

India unnerved...

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It is said that tsunami devastates everything in its path. Ditto, post sub-prime crisis, the financial tsunami cut swathe through all over the world which led to the situation where some countries have already announced recession or the worst phase of their country. The financial sumo USA is running at almost zero interest rates vis-à-vis Japan after a series of rate cuts to boost the economy. Even the Troubled Assets Relief Program (TARP) announced by USA, to the tune of \$ 700 billion as bail out package could not revive the economy. The global catastrophe created a panic among investors and the confidence went to dismal low. Following it, many countries such as UK, France, Germany, China, India et al announced their economic package to stimulate the economy.

All the bourses have tasted their low which is really unnerving. It all started with the fall of Lehman Brothers which resulted in a chain reaction and galloped one after other major financial institutions or had to be bailed out by their respective governments. Some of them are Washington Mutual, Wachovia Bank, RBS et al. But the best hope to keep the global economy on revival comes from BRICs. The consumers in Brazil, Russia, India and China may be the saviors of the global economy. The four BRIC nations hold 41 percent of total global foreign exchange reserves as of early November. The banking systems are stronger and international trade has expanded.

Still among all of them, India stands undeterred. Its financial system, albeit, has touched its 2 year low, it is still standing with no any financial casualties. Its banking system is full-proof and the current indications as shown by their corporate tax filing show their buoyant mood. Where on the global front all the institutions are laying off their employees at a exorbitant rate, Indian banks and other institutions have indicated a huge recruitment drive in months to come. Though to some extent, the aggressive Mutual Fund Industry got into trouble with the liquidity crisis and portfolio disclosure issue in FMP. But the liquidity immobilization in October and November was a structural problem which is implausible to happen again.

Among all classes, Indian debt funds performed well because of interest rate plummeting down. Interest rate movements are always cyclical; its volatility is a double-edged sword. Any indication of bubbling up of inflation and GDP growth beyond the comfortable level would lead to reversal of interest rates. In the current low interest rate scenario, yields on government bonds have fallen to a four-and-a-half year low touching below 5.5%. Inflation too has fallen vis-à-vis interest rates. Days ahead one may witness year 2004 scenario when floating-rate loans and fixed-rate loans were trading at 7-7.5%.

In the era of global coupling where the foreign institutions' fund in emerging economy started flocking to their origin country and has caused a jinx in the availability of overseas fund, it is a matter of time before money starts flowing into emerging markets again.

2009 seems bright for interest rates which could see further rate cuts given the continuous fall in inflation and there is a scope for a reduction in deposit and lending rates.