through controlled regulation and monitoring of the economy.

Special Guest of the session Dr. S. K. Rao started his address by referring to the fact that keeping in view the US recession, the emerging economies have not taken advantage of the situation and have not shown greater expected growth rates. He assigned the reasons for this crisis to higher demand for oil and food which has ignited inflationary trends. Transfer of wealth from developed economies to China and OECD created excess surpluses in these economies. These were again ploughed back to developed economies like US where surplus liquidity was available at low rates of interest. He quoted the famous Economist Mr. Minsky who had said that the revelation of an acceptable debt structures when everything goes wrong is quite sudden. Dr. Rao emphasized poor regulatory environment as another cause for the financial meltdown. He concluded by suggesting focus on investment on infrastructure to enhance increased demand and productivity. Quality of Public expenditure needed improvement and lastly we need to strengthen our banking system with more room for interest rate cuts.

Sri S. Thirumalai while speaking from industry point of view took examples of six core industries where production growth has shown a decline due to acute liquidity problem in the economy. He referred the Asian Development Bank Report regarding severe terms of trade for the Asian countries. He also made reference to shortfall in fertilizer production and decline in subsidies which has been responsible for the industrial shortfall. The Indian economy is still very susceptible to turbulence and can weather the storm not this year but in the coming years. He further made emphasis to SME sector and Government must integrate monetary policy with fiscal incentives to allow capital conservation. States have to join in a combined effort and a ‘Disaster Management Team’ can be formed to tackle the situation.

Mr. Chirag Satelrad linked the global crisis with the Equity market and he emphasized declining P/E Ratio. The stock market needs to be raised with an expansion of P/E ratio. Consumerism has increased and is here to stay. Equity should outperform bonds, hence investments in the former is more profitable keeping long term perspective in mind.

Mr. V.K. Srinivasan advised economists to look at the real aspects of the economy and not just the volatility of the stock exchange markets.

In open discussion, various questions were raised, aptly answered and debated by the experts. Students of VVIS made a small presentation which was appreciated by all.

The programme was well attended by Sri Shekhar Agarwal, Vice President, Sri M.V. Rajeshwar Rao, Secretary General, and Members of Managing Committee and past Presidents of FAPCCI, Industrialists, academicians and students etc. This was followed by a Vote of thanks by Sri K. Harishchandra Prasad, Sr. Vice President, FAPCCI.