GLOBAL FINANCIAL CRISIS: INDIA'S POSITION

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Bombay Stock Exchange Brokers Forum

FOREWORD

This book is a humble effort for making the common man understands the implications of the Global Financial Crisis – its causes and its effects which are now being felt. The entire world economy has undergone a sea of change in the last five years since the world experienced the Global Financial Crisis 2008 which shook the whole economy and also highlighted the Asian Economies as the coming super economic powers. Fortunately or due to structural reforms that have taken place in India in the last more than two decades, India has been able to withstand the global financial crisis and demonstrated to the world that Indian Economy is self-sufficient and is able to generate demand and consumption on its own. The attempt also to analyze the impact of the global crisis on the Indian stock market which took a nose dive crash in 2008 during the global crisis and also during the 2011 Eurozone crisis. The banking system which is the back bone of any financial system has also been compared to the advanced and developed global banks which could not sustain the global crisis and rather were the causes that triggered the fall in the global economy.

The book has been divided into 6 sections:

Section 1: Indian Economy --- The journey so far

Section 2: Global Economy --- What went wrong that led to Global Financial Crisis

Section 3: Eurozone Crisis --- What lessons were learnt?

Section 4: Indian Capital Markets --- The meltdown

Section 5: Banks lending --- The trigger point for collapse

Section 6: Conclusion

ACKNOWLEDGEMENT

I take this opportunity to sincerely thank **Miss NaikAfifaKhatoon,** studying MBA inAllana Institute of Management Studies, Mumbai, who has done the editing of this book. She has been real help to me in completing this book and ensuring that I am able to do this work along with my busy office work. She has been instrumental in completing this book on timely basis.

ABOUT THE AUTHOR:

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CAREER SUMMARY

- 12 years of corporate experience in field of financial services with complete knowledge about all the segments of the capital markets and financial products.
- Exposure to research in the capacity of fund manager of various asset allocations and asset linkages.
- Complete knowledge about the working of the operational aspects of the capital market and in specific about the stock market fraternity
- Presented Research papers in national and international conferences which gives complete exposure to International experience
- Complete practical and on hands exposure to the working of the stock broking firms as worked as Leading stock broking houses in various capacities
- IN depth knowledge of Macro Economics and Fundamental Research as worked as Fund Manager.

PROFESSIONAL EXPERIENCE

Working as Chief Operating Officer of BSE BROKERS FORUM from 31st August 2012. From 11th March 2013 given additional responsibility of Chief Economist of Bombay Stock Exchange Brokers Forum.

JOB PROFILE AS COO:

- Handling all member broker related queries and coordination with BSE
- Instrumental in bringing out “Operational Manual” for brokers which has entire operations aspects for broking industry.
- Drafting all correspondence with SEBI,RBI and Ministry of Finance
- Conducting seminars on Compliance, PMLA, E Boss, Service tax issues for member brokers
- Key role in GIFT CITY Project operations part.

JOB PROFILE AS CHIEF ECONOMIST:

- Write Macro Economic Research articles for FORUM VIEWS Magazine
- Published Macro Research papers In International Journals
- Regular appearance on CNBC Bazaar and DD News channel
- Interaction with FOREIGN Delegations who visit BSE and explain them about Indian Economy
- Represented India at Harvard Law School, USA and gave presentation about Indian Economy

QUALIFICATION

- PhD in Economics from Veer Narmad South Gujarat University NAAC Rated 5 star
- Management Development Programme (MDP) from IIM Ahmedabad.
- Chartered Wealth Manager (CWM) awarded Honorary by American Academy of Financial Management.
- MBA Finance (Gold Medal), S.R.LuthraInst of Management (2004)
- BBA Finance (Distinction) South Gujarat University (2002)
- 30 Research papers published in various books and journals
- 23 Research papers presented in National and International Conferences
- Authored Book on “Introduction to Indian Commodities Market”
- Authored Chapter in the book “Security Analysis and Portfolio management” along with ShaliniTalawar from K J Somaiya Institute of Management
- Recognized PhD Guide in UTU University.

UNIQUE ACHIEVEMENTS:

- Dr.Aditya has been referred to be appointed as an Advisor by Member of Parliament (Lok Sabha) Shri HansrajAhir to Prime Minister Dr. Manmohan Singh. Received letters from Prime Minister Office (PMO) acknowledging the same.

- Dr. Aditya has been referred to be appointed as an Advisor by Member of Parliament (Lok Sabha) Shri KaushalendraKumarji to Prime Minister Dr. Manmohan Singh and also to Shri P Chadambaram. Received letters from Dr. Manmohan Singh and Shri Chidambaram acknowledging the acceptance.
- Dr. Aditya has been referred to be appointed as an Advisor by Member of Parliament (Lok Sabha) Shri HansrajAhir to Prime Minister Dr. Manmohan Singh and also to Shri P Chadambaram.
- Dr. Aditya has been referred to be appointed as an Advisor by Member of Parliament (Lok Sabha) Shri HansrajAhir to Prime Minister Shri NarendraModiji.
- Invited by Harvard Law School to attend International Conference on Islamic Finance from April 25 to April 27 2014 held at Boston. Globally only 80 experts had been called to attend the conference from 20 countries.
- Heading Investor Awareness Programme Drive. Have personally taken 310 sessions pan India covering 19,500 participants including IIM Ahmedabad, IIM Indore, NMIMS, S. P Jain, Symbiosis to name a few.
- Regularly invited by DD News and CNBC Bazaar on Monetary policy, CPI WPI data, Trade Data. Have given more than 25 interviews till date.

KEY ACHIEVEMENTS:

- Took one on one interview of Dr.Siddhartha Roy, Economic Advisor Tata Group (Directly reports to Tata Group Chairman, Cyrus Mistry). The interview was printed in the April 2013 Annual Edition of FORUM VIEWS Magazine.
- Addressed 40 senior management personnel from KPMG Financial Services division at KPMG office in Mahalashmi, Mumbai.
- Addressed Indian Institute of Management (IIM) Ahmedabad, 50 Post Graduate Students of Management
- Addressed Indian Institute of Management (IIM), Indore, 45 Post Graduate Students of Management
- Key speaker at Oman Stock Exchange and Maldives Stock Exchange on Indian Capital Market
- Article published by Hong Kong Securities Association in their journal on the topic "Global Financial Crisis – lessons to be learnt"
- Article published by Tilburg University in International Journal "Faces International" on the topic "Role of Government in Stock Exchanges"
- Conducted Master of Ceremonies (MOC) during the visit of Prime Minister of Hungary Mr. Victor Orban on 18th October at the BSE International Convention Hall.
- Conducted Master of Ceremonies (MOC) during the launch of BSE Currency Derivatives during presence of Shri Salem, Honorable Union Minister of Revenue, Dr. K P Krishnan, Additional Secretary, Government of India.

- Represented India at the Asia Securities Forum held at Taiwan from 23rd October to 25 October 2013. The meet had participation from more than 14 countries with around 50 delegates.
- Addressed 16 member delegation of Western Australia Government delegation through video conference on Investment opportunities in India.
- Addressed German Delegation, France Delegation on Indian Economy at BSE
- Addressed 64 senior level delegation from 16 countries from IMD Switzerland on Indian Economy and Indian Capital Market.
- Invited as Panel Expert at IIFT Delhi at National Finance Symposium
- Editor of monthly magazine "BSE FORUM VIEWS" which has won "Silver" award at 53rd Annual Awards Nite organized by Association of Business Communicators of India along with TATA group

POSITIONS HELD:

1. Editor of the monthly magazine "FORUM VIEWS" which has 2000 hard copy publication. Was awarded "Silver Prize" by the Tata Group and ABCI in 2013 and Bronze Price in 2014 in External Publication category.
2. Member of Expert Panel appointed by NISM (Educational arm of SEBI) for Certification for Research Analyst.
3. Recognized PhD Guide in UTU University, Surat, Gujarat.

4. Member of Board of Studies of Symbiosis Institute of Management Studies, Pune.
5. Member of the Investment Advisory Committee of Concept Securities Private Ltd
6. Member of the Advisory Board of Saint Xavier College.
7. Member of Advisory Board of C.K.Pithawala Institute of Management Studies
8. Member of Editorial Board of "Professional Panorama An International Journal Applied Management and Technology (ISSN 2349-6916)
9. Member of Board of Studies of Symbiosis Institute of Management Studies (SIMS)
10. Member of Editorial Board of "Symbiosis Institute of Management Studies Journal "Jidnyasa" ISSN 0976-0326 JIDNYASA
11. Member of Governing Board of IES Institute of Management Studies, Bandra.
12. Member of Subject Board of Finance at K J Somaiya Institute of Management.
13. Member of Advisory Board of Industry Academia Partnership cell of Saurashtra University, Rajkot, Gujarat.

INTERNATIONAL MOU SIGNED:

Was instrumental in Domestic and International MOU with the following bodies:-

1. Hong Kong Securities Association
2. Mauritius Stock Exchange
3. Maldives stock Exchange
4. Philippines securities association
5. KOFIA (Korea)
6. Thailand Securities Association
7. 6th Sense Consulting firm in UK
8. Bajaj Allianz Life Insurance company

EARLIER EMPLOYMENT

BOMBAY STOCK EXCHANGE TRAINING INSTITUTE:

Worked as Full Time Faculty cum Economist and International Trainer at Bombay Stock Exchange and also as Corporate Trainer representing BSE at various customized National and International Progammes from 8th June 2011 to 30th August 2012)

ROONGTA RISING STOCK PVT. LTD. (Feb 2010 to June 2011)

NATIONAL HEAD – BUSINESS DEVELOPMENT – Equities, Derivatives, Commodities Currency.

- Handled entire business development aspect
- Instrumental in getting BSE membership

ANGEL BROKING LIMITED (Jan 2009 to Jan 2010)

Regional head South Gujarat Region – operations (handled 583 sub brokers and 9 branches having 40,000 clients and 250 employees)

- Reported to Mr. SantanuSyam, Executive Director
- 7 Department Heads – KYC, Demat, Account, Banking, Quality, HR, Risk management reported to me
- Instrumental in streamline processes and ensuring client satisfaction
- Instrumental in strong recovery from clients and sub brokers
- Instrumental in auditing of sub brokers through external auditor

CONCEPT SECURITIES PVT. LTD. (Dec 2006 - Dec 2008)

ASST. VICE PRESIDENT – Chief Economist and Fundamental Analyst

- Instrumental in getting NSE membership (entire paper work and coordination with exchange)
- Instrumental in getting PMS license (entire documentation and coordination with SEBI)
- Played key role in formation of NRI cell
- Played key role in formation of In house Research Cell.

S.R.LUTHRA INST OF MANAGEMENT (AUG 2005 - Dec 2006)

LECTURER – TAUGHT SUBJECTS ON PORTFOLIO MANAGEMENT, DERIVATIVES

Department of Economics, Veer Narmad South Gujarat University (June 2004-July2005)

LECTURER – TAUGHT SUBJECTS ON STOCK MARKET AND CAPITAL MARKETS

SECTION 1

Indian Economy – The Journey So Far

IndianEconomy has seen paradigm shift in its structure and working since independence when we adopted the mixed economy model but it did not yield the desired result since the mixed economy model was only in letter but not in spirit. The result was that the entire model which was focusing on “Public Sector Units (PSU)” did not go well since at the fag end of 1980’s the entire economy was bleeding with huge deficits in the balance of payments which virtually collapsed. In 1990, the Indian economy had to mortgage 67 tons of gold with Bank of England and had to take a loan of $ 2 billion from the International Monetary Fund. The then Prime Minister, Late Mr. P V Narsimha Rao and the then Finance Minister Dr.Manmohan Singh went to the World Bank and IMF. This ushered new era of reforms what was called as the LPG (Liberalization, Privatization and Globalization) as the private sector and the foreign players were allowed to enter the economy and the License Raj was abolished. This led to several reforms that took place in the Indian economy which can be described as under:

1992 --- FII were allowed in Indian stock market

1993 --- Private Sector Mutual Funds were allowed

1996 --- Dematerialization Act was passed

2000 --- Derivatives Market was launched

2003 --- Commodities Market was launched

2008 --- Currency Derivatives were launched

The reforms led to huge amount of investments coming in the capital market which took the SENSEX to all time high in the year 2008 January with the SENSEX touching 21206 points on 10th January 2008. The last 10 years has seen world economy passing through very tough phase as the Global Economies integration is like a double edged sword. It has benefits of globalization and at the same time side effects of financial contagion. The year 2003 saw the Indian Bull market picking up and 2004 saw the Congress coming back to power after the "Indian Shinning" campaign failed to attract the voters. The period from 2004 to 2008 was golden for the entire world economy and Indian stock market zoomed with SENSEX giving high return year after year.

Year	FII Registered	SENSEX Returns
2003	517	63.78 %
2004	637	9.56%
2005	823	40.70%
2006	993	46.82%
2007	1219	45.50%
2008	1594	-52.86%
2009	1706	75.38%
2010	1747	14.65%
2011	1750	-24.65%
2012	1752	25%
2013	1755	8%
2014	1757	32.1%

The real economy was also performing well with the GDP touching all time high of 9.3 % in 2007-08. In 2008 January when the SENSEX was at all time high, the other markets of the world were also touching their all time high and thus there was global flush of liquidity hitting the world markets. The year 2008 saw the world economy sliding into recession as the world largest economy the USA, having Sub-prime Crisis.

The World and Indian Economy in December 2014

World Economy:

The Indian stock market has been witnessing some kind of turbulence since the macro economic data coming from the world markets are having mixed bag. The economy of USA is coming on track with Fed announcement that they would have a wait and watch approach for the interest rates to rise. USA has registered GDP growth of 5 % which is at 11 years high. USA has been able to create more than 2 lakh jobs every month for the last six months. The borrowing of the Fed is at 7 years low. This has gone well as markets globally reacted positively. The news from other major economies has not been so kind with Japan which is facing recession though they increased their stimulus from 60 trillion yen to 80 trillion yen. Japan is facing recession astheir demand and consumption has been decreasing since the average age of Japanese's is 50 years and thus problem of "AGING" population. China is heading for slow down as its GDP growth projection has come down and its industrial production has come down to 4.2 % which is at 27 months low. This creates fear that the world largest consumer of commodities is slowing down.

The Euro zone is still not clear how it is going to address the mounting debt issues with Greece, Spain and Italy as their Debt to GDP ratios have become unmanageable. The recent Russian problem has taken the world on toll as Russia is in nearly default like situation. The fall in the oil prices is also creating havoc since Ruble has crashed and the Russia is on the verge of

default. Any such event creates huge issue for the world economy and may take the world economy back into recessions.

Indian Economy:

The Indian economy saw the biggest change in the May 2014 when for the first time in 30 years there has been a government with full majority. This is the biggest reform that has taken place in the history of India. The GDP which has come down to 10 year low at 4.6 % and has bounced back to 5.7% in the September quarter and then in it has stabilized at 5.3 % GDP growth rate. Of course this is far less than what Indian economy has an average of 8 % in the last 10 years. The Government in its mid economy review has stated that GDP would be at 5.5%.

The FII has been on selling spree as the year end comes and they are busy closing their books. FII has made net investment of $ 16.5 billion in 2014 as compared to $ 24 billion in 2013 and $ 20 billion in 2012.

The US economy has ended its long debated Quantitative Easing (QE3) which was monthly programme with printing of $ 85 billion per month. The closure of the QE was debated that the world markets especially Indian markets would come down but nothing has happened since FII are pretty bullish on our economy.

The biggest benefit today India has is the strong stable government which has absolute majority in the parliament. This will ensure that all the reforms are passed in the parliament and thus are implemented. In the last six months, the way

government has been able to install confidence comes from the fact that Rs. 90,000 crores have been invested into Indian stock markets.

On the domestic front the Cabinet clearance for GST is a real welcome step and hope that the GST bills gets tabled in the parliament in this winter session. This would pave way for the strong fiscal reforms as the entire indirect tax structure would undergo sea change. GST would not only remove the multiple tax structure but at the same time increase the demand and consumption as the buying power of the people would rise with prices also getting reduced. This would increase the size of the Indian economy in terms of purchase power parity.

The inflation has now come to down to 0 % which is a really a positive surprise and now the RBI should use this opportunity to start reducing the interest rates which is the catalyst for the consumption and demand in the economy. In the year 2015, RBI should start reducing the interest rates which would bring down the cost of capital which would help the corporate sector to expand and this would also lead to job creation. India needs to create 1.5 crore jobs every year for next 20 years to get the benefit of the demographic dividend.

The Indian economy has been struggling for quite some time. The fall in the crude prices have been a big benefit for the Indian economy as we import 77 % of the total crude oil requirement. Though the Current Account Deficit has increased from 1.7 % of GDP to 2.1% of GDP but this has been due to rise in gold imports. The fiscal deficit is still a challenge for the

government since currently it is at 4.5 % and the government is trying its best to stick to 4.1 % target. But it is most likely to get breached since government expenditure has already reached 90% of the target and still 3 months are there for the fiscal year to be complete.

Thus, the silver line is that the government is all set the initiate reforms and ensure that the global investors have confidence in our system and they invest for long terms. This would create job opportunities for the people at the grass root level with campaign like the 'Make In India' which would give the much needed push to the manufacturing sector. Since, in 1992 the share of manufacturing sector was 14.6% in GDP and in 2014 it is still at 14.9% in GDP. This needs to go up as that would lead to employment generation.

April - May 2015: Period of turbulence in Indian stock markets

MAT on FII:

The FII has been on selling spree in the month of April and May 2015 due to the controversial MAT (Minimum Alternate Tax) which is likely to be imposed at the rate of 20 % on the FIIs. The income tax department has sent demand notices wroth Rs. 602 crores to 68 Foreign Institutional Investors. But there are around 3000 FPI (Foreign Portfolio Investors) which includes FII where the tax demand can go up to Rs. 40,000 crores. This has created anxiousness among the FII and they are continuously selling the stocks from the Indian stock market. In May 2015, FII in the first 10 days, sold stocks worth Rs. 6500 crores which resulted into the index falling like the pin of cards. In onesingle trading session, the markets tanked by more than 700 points. The key issues raised by the FII is that why the government is going on the retrospective tax issues and asking them to pay tax. The argument of the government that MAT will not be applicable on those countries where the DTAA (Double Taxation Avoidance Treaty) has been signed which includes Singapore and Mauritius. But these two countries account for only 30 % of the total FII flows coming into the country. USA, UK and Luxemburg account for 50 % of the total FII amount which comes into the Indian stock market. The stability of the tax laws in India is the main aspect which is creating ripples about the investments in Indian economy.

June 2015: Challenges in Indian Economy

The Indian economy is having turbulence in terms of macroeconomic data which is showing signs of weakness. The key economic variables analysis is as under:

GDP:

The Indian GDP data which came in June 2015 was at 7.5 % but a closer analysis shows that the actual Growth Value Added (GVA) is only 6.1 % which was earlier 8.4% and then 6.6%. This shows the actual output in the economy has reduced and the rise in GDP is actually due to the rise in indirect taxes and subsidies. The rise in the GDP is due to the change in the base year from 2004-05 to 2011-2012 is one of the key reason why the GDP seems to be rising. The fact of the matter is that the economy is still not showing signs of revival at the grass root level since there are less job creations, no capacity expansion and the no foreign investment coming in big way. The GDP contribution has 70 % from the service sector, 14.9% from industry and 15 % from Agriculture. But, the issue is that if we want to create sustainable GDP for coming years, then the share of manufacturing sector in GDP has to go up since this would create mass jobs in the economy. The service sector based economy create jobs but they are of intellectual levels but in India where still the school dropout ratio from standard 1st to 12th is 88%, the only way to employ such large under educated or less qualified workforce is the manufacturing sector only. The contribution in the GDP from the manufacturing sector would not only create large number of jobs but at the same time, would

also ensure that GDP growth is sustainable. Unless jobs are created at the grass root level, the Indian economy would have serious problems related to socio-economic matters and law and order. The large number of population which we are chanting the slogan of "Demographic Dividend" would be only useful provided they have earning opportunity. The agriculture sector which contributes only 15 % to GDP but more than 62% of the population is dependent on rainfall for directly or indirectly for their livelihood. This makes agriculture sector very much crucial for the entire rural demand.

In the last 10 years, if we see the world average GDP growth has been in the range of 2.5 % to 2.9% while Indian economy has been able to grow at 7.5 % to 8 %. This shows that India has the potential to outperform the world economy. But, the key concern about our economy is the lack of implementation in the reforms process.

2016: Position of Indian Economy

The Indian GDP grew at 7.6 % which is officially the fastest growing economy in the world as China; the earlier competitor could make GDP growth of 6.8% only. But the rise in the GDP number were mixed as other set of macroeconomic indicators were weak with the IIP coming to -1.3 %, the core sector data which contributes 38 % in IIP index is at -3.2 % and the CPI inflation rising to 5.69% indicating that the road ahead for RBI to cut interest rates would be a difficult one. The corporate profitability is not good since most of the major corporate are facing losses as their balance sheet is highly leveraged. The core questions is that with the Indian economy still performing far better than the world economies, still there is much to be done at the grass root level. The biggest challenge is that “JOB CREATION” since Indian economy is offering the benefits of Demographic Dividend, Domestic Consumption coupled with high savings as the key factors to the foreign investors. But the key question is can we create 1.5 crore jobs every year. The Economy needs to create more jobs in the manufacturing sector since the contribution of the manufacturing sector was 14.6% in GDP in 1992 and even in 2015 it has been 14.9%. Thus, there has been complete stagnancy in the manufacturing sector. If the “Make In India” campaign has to succeed then the Government will have to do lot in terms of “Ease of Doing Business” a reality and make procedural norms very easy to start up new business. Today, India has the third largest number of startup companies pegged at 4300 which is after US and UK. The need of the hour is to ensure that thesestartup gets enough seed and working capital

so that they are able to survive first 3 years. This would ensure that more entrepreneurs are created and thus it would in turn more jobs at the grass root level.

US Interest Rates:

The US economy is steadily coming out of woods since the unemployment rate has come down to 5.5 % which was at all time high of 9.8%. The Fed is losely watching the economy to see that whether they are now in position to increase the interest rates. The rise in the interest rates sends shivers to the emerging markets since when the Fed increase interest rates, there could be flow of capital from emerging countries back to USA. This could see fall in the emerging stock markets.

The USA has kept interest rates at 0.25% and we may see rise in interest rates in 2015 end. The US economy is growing well since their macroeconomic indicators are indicating that economy is coming on track. If USA increases the interest rates, then it would be first time in the last eight years, they would increase the interest rates. This would mean a lot for the global capital flows. Once the interest rates starts rising, then the fear is that the emerging economies would also be forced to increase the interest rates otherwise the interest rate arbitrage would become less and institutions may prefer to invest in USA. The key aspect with the US is that there is lot of ease in doing business and this is the key reason that it can attract lot of investments from the emerging economies back to US.

The US Economy remains the undisputed leader of the Super Economy Age. Though, the country was hit hard early by the twin disasters of 9/11 and the 2008 financial meltdown, it has largely recovered emotionally as well as economically. Soon after the bust, the US economy has started growing at 3 %

considerably higher than its developed world counterparts. In the second quarter of 2014, their GDP grew at 4.6 %. The unemployment in the USA which had touched all time high of 10 % in 2009 came to 5.5 % in 2013-2014. The house prices in the USA were up by 10.7 % over the previous years with 99 out of 100 top cities again showing increases in the price. The stock markets of USA also soared by the summer of 2014, both the DOW Jones and the S&P 500 hit record highs. Though the share of the USA in the world GDP has declined, its nominal GDP remains the world's largest, measuring more than $ 17 trillion in 2014. It occupies the third biggest landmass, its military is huge and fearsome and its culture exports from Hollywood movies and rap music to mass market fashion and fast food franchise reach every corner of the world. From the demographic view point also, the American fertility rate is around 2 % and the United Nations expects the population to grow 30 % between 2010 and 2050 because of large part of immigration. Most of the population growth would be in the young adult demographics, full of able and eager workers, the number of Americans aged between 22 and 24 years will jump from 22 million to 25 million. This would be another major sustainable growth factor in the USA economy.

China, Japan and Europe in doll drums:

The IMF has predicted that the Japan share in the world GDP based on purchasing power parity will reduce from 5.6% in 2012 to 4.8% in 2017. An ageing workforce and lower birth rate would mean that its population currently tenth in the world is expected to decline very fast from 127.5 million in 2013 to 97 million by 2050. Nor do the Europe dominant 20th century powers Germany and Britain qualify on their own for Super Economy. The 28 nations of European Union, edges out America the third biggest population with more than 505 million people in 2012 and long standing cultural cachet. The European Union is characterized by the fact that it lacks a unified foreign policy backed by a single military, an fiscal inconsistency have spawed debilitating debt crisis from Ireland to Greece. Lower birth rates, staggering unemployment, an unwieldy bureaucracy and terminal welfare dependency further compromise its ability to match the US in the global pull.

CHINA CONCERNS THE INDIAN ECONOMY

Key facts about Economy of China:-

1. Their Debt to GDP ratio is a 282%
2. Their banks have NPA Of 30 %
3. The wealthy Chinese's have borrowed funds from banks and invested in the stock market of China. This was key reason for market to crash when their regulator increased margin money in the future option segment.
4. China has depreciated its currency once again by 1.5% which would make the Chinese goods more competitive and flood the world markets with Chinese products.
5. Investment lead model has created Excessive capacity in the Chinese economy.

Key facts about political strategy of China:-

1. China has invested $ 1.1 trillion in USA Treasury bills which is key risk politically since any pressure from USA would mean that China may threaten to pull out this currency.
2. China has strategically forced Zimbabwe to accept its currency as formal currency. China forgone the loan of $ 40 billion it has given to Zimbabwe and also supported the current election of the Zimbabwe president. China has entered the 54 nations African continent which is key risk.
3. Chinese currency has been accepted by IMF in its reserve currency. This is huge step even after the weakness of the Chinese economy coming out in public.

Chinese economy had adopted the “Tidal Wave Investment” theory which was aimed to create massive infrastructure and but this lead to excessive capacity creation. There are many towns in China which have been labeled as “Ghost Towns” since they have infrastructure but no people to use it. The Chinese economy has been lead by “Investment Lead Model” but the investment has been made with leverage capital which is the root cause of the failure of the model. The Debt to GDP ratio has been pegged at 282 % which is alarmingly high and thus the Chinese economy will take long time to recover from this situation. China has been the biggest producer and consumer of important metals like the Steel, Aluminum and copper and thus the economy seems to have major effect on the world commodity cycle.

WORLD ECONOMYON TENTER HOOKS

US ECONOMY – REASONS TO WORRY

- US Economy GDP in the last quarter has grown only by 0.7%
- In spite of printing $ 3.6 trillion in quantitative easing and $ 6 trillion of public debt, the full year GDP for the US economy is only 2.4% and not even 2.5 % which is major source of worry
- The demand for Loan from Industry that is big and medium industrial houses has fallen by 12.7%
- The demand for loan from small industries has fallen by 11.5%
- Though US has created jobs but there is no hike in the pay rolls of the employees which means that the consumption is not going to rise anytime soon
- US will not be in hurry to raise the interest rates any time soon because the risk is that its own economy may slip back into recession.
- US Economy Debt to GDP ratio at 103 %

The US economy though has been able come back with a bang as their unemployment is at 4 decades low at 5.1 % but there is no rise in the wages. The fear is that after the rate hike in December 2015, will the economy be able to sustain the GDP growth rate and thus what would be the road ahead. The problem is that alone US cannot pull the world economy in spite of its contribution of 23 % in the World GDP. The US in spite of

printing so much of currency is still not confident that whether the GDP growth would be sustainable or not, creates big issues for the world economy especially Indian stock markets.

Europe – No ray of hope

1. The Debt to GDP ratio of Europe is at 92.3 %
2. Greece has Debt to GDP ratio f 177%, Spain has 120% and Italy has 160%
3. IMF has not said it would no longer be part of the troika that is IMF, European Union and European Central Bank which had created war chest for these troubled economy.
4. The unemployment rate in Eurozone is at 25 % which is key risk

The Greece issue which the world was witnessing since the 2011 when the Eurozone crisis came out, took a ugly turn when the Greece government went for the public referendum in which more than 60 % of the voters came with "NO" for the bailout terms offered by the international creditors. This effectively meant that the Greece was not willing to go for more of austerity measures. The banks in Greece have run out of cash and Greece missed the payment deadline of paying Euro 1.6 billion on 30th June 2015 to IMF. The Finance Minister of Greece resigned. The Prime Minister is adamant that the no new austerity measures would be made applicable since that could push the economy back into more recession.

The Eurozone is still struggling with the high Debt to GDP ratio of its key members like Greece and there is no clear indicator, how this problem of over leverage is going to get solved. The ECB recently announcing that if required the stimulus could be given again and up till March 2017 which clearly shows that ECB does not want to take any chance of the economy going back into recession. Eurzone problem has been since 2011 and even at the end of 5 years, there seems no clear solution to the debt laden economies.

Japan – Still struggling

1. Japan has entered into recession with their GDP contracting 0.8%
2. They have started with negative interest rates
3. The economy is printing 80 trillion yen but no respite as demand not picking up
4. Debt to GDP ratio at 229%

The world third largest economy is facing "AGING POPULATION" which is the most acute problem faced by them since the economy is not coming out of "Deflation" which means that even if the prices have crashed out there is no real demand picking up. The kind of debt they have accumulated is very high and difficult to manage.

Impact on Indian Economy:

The impact of Greece crisis may not much in the real sense for Indian economy since there is no direct business between Greece and India. The following table gives tabular analysis:

Rank	Country	% share in India's total Trade
1	China	9.5
2	USA	8.5
3	UAE	7.8
4	Saudi Arab	5.2
5	Switzerland	3.1
6	Germany	2.7
7	Hong Kong	2.5
8	Indonesia	2.5
9	South Korea	2.4
10	Singapore	2.3
92	Greece	0.1

Source: Ministry of Commerce, YES BANK Limited, July 2015

The above table clearly shows that the impact of Greece on Indian economy is very minimal since the share of trade with India is only 0.1%. The Indian economy is not likely to be affected by the Greece impact since the actual trade between both the countries is very limited. One has to understand that in term of impact of other economies, China has more impact since it is the biggest trading partner with India. The impact on the Indian stock market is relatively high since there is panic selling which takes place whenever there is internationally negative news. The

key risk is that China would flood the international markets with cheap products and this would harm many Indian companies. For instance, the tyre made by CEAT is costing Rs. 20,000 but the same type of tyre is exported by China to India for Rs. 12000.

The Indian stock markets have been behaving as **“High Beta”** market with huge volatility. The Indian stock market rises very fast when there is good news at the international front and when there is any negative news, the market falls like pin of cards. There is complete control of the Foreign Institutional Investors on the Indian stock market. The FII starts selling from the equities market and money goes into other asset class for instance “Gold” which is considered as a “Safe Heaven” from the investment perspective.

Risk with Indian Economy:

Stock market crashes:

The Indian stock market is witnessing heavy FII outflows of Rs. 14400 crores in 2016. This means that Indian markets can further go down with FII selling getting aggressive in the coming days. This puts pressure on the stock maket as the retail investors simply goes out of the market and at the same time the entire investment sentiment goes for a toss.

In 2015, Indian stock markets received only $ 3 billion from FII vs $ 20 billion average in each of the last 3 years. The only fact saved Indian stock markets were that mutual funds were able to

collect Rs. 90,000 crores in equity schemes highest in the last 10 years.

Rupee Depreciation:

The Indian rupee has started depreciating sharply. The currency once breaks 68 level, can see free fall in the value of rupee. The currency traders will take this opportunity and put trades more on the rupee which will further depreciate the Indian currency. The oil factor is a blessing in disguise since if the oil starts rising then the current account deficit which is currently 1.3% of GDP would rise fast. IMF projects oil to bounce back to 52 $ to 55 $ in 2016.

Role of BRIC Economies:

With the advanced economies losing ground to the BRICS which South Africa joined in 2010, rounding out the acronym have emerged as the Super Economy hopeful of the twenty first century. Together the BRICS account for 40 % of the world population and 30 % of the world GDP comes from this BRICS economy in terms of the purchasing power parity. In 2014, IMF had done research which shows that the original BRIC combined with the next three biggest emerging markets like Mexico, Indonesia and Turkey had surpassed the G7 of advanced economies in GDP measured at the purchasing power parity. The key aspect of these emerging economies is the young population which ensures that there is sustainable GDP growth rate in these economies.

China:

In 2013, China accounted for 15.8% of global GDP but by 2017 IMF expects that the share of China will rise to 18 % in world GDP while that of USA and EU will fall to 16%. China has steadily increases its defense expenditure to $ 171 billion in 2013, a 7.4 % increase from the previous years. The recent slowdown in China has send shivers across global economies with its GDP falling to 7.1 % lowest in last 6 years. The Chinese stock market in June 2015 came down by 30 % in one and half months when the margin in their stock market was increased by the regulator. This shows that there are inherent problems in the Chinese economy. China falling fertility rate over the past thirty years, has shrunk from 2.6 births per woman to 1.56 combined

with lingering effects of the government "one child" policy which has created a situation that there would large number of pensioners but not young population to earn and support the economy. There is a huge possibility that "China will grow old before it becomes rich."

China devalues its currency:

China in a desperate attempt to revive its economy devalued its currency by 2 % which was lowest in the last 3 years in August 2015. This event sent shockwaves to the global markets and economy. The world economy got a knee jerk reaction since China would flood the world markets with its cheap products and competitive currency. This led to many emerging markets currency fall like pin of cards. Though the rupee also depreciated and crashed above 65 levels, it was still strong as compared to other currency of the world. China is world's largest consumer and producer of steel, aluminum and copper which are very vital commodities. The slowdown in the Chinese market could pull trigger for the global markets also to crash since China is the world second biggest economy after USA. China's contribution in the global GDP is 9.3% and China is the biggest trade partner with India having 9.5 % of the total India foreign trade.

Currency	Close rate	YTD % fall
Brazil Real	3.48	23.69
Turkish Lira	2.86	18.27
Malaysian Ringgit	4.10	14.69
Indonesia Rupia	13822.0	10.38

South Africa Rand	12.89	10.21
South Korea Won	1182.81	7.76
Russian Ruble	65.28	6.97
Indian Rupee	**65.32**	**3.48**
China Rembini	6.39	2.96

Source: Economic Times dated 20th August 2015

The above table clearly shows that from the start of the year 2015, there has been fall in currencies all over the world. The fact that Indian rupee has crossed 65.71 level on 21st August which was fresh 2 year low made by the rupee. It is a matter of concern since if the oil had been trading at 80 to 90 $ per barrel, our Current Account Deficit would have blasted. India imports around 80 % of the total crude oil requirement. This leads to significant pressure on the overall balance of payment also. The global fear is from the fact that the devaluation of the rupee would also lead to global currency war since the world economies would desperately try to devalue its currency to make their exports more competitive. This would lead to currency war like situation and thus create panic in the world markets.

South Africa:

South Africa recovered steadily from the 2008 crisis whereby its economy grew at 3.1% in 2010 and 3.6 % in 2011 but unfortunately its economy collapsed in 2013 when the GDP came down to 1.9%. South Africa contributes less than 1 % in the world GDP. South Africa is too small as it is at 28th rank in population and 25th rank in land mass and too remove to exert much influence globally.

Russia:

Russia's GDP has fallen drastically as the Russian economy accounts for only 3 % of the world GDP. The population of Russia which is the 9th largest in the world is shrinking fast, hampered by low fertility rate and high mortality rates stemming from poor health issues and alcohol related problems. Russia has also low growth in science and technology with barely 0.1% of the worldwide patents.

Brazil

Brazil the fifth biggest nation in both landmass and population has potential. It has the benefit of booming middle class, low unemployment and high level of foreign investment. It economy has been able to revive from the 2008 crash with growth hitting a 24 year high of 7.5 % in 2010. But again the economy has slowed down and its GDP has been near to 2 % coupled with inflation, mounting deficits and weak currency.

India:

Indian economy which is on the path to become super economy is virtually assured. The population currently world second biggest, at 1.25 billion is expected to overtake China in 2028. The United Nation expects that the population of India would expand for several decades before peaking at 1.6 billion and falling to 1.5 billion by 2100 while in case of China it would start declining by 2030 shrinking to 1.1 billion by 2100. The key feature of the Indian economy is the young population as more than half of the Indian are under 25 years of age and two thirds

under 35 years. In the year 2020 India's population median age would be 29 years which would be the lowest in the world. This means that there would be assured labor force for the next many decades which means that domestic spending would be continuous in the economy. This would ultimately mean that the GDP would be rising sustainably and the Indian markets would be very attractive for the foreign investors. The very fact that in 2008 Global Financial Crisis and the Eurozone Crisis of 2011, when the world economy GDP grew at lukewarm pace of 1 to 2 % GDP, Indian economy was able to show growth rate of 7.5 % which itself is very remarkable. This clearly shows that India has all the potential to become the super economy power in the coming years. The main obstacle in India economy is that of implementation of reforms and policy stability and tax laws. The issues like the Vodafone Retrospective Tax matter and the MAT issue on the FII have dented the image of India as an International Investment destination. The 2G scam and cancelling of mines was on something which has shaken the faith of the foreign investors in our economy.

My own Interactions with Foreign Delegations Experience:

Hong Kong Visit:

Recently, I visited Asian Financial Forum which was held in Hong Kong (January 2015) where more than 3000 delegates from 41 countries participated. During my interaction with many foreign trade bodies, I could make it out that foreigners want to invest in India but their main concern is the policy stability and clarity on tax laws. They have faith in the ecosystem of India and are willing to invest huge amounts since they want to capture Indian market which has a large domestic consumption theme.

USA Visit to Harvard:

During my Harvard university visit in International Conference (2014), I had the opportunity to meet with some of the best brains in the world. I felt that they want to have their presence in India but again the pace of reforms and the frequent change in tax laws is what they fear the most.

In the USA, the Harvard had invited around 80 delegates from 20 countries and what I felt is that India is very much on the radar of these investors provided we are able to give them confidence that there would be stability in policies and clarity in tax matters.. The recent application of the Foreign Accounts Tax Compliance Act (FATCA) which has been signed between India and USA for exchange of information of the US citizen making investment in India. The law says that the Indian intermediaries like the stock broker, bank, mutual funds who has US clients investments here, will have to report it to the Internal Revenue

Service (IRS) department of the USA failing which the intermediary will have to pay 30 % withholding tax. This may slowdown the investments flows from US to India. Such laws at times, creates hurdle when the foreign investors want to invest but tax laws create issue.

Taiwan Visit:

During my visit to Taiwan to attend Asian Financial Forum, I had the opportunity to discuss with key executives of Asian Financial Forum who expressed their views about the Indian stock market. They feel that there is good scope to invest in the Indian stock market and earn returns.

Maldives Visit:

In Maldives, I had the opportunity to address 24 government delegates working in their securities commission, banks, depository and stock exchanges. The interesting part of Maldives is that there is 99 % literacy ratio and large part of the population is very young and highly qualified. The stock market there is very nascent and there are only 3 brokers at present and around 20 listed companies. They see Indian stock market as one of the key investment destination since they find our markets very large and with huge varieties of securities to trade. The brokers in India also have a very good opportunity to tap the investor base in Maldives since they have educated masses who want to invest in the Indian stock markets.

Oman Visit:

During my Oman visit, I had the opportunity to address for 4 days, 48 Arab Nationals from 7 GCC (Gulf Cooperation Council). The audience included fund managers, bankers, private equity investors, academicians and others. During my interaction about India as an investment destination, what I could make out from them is that they are very bullish about Indian stock market since we provide the derivatives market which is a must for the institutional investors. In Oman, the market is shallow since there is no derivatives market so the cash market has also not developed. There are around 120 companies listed but trading takes place in around 25 companies only. I could see that they really admire Indian stock market and were amazed with the fact when I shared that more than 1700 plus FII are registered in India. Oman has a population base of 30 lacs but in that around 7 lakh people are Indian.

Dubai Visit:

In Dubai, I had the opportunity to address more than 200 foreign nations on attractiveness of Indian economy and investment in India. During my 3 hour talk with them, what I found was that they see India as a huge untapped market with young population and rising income. They felt that there is huge consumer demand in India. During my interaction with Dubai Nasdaq team whom we had invited to give presentation for our members also discussed how Indian Brokers could become members of the Dubai Nasdaq Exchange. The norms of Dubai like no tax on income makes it very attractive for the Indians to

work there and send remittances to our economy. The International Finance Centre at Dubai is one of the key important aspects of that economy which is now becoming hub for global education.

During my visit to International Academic City which is a home to number of foreign universities all located at one place. This gives the foreign students very good exposure in terms of interaction and exposure to international environment. Since now as the International Financial Centre is coming up in GIFT CITY, this will make India at par with the Global Financial Center and increase the scope to invite huge foreign investors.

Foreign Delegations Addressed at BSE:

The following Foreign delegations have been address by me at the Bombay Stock Exchange:

IMD Switzerland of 68 Foreign Delegates from 17 countries:

I had the opportunity to address 68 senior level delegates with average of 45 years from 17 countries who were on global tour to understand the investment climate. For consecutive 3 years from 2013, 2014 and 2015 I had interacted with them in the BSE CONVENTION HALL. During that duration, the Vodafone Retrospective tax issue was almost heated topic and all foreigners were not comfortable with India as an investment destination. The delegations very clearly expressed their view that India has been losing on its image as investment destination because of lack of clarity on the tax related issues. The foreigners are feeling that there is no clarity on the tax issues. I explained them about the investment opportunity of the Indian markets and the large markets India offered, they agreed that India was on their investment destination but at the same time they were not comfortable making investment since they feared that their money would get blocked into Indian markets.

Interaction with German and France Delegation:

There was a group of economist and senior level management executives who had come for their visit to the BSE. During my interaction with them, I found that one of the key reasons for their low savings rate is the retirement, health insurance taken care by the government. They were amazed by

the fact that saving rate of India is 31% of GDP. The fact is that Germany is the biggest investor in Greece and France is the biggest supporter of Greece. They also agreed that rising debt in the European Union was the main cause of concern which in turn brings instability to the world economy. They also shared that they spend most of the part of the monthly income on food and beverages and rest goes is spend on paying monthly instalments.

Interaction with Wiskonson University, USA:

Group of first year MBA students from USA had come to visit our office and I was addressing them where I was surprised by the fact that each of them had average loan of $ 21000 on their head. This highlights that they are living highly leveraged life and their attitude towards life is "live by the day". Of course their government provides them economic security that is their old age, pension and retirement is taken care of by the government. This gives them enough room for not to worry for the retirement age.

Interaction with Japan Chief Economist:

This was one on one interaction with Japanese Economist after the Modi government came to power. He was quite apprehensive about the delay in time that takes place for the projects to get approval. He was apprehensive that India was a place where putting investment is risk since the laws related to taxation are not clear and there is no policy clarity. I, then, explained the change that has come into Indian economy after the new government has taken charge. The policy logjam is no

longer visible and decisions are taken quickly. I explained him the potential that the Indian markets offers and how the MNC from world are betting on the Indian markets.

Conclusion:

During my various interactions with the foreign delegates what I understand is that they are quite bullish about Indian economy and wants to make investment but their main concerns are:

1. Policy Stability
2. Arbitrary Tax Laws and
3. Ease of doing business. The ease of doing business is the main aspect which makes them jittery for the investment decisions.

India being an economy with vibrant features like the Demographic Dividend, Inherent Domestic Consumption and high saving rates makes India a good investment destination. But the key issue is that we need to create job opportunities which would make the young population productive. India needs to create 1.5 crore jobs every year for the next 20 years to achieve sustainable GDP growth rate of 9 % for long term.

SECTION 2

Global Economy --- What Went Wrong That Lead To Global Financial Crisis.

The world Economy has seen one of the toughest times in recent past due to the global recession which started from USA Subprime Crisis and then took the shape of global recession. The following question comes to our mind when we talk of global recession:

1. Is the world economy so fragile?
2. Is US Economy so influential?
3. Is Economies of the world getting so much integrated?
4. What lessons do we derive from such a crisis?

The world Economy has expanded significantly after the Second World War. The expansion in these economies have been largely due to leverage capital. The very fact that the world economy has still not come out of effects of Subprime and Eurozone Crisis is that they are still struggling to come out of woods. The Debt to GDP ratio which is the core indicator of how the world economies are leveraged can be seen in the below table:

Country	**Debt to GDP ratio**
World Average	69%
India	57%
USA	103%
European Union	92.3%
Greece	144%
Spain	120%
Italy	160%
China	200%
Japan	229%

Source:www.tradingeconomics.com

The above stats indicate that the global economies have more of leverage capital rather than the equity capital. This is the main reason why the developed economies are still facing the problems and not coming out of woods. The main reason is that accumulation of more of debt capital which could not be utilized in an efficient manner which has led to default like situation and ultimately affected the world economy. Let's try to answer the questions posted above.

1. Is the world economy so fragile?

The world economy has integrated in a much stronger way than ever before since the cross border transactions are increasing. This has created ripple effects in the world economy. The integration of the global economies has led to a scenario where, whenever there is an economic crisis in one part of the world, the others are affected due to the dollar flows in the global financial markets. The US economy which led the world into recession has been due to the global pull out of equity capital from the emerging markets. The US economy contributes 23 % in the world GDP and it is the largest Economy with $ 16 trillion size. In 1999, the share of US economy in the world economy was 29 %. The US has its own problems whose seeds were sown much earlier in 2001 when there was WTC attack and the US economy was slowing down. The US Fed Reserve started to reduce the interest rates in 2001 from 5 % to 1 % by having 18 consecutive times rate cut. The US banks gave loans to the tune of $ 3.3 trillion dollars without having proper credit analysis of the borrowers. The

underlying assumption of the US bankers was that if the loan taker does not pay, bank would auction his house since there was housing bubble in USA and prices were quoting very high. But in 2007, when the repayment schedule started, there were huge defaults and as a result lakhs of houses came for auction. This lead to the fall in the prices of houses and as a result the banks incurred huge losses since they could not get their capital back. The Collateral Debt obligations and the rating agencies which had rated,became just obsolete papers. The investment banks and companies were shut down resulting into the job losses of lakh of Americans. The biggest blow came when 158 years old Lehman Brothers, which was the largest Investment Bank in USA and the fourth largest in the world, declared bankruptcy. This led to global credit crisis as the flow of money virtually froze and this led to huge amount of capital getting blocked. The entire world went into recession. The key argument lies in the fact that the US dollar is having its presence felt in the international markets. When there is movement of dollar from one part of the world to other, there is lot of volatility which takes place in the global economy. The liquidity aspect which the world has witnessed in the last couple of years seems to have created a psychological fear which to some extent is real since when this liquidity dries up, to what extent would we be able to ensure that global growth still continues. The key aspect that comes to mind is that the world today is lot more integrated in terms of economic transactions rather then what it was earlier. In the coming years, what we foresee is that world would become a

global village and economic policies would affect each other rather than just focusing on domestic issues of one's country.

2. Is US Economy so influential?

This question always rises when the world has some kind of economic concern. USA has always dominated the world economy in terms of its size and ability to attract the dollar flows. The entire world saw the influence of USA in 2008 when actually the Subprime Crisis was an economic problem of their economy but it took the whole world into recession. The issue underlying is that dollar which is not only their home currency but it is also the world currency. Whenever there is dollar pull out from the global markets, the capital markets have crashed all over the world. There is huge integration of the world economies as the flow of capital has increased from one country to another.USA has been able to make the highest impact due to the following reasons:

1) US Economy is worth $ 16 trillion in size which makes it the largest economy in the world.
2) It contributes 23 % of the world GDP means that it is almost accounting for one fourth of the world economy.
3) Dollar is an international currency.

The above three reasons make USA the most powerful economy in the world in terms of its influence on the world economy. The 2008 Global Financial Crisis which started from US and then spread to the world economy is the best example of how USA has the power to take the world economy into recession. The Indian Stock markets tumbled

like pin of cards with FII selling stocks worth Rs. 52000 crores and INDEX crashing from 21206 levels on 10th January 2008 to 7697 levels on 24th October 2008.

3. Is Economies of the world getting so much integrated?

The world economies and the capital markets are much more integrated today than ever before. This is very evident from the fact that whenever there is news positive or negative from the global economies like USA, EU, Japan or China, the Indian Stock markets reacts in an impulsive way. There have been many instances when our markets have come down heavily due to the global news flows. The Foreign Institutional Investors (FIIs) who take cue from the global markets are quick enough to adjust asset allocation by withdrawing money from equity markets and investing in gold as an asset class.

For instance on 20th June 2013, when the Fed for the first time announced that they would wind up the Quantitative Easing, the FII in India sold shares worth Rs. 2100 crores in just few hours and the SENSEX was down by 575 points, gold and silver crashed and rupee depreciated by 1 % in one trading session. In 2010, when there was Tsunami in Japan, the metals in commodity exchanges in India had continuously hit the lower circuit and had crashed and the metal stocks in exchanges also came down heavily. In 2015 January, when there was news that Greece is likely to exit the Eurozone due to payment defaults, FII sold shares worth Rs. 1700 crore in one day and SENSEX

was down by 855 points, the biggest fall since June 2009. As the world economies grow and integrate there has been ripple effect of the event that takes place in one economy on the rest of the world.

4. What lessons do we derive from such a crisis?

One thing that is evidently visible is that Indian real economy is much more resilient than our capital markets. Our stock markets are much more dependent on the global flow which creates systemic risk for Indian financial system. For instance, in 2008, when the FII pulled out the money from our markets, the SENSEX tanked and gave negative return of 52 % while in 2011 the same thing happened during the Eurozone Crisis when the markets gave negative 26 % return. The gist of the problems comes from the fact that the developed nations like US, European Union, Japan have expanded based on their leverage capital. Their Debt to GDP ratio is very high which shows that they have huge financial obligations and now they are not in a position to repay back. The failure of US gains like Lehman Brothers, Bear Stern prove this fact beyond any doubt. The developed nations have expanded their economy based on leverage effect but the fact of the matter is that one day the borrowed capital has to be paid back which is the key challenge for all these economies.

Indian economy is relatively very much insulated since our Debt to GDP ratio is only 57 % as compared to even global average of 69%. The healthy saving rate of our

country which is in the range of 30 % has acted as shield as people have ownership money and less of borrowed money. The corporate India balance sheets are also less leveraged. The debt equity ratio of the corporate world was 0.33 in 2007 and in 2013 it reached to 0.67 which is still very less as compared to global counter parts. The lesser the leverage the better it is. Companies in India like Kingfisher Airlines, Deccan Chronicle, DLF have eroded share holders wealth since these companies also took huge amount of debt and then they were unable to pay back and as a result the share tanked. The shareholders incurred huge losses as the share price tanked like anything.

SECTION 3

Eurozone Crisis --- What Lessons Were Learnt?

European Union formed the Euro on 1st January 1999. The objective was to have one single currency so that the international trade between the European countries develops exponentially. The objective was very noble but the very fact that in order to have one single successful currency, there is also a need to have harmonization of the monetary and fiscal policies. Unfortunately, this did not happen at the Eurozone. The result was that in 2011, the five countries which are the part of the Eurozone namely Portugal, Italy, Ireland, Greece and Spain (PIIGS) were still not out of woods. There is growing problems in these economies and as a result the world markets also gets shivers whenever there is some bad news about the economy. The main issue in the Eurozone is the Debt to GDP ratio of these economies which is completely debt driven. For instance, the Debt to GDP ratio of Greece is 177%, Spain 120%, Italy 160% which obviously make them more vulnerable to default kind of situation. The kind of debt taken by these economies is so high that now it is next impossible for them to come out of this situation.In 2011, when the crisis had triggered, the austerity measures announced included that government would go for spending cuts so that their deficits go down but that created huge problems. In slow down when you reduce the expenditure, the economy further slows down and creates huge unemployment. This then becomes vicious cycle and it is very difficult to come out of this situation. The solution that was offered in 2011 by IMF, EU and Bank of England is that they created a war chest of 500 billion Euro to bail out any country which faces the payment crisis. In fact, even in 2015 there are

talks that Eurozone may still increase their stimulus support to bail out economies.

The major issue with Eurozone is that here the governments are on the verge of defaults which creates the risk that the world economy may be pushed back into recession. This is the major risk which the world economy faces. The most common solution talked is that of monetary stimulus but one needs to understand that when the currency is printed and flows into global financial system it has its own problems. The situation then is too much money is chasing too few goods and thus, the problem of inflation is created.Greece was ultimately given third bailout package of 86 billion Euros with the lenders insisting that Greece introduces more reforms in the economy.

January 2015:

On 26th January 2015, Greece elections saw the opposition parties have won the elections under Alexis Tsipras of Syriza party who was against the Anti-Austerity measures. They want to restructure the debt of Greece which certainly would be challenge. The Euro had touched 11 year low which is a major concern as Greece is on the verge of default. Their unemployment ratio is 62 % and Greece faces the risk of running out of cash in March 2015 and it has to make payment of 6 to 7 billion Euros in July 2015 which is going to be very big challenge. The possible exit of Greece would create pressure on the global markets, as other countries like Italy and Spain would also then may resort to exiting from the Eurozone. This could create questions about the stability of EURO as a currency and would create pressure

among the global stock markets and the world economy may be pushed back to slow down. There is huge degree of integration among the world economies.

The new government had been given four months extension subject so they are able to convince the international lenders about the reforms process they are going to initiate. The key issue in case of Greece is that if they withdraw from the European Union then what is the implication on the Eurozone. The stability of the Euro currency would itself come on stake. In March 2015, the Eurozone had accepted the reforms agenda given by Greece and as a result the Greece government then got the extension of four months. This resulted that for the time being the Eurozone matter had settled.

SECTION 4

Indian Capital Markets--- The Meltdown

Emerging Issues In Finance--- Global Financial Challenges --- India's Position

The Indian Stock market had witnessed the meltdown during the Global Financial Crisis of 2008, Eurozone crisis of 2011 and Chinese Economic crisis of 2015. The way the Indian stock markets fell like pin of cards was the result of heavy FII selling during all the crisis. The FII are holding shares worth $ 328 billion and have around 51 % of the free float market capitalization. This give them huge power to influence the movement of Indian stock market. In fact during 2008 Global Financial Crisis, the FII had sold shares worth Rs. 52000 crores and this made the markets come down from 21206 to 7697. During 2011 Eurozone Crisis the Indian stock market again fell by 24.65% and during Chinese crisis of 2015 the Indian Sensex gave negative return of 5 %. All the crisis show that whenever there is crisis at the global level, the Indian markets are affected in a big way. This can also attributed to the fact that Indian investors are not investing in the Indian stock market. Out of 125 crore population, only 2.5 crore demat accounts are registered with SEBI which shows that miniscule part of the population is investing in the stock market.

The global financial crisis is rooted in the sub-prime crisis in U.S.A. During the boom years, mortgage brokers attracted by the big commission encouraged buyers with poor credit to accept housing mortgages with little or no down payment and without credit check. A combination of low interest rates and large inflow of foreign funds during the booming years helped the banks to

create easy credit conditions for many years. Banks lent money on the assumptions that housing price would continue to rise. Also, the real estate bubble encouraged the demand for houses as financial assets.Banks and financial institutions later repackaged these debts with other high risk debts and sold them to worldwide investors creating financial instruments called Collateral Debt Obligations (CDOs). With the rise in interest rate, mortgage payments increased and defaults among the subprime category of borrowers increased accordingly.

Through the securitization of mortgage payments, a recession developed in the housing sector and consequently it was transmitted to the entire US economy and rest of the world. The financial credit crisis has moved US and the global economy into recession.

Indian economy has also been affected by the spillover effects of the global financial crisis. Great saving habit among people, strong fundamentals, strong conservative and regulatory regime have saved Indian economy from going out of gear, though significant parts of the economy have slowed down. Industrial activity, particularly in the manufacturing and infrastructure sectors decelerated. The financial crisis has some adverse impact on the IT sector. Exports had declined in absolute terms in October. Higher inputs costs and dampened demand have dented corporate margins while the uncertainty surrounding the crisis has affected business confidence.

To summarize, reckless subprime lending, loose monetary policy of US, expansion of financial derivatives beyond acceptable

norms and greed of Wall Street has led to this exceptional global financial and economic crisis. Thus, the global credit crisis of 2008 highlights the need to redesign both the global and domestic financial regulatory systems not only to properly address systematic risk but also to support its proper functioning (i.e financial stability).Such design requires:

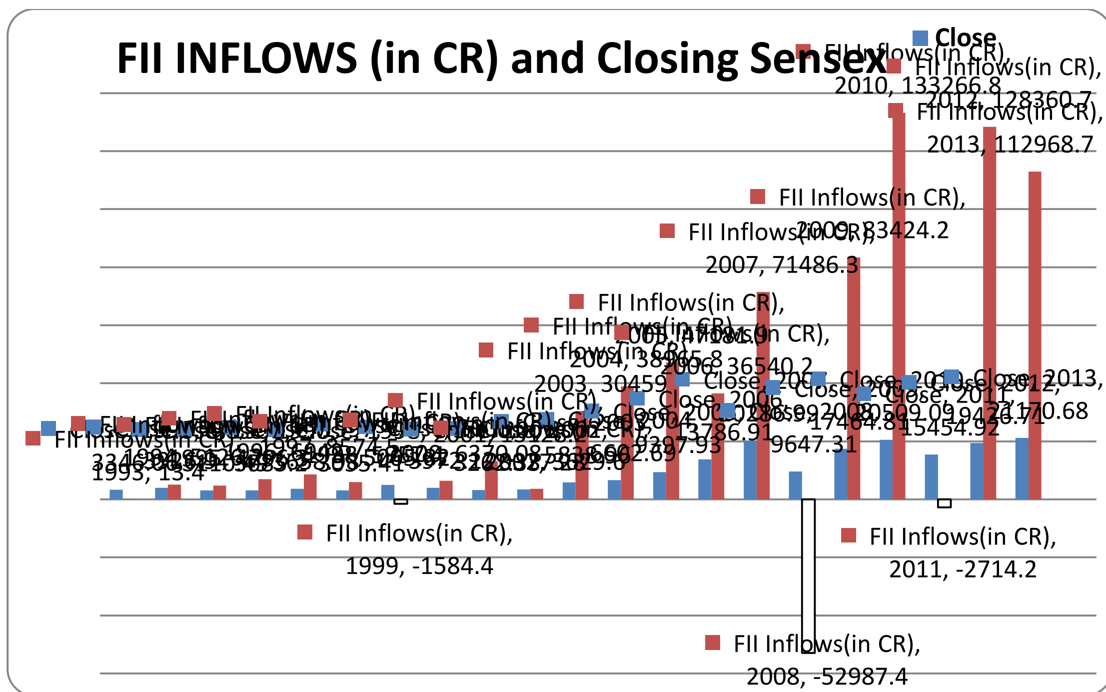
1) Well managed financial institutions with effective corporate governance and risk management system.
2) Disclosure requirements sufficient to support market discipline.
3) Proper mechanisms for resolving problem institution and
4) Mechanisms to protect financial services consumers in the event of financial Institutions failure.

Introduction

The last 10 years has been phenomenal for the World Economy. The first part of the last decade was characterized by global prosperity and huge surge in liquidity. But the second part from 2008 to 2013 witnesses two major crisis that were the Global Financial Crisis and the Eurozone Crisis. The global financial crisis took the whole world economies into recession which was the biggest recession after the greater depression of 1929. The world economy is still struggling to fully come out of this shock. In 2011, the Eurozone had also met a crisis whereby there was sovereign crisis in the five European nations which again took the world economy for a rude shock. In both the events, the stock markets globally crashed and India was not an exception. Rather our stock markets went for nose dive falls with the BSE SENSEX giving huge negative returns and the investors getting their portfolios returns crashing.

Indian Economy

In the last 10 years, the average GDP of Indian Economy has been in the range of 7.5 % to 8 % while the world GDP grew at around 2.5 % to 2.8%. Currently, the Indian GDP slipped to 4.6 % which was 10 year low. In 2014, September quarter saw the GDP rising to 5.7 % but one of the key reasons for the rise in the GDP was due to huge spending by the Government which was 9.9% v/s 3.3% earlier.



Global Financial Crisis

The Global Financial Crisis originated with the US Sub Prime Crisis which took the whole world into recession. The seeds of the Sub Prime Crisis were sown right from 2001 when the US economy started reducing the interest rates and US banks lend more than $ 3 trillion to anyone and everyone who applied for the loan. This was based on the housing bubble. In 2007 there was huge default in the repayments of loans, the houses were auctioned by the banks. The law of demand and supply came into action whereby the prices of the houses also crashed since there was huge supply of houses. This lead to the closure of large number of banks which became bankrupt, the largest was the Lehman Brothers

“World Economy facing Tough Times”

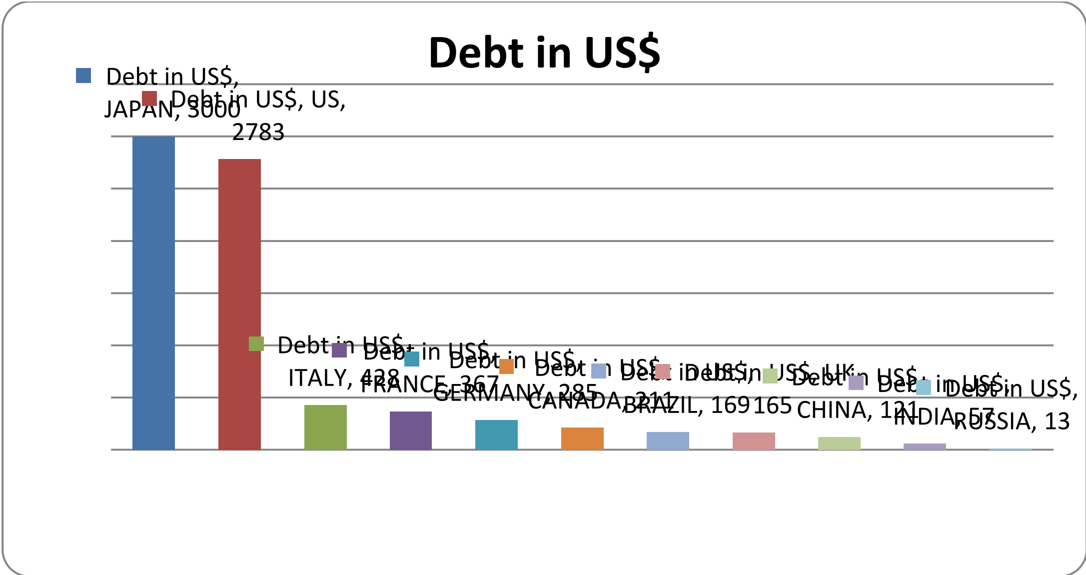
The global financial markets are witnessing one of the worst times ever in the history with the Eurozone problems not taking any positive turn. Also on the domestic front, the inflation and interest rates have created havoc with corporate profitability in September 2011 going down by 34.9 %. The US, which is world largest economy having size of $ 16 trillion faced high unemployment of 9.8 %. In spite of printing $ 3.6 trillion the full year GDP of US in 2015 has grown only by 2.4 %. The global G7 countries borrowing cost has gone up to $ 7.6 trillion with around $ 200 billion getting matured in 2012. This creates severe financial implication on the real economies and also on the stock markets as FII and Hedge funds would resort to safe heaven asset classes like gold and silver.

Borrowing cost of Developed Countries

Country	Debt in US $
Japan	3000
US	2783
Italy	428
France	367
Germany	285
Canada	211
Brazil	169
UK	165
China	121
India	57

Russia	13

Source: The Economic Times, Mumbai dated 4th January 2012.



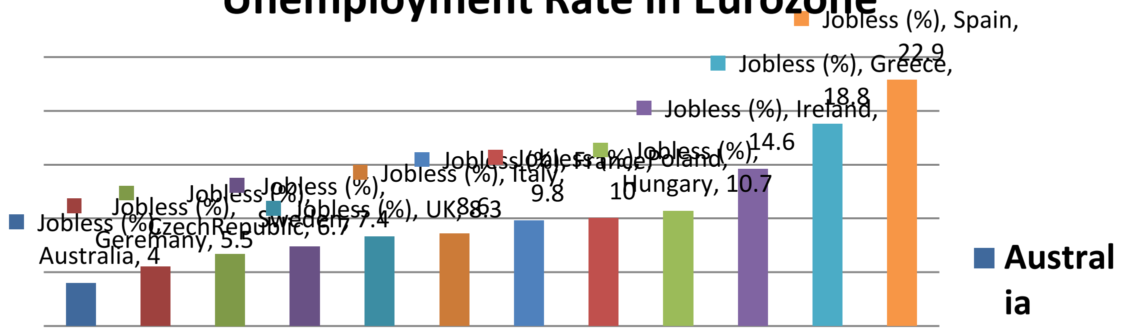
The above table and chart clearly shows that the world G7 countries are loaded with debt and this is the main reason why these economies are aptly called as “Leverage Economies”. This has implication on the world economics and also on the stock markets which are feeling the heat of the Eurozone and US problems. The Indian Sensex and Nifty gave negative returns to the tune of 21 % and 24 % and has been the worst performers. India fortunately does not have much debt and this has been our main strength. The countries resilience is due to the low external debt which protected Indian economy in 2008 crisis also and now during 2011, when the world witnessed huge slowdown, we have managed to register the GDP growth of 6.9 % which is far better as compared to the developed countries.

Unemployment rate in Eurozone

The Eurozone is facing lot of problems as far as the employment data shows that unemployment is rising. This has far reaching implications on these economies as spending power of the people would come down which in turn would drag the GDP on the downward side. The Debt to GDP ratio of Greece is 144 %, Germany 78 %, France 83.5 % and UK 76 % which shows that these economies are loaded with debt and it would take long time to restructure these economies and bring them back on track.

Country	**Unemployment(%)**
Austria	4.0
Germany	5.5
Czech Republic	6.7
Sweden	7.4
UK	8.3
Italy	8.6
France	9.8
Poland	10
Hungary	10.7
Ireland	14.6
Greece	18.8
Spain	22.9

Source: The Economic Times, Mumbai dated 9th January 2012



The Sensex has returned gains of 30% in 2014

Have a look at the Sensex Performance in each of the calendar year from 2008 to 2014.

Sensex Trend in Calendar Years 2008 to 2014						
Year	**Open**	**High**	**Low**	**Close**	**Movement**	**Percentage Movement**
2008	20325	21207	7697	9647	**(10678)**	**(53)**
2009	9721	17531	8047	17465	**7744**	**80**
2010	17473	21109	15652	20509	**3036**	**17**
2011	20622	20665	15136	15455	**(5167)**	**(25)**
2012	15535	19612	15358	19427	**3892**	**25**
2013	19513	21484	17449	21171	**1657**	**8**
2014	21222	28822	19963	27499	**6277**	**30**

Analysis of the above table:

The above table can be analyzed with respect the fall in the index as a result of the FII flows going out the economy.

- Heavily down post Lehman Disaster in 2008,only to fabulously recover in 2009 by a whopping 80% from a low base. When the markets on 24th October 2008, touched 7697 the BSE SENSEX was down 1200 points and the PE ratio the index had touched low of 8. This was paradoxical since an economy which was continuously growing at 8 % cannot have its index trading at low of 8, so there was huge amount of value buying that came and the index closed at 200 points in negative territory. This showed that that how fragile is the Indian stock market, which completely dances to the tune of the FII which decide the direction of the markets. Many stock brokers witnessed large number of retrenchment and hardly there was any hiring done in the financial services area.
- Up again but relatively more rationally in 2010.
- Down by 25% in 2011 only to be back up by 25% in 2012. The year 2011 was characterized by the Eurozone crisis which showed that the again the Indian markets were affected by the international events as FII pulled out the money. The Indian markets gave negative return again which was second biggest fall in terms of the market return. This proved one thing very clearly that when there is an international problem, the Indian markets tend to succumb to the pressure and they fall like pin of cards.

- Flat to moderately up in 2013 (year full of scams and corruption). The year was one of the worst years for the economy since our GDP touched 4.6 % which was at 10 year low, marked with rupee which had touched 68 levels. This was the worst case scenario for the economy and the markets were also nervous. The only silver line was coming elections in which the markets were anticipating as a big change.
- Now up 30% in 2014, in salutation of a change in government from the Congress led UPA to a BJP led NDA. The year 2014 saw the biggest change in the history of Indian political scene. A non-congress led government with thumping majority came to power. This ensured that the economic reforms would be rolled out with key reforms like the Land Acquisition Bill and the GST. The government rolled out projects like 'Skill India', 'Jan DhanYojana', 'Make in India' which definitely provides a new sense of direction to the economy with the core focus on job creations. The job creation is the single biggest challenge that our economy is facing today and we need to address this immediately. India needs to create 1.5 crore jobs every year for next 20 years to get the benefits of demographic dividend.

The above table clearly shows that in the year 2008 when there was Global Financial Crisis and in 2011 when there was Eurozone crisis, Indian Stock Markets performed poorly as the money was pulled out by the Foreign Institutional Investors. The fall in the markets was very sharp and the Indian investors' wealth was completely wiped out. But the interesting fact is that

in both the crisis, India's real economy performed very well. In fact in 2008, Indian GDP grew at 6.3 % as compared to world average of 1.5 % and also in 2011 during the Eurozone crisis, the Indian economy performed with 7.1% GDP while the world economy was near 2 % GDP. This shows that Indian economy has lot of resilience and was able to show the growth rate even when the world economy was dull.

The above table indicates that the volatility in the Indian stock market was due to the global events which in turn pull out the liquidity from the markets. The fall in the stock market clearly shows that the dollar which flows in the global financial markets is the key trigger for the markets to rise and fall.

SENSEX falls like pin of cards

The date of 24th August 2015 would be remembered for quite some time in the history of the Indian capital markets. The world markets would also remember this date since all the global capital markets were down by 3 to 5 % and Indian markets were no exception. The Indian stock market tumbled more than 1700 points and Nifty came down by more than 500 points in single trading session. The FII were net sellers to the tune of Rs. 5275 crores and this lead to huge fall in the markets, though the DII were net buyers to the tune of Rs. 4097 crores. The fall was with volumes of Rs. 40,000 crores which was 40 % more than the previous trading day. This was once again the clear example that whenever there is a negative event at the global markets or

economy, the Indian stock market falls like the pin of cards. This shows that the impact of FII selling is very high on our markets and they virtually control the working of the Indian markets. The fall in the SENSEX was the most since July 2009 and the mid caps stocks were hit the worst with the fall being recognized as the worst since July 2008. This shows that the Indian institutions are not in a position to absorb the kind of aggressive selling done by the FII and they are not in a position to counter the FII selling. The global stock markets have also integrated to great extent with US NASDAQ Futures getting suspended and US Treasury dropping below 2 %. The Dow Jones opened 1000 points down which shows the fear impact which the China market has created in the world economy. The US markets had its worst fall of 777 points on 29th September 2008. This is the best example that the world stock markets are highly integrated.

The European markets are also trading 5 % lower and the SGX Nifty which is the bench mark to the Indian markets also suggested that Indian markets would go for a free fall. The Indian markets have been referred as the “High Beta” market since they rise very fast when there is good news in the global market and they fall like the pin of cards when there is bad news in the global markets. The dependency on the FII is the vital aspect of the Indian stock market. They rise and fall as per the inflows of the FII. The only way to reduce the dependence of the FII flows it that we need to have more retail participation in the markets either in the form of mutual funds or direct investment by the retail clients. There are around 2.66 crore investor DEMAT accounts but the issue is that their activation ratio is very less that means

that the number of investors trading in the market on any given day is very less.

The below table shows that when the world markets crashed and lost more than $ 12 trillion in market capitalization, Indian markets contribution was very less. The key contributors in the global sell off were USA and China which together accounted for 60 % of the fall.

Country	YTD Fall%	% contribution fall in world markets
World	-6.25	----
USA	-7.32	21.00
China	1.15	41.00
Japan	2.44	11.85
Hong Kong	-9.80	14.00
UK	-5.08	2.12
France	2.66	0.43
Germany	-2.85	0.18
Canada	20.28	1.82
India	-7.57	3.70

Source: The Economic Times dated 27th August 2015

World markets corrected by $ 12 trillion in 2015 but India accounted for only 3.7 % of total loss.

The above table reconfirms the fact that the Indian markets are more affected by the global events rather then they affecting the global markets. This again proves the fact that the moment FII sell the shares, the Indian markets are gone for a toss. In last

6 trading sessions, FII sold shares worth Rs. 13000 crores. On Wednesday 27th August, 2015 when the Sensex fell by 317 points, FII sold shares worth Rs. 2345 crores. The fall in the markets attribute to the growing integration of the Indian markets with that of the world markets.

India's USP

Indian Economy has been able to perform very well in the global financial crisis of 2008 when the world economy grew at 1 to 2 % GDP while Indian Economy grew at 6.8 % which shows the resilience of the Indian economy even when there is downtrend in the world economy. The three main strength of our economy are as under which would ensure that Indian growth story would remain live for many years to come.

- **70 % of working population below 35 years of age:**
  This ensures that there is huge pool of working population which translate into consumption and demand in the economy. The spending results into the disposable incomes rising and this create demand for goods and services in the economy. The GDP of any country which is function of demand would depend on the spending power of the people. The young working population ensures that there is no dearth of spending and this would mean that economy continues to clock good growth rate.

- **Inherent consumption and not export oriented:**

Indian economy has been inherent consumption oriented economy with 86 % of the total production getting consumed in the country itself and exports accounting for only 14 %. This ensures that even if the world economy slows down, India is in self sufficient position and in no case would face any slowdown. The EU, China and Japan all are export oriented and this was evident that when US slowed down, these economies immediately came into the recession.

- **Our saving rate is 37 % highest in world (World Avg. 24 %):**

  Indians are known for their saving rates and which has been the highest in the world as saving results into capital formation and capital formation results into investments. This phenomenon of Indians to save has helped the economy sail through the tough times in 2008 and also in 2011.

Literature Review

- "A classical period of thought and practice, as delineated by the events surrounding the great depression of the late 1920s and early 1930s, marks a maturity point in American accounting thought and practice" *(Previts& Merino, 1979: 215)*. Also, corporate governance became a subject of various debates and controversies since the '29 -'33 financial crises period *(Berle and Means, 1932)*, being often considered as "the scapegoat" of the present financial crisis that spread all over the world in the latest years, too. Thus, the wide range of governance failures and corporate scandals encountered over time brought this concept to the attention of media and academic environment, transforming it into an increasingly challenging topic of worldwide research. *(Stefanescu C., 2011: 749)*

- "Developments in accounting came about in the first place in response to economic social and political pressures, but, thereafter, acted as an enabling device to assist further developments" *(Tomkins, 1978:9)*. Transformations in accounting knowledge and practice have been influenced by many factors, such as economic, social and political pressures, *(Tomkins, 1798)* ad hoc influences like wars, periods of economic decline and labor disputes *(Miller et al., 1991)*.

- Also, Hans Hoogervorst, the Chairman of the International Accounting Standard Board, claims that "it is a sad truth

that most initiatives to strengthen the international financial architecture to reap the fruits from the on-going liberalization of capital movements have been taken under the pressure of some kind of crisis" *(Hoogervorst, 2002: 16)*. International accounting regulations (International Accounting Standards and International Financial Reporting Standards) can be regarded as part of this international financial architecture, defined as a "set of measures that can help prevent crises and manage them better in the more integrated international financial environment" *(World Bank webpage)*.

- There is a large empirical literature on banking crises. Friedman and Schwartz (1963) have written a comprehensive monetary history of the U.S. from 1867-1960. Friedman and Schwartz argued that the crises were panic-based, as evidenced by the absence of downturn in the relevant macroeconomic time series prior to the crises. This contrast with Gorton's (1988) evidences that banking crises in the National Banking Era were predictable, which suggests banking crises are business cycle related. Calomiris and Gorton (1991) provide a wider range of evidence that crises are fundamental-based. Wicker (1980, 1996) shows that, despite the absence of collapses in US national macroeconomic time series, in the first two of the four crises identified by Friedman and Schwartz in the early 1930's there were large regional shocks and attributes the crises to these shocks. Calomiris and Mason (2003)

undertake a detailed econometric study of the four crises using a broad range of data and conclude that the first three crises were fundamental-based while the fourth was panic-based.

The Methodology and Model

a. Objective of the study:

The objective of this study is to find out the significant relation between the FII and the Sensex.

b. Research problem:

This study is done to measure the significant impact of FII in Indian stock market. This study is done to measure the relationship between FII and the stock index of Indian market.

c. Research methodology:

Descriptive research has been used in this study and the data has been collected from Equitymaster.com, RBI website, money control website, Government gazette and related magazines and newspapers.

Number of Observations:

The data has been collected for the period of the study from the year 1993 to 2013 on a monthly base hence, total observations comes to 252. (21 years x 12 months)

Tools and Techniques:

Following test has been performed to find out the impact of FII on Indian Sensex.

- Average
- Intercept
- Correlation

- F-Test
- T-Test

… as a statistical tools for this study.

d. Hypothesis:

1. Null Hypothesis (Ho):

"There is no significant relationship between FII flows and Sensex"

2. Alternative Hypothesis(H1):

"There is significant relationship between FII flows and Sensex"

e. Analysis:

Analysis has been considered on the base of 252 observations and utilizing statistical tools.

Findings/Analysis of results

Analysis: The following analysis have been done-

- **Average:** The average FII flow for the period from 1993 to 2013 comes to 585 million dollars while the average value of the Sensex comes to 8665.
- **Intercept:** The intercept for variable Sensex comes to 7562 which means that if there is no FII inflow which is the independent variable then also the value of the Sensex would come to 7562.
- **Correlation:** The correlation coefficient comes to 0.40 between the FII flows and the Sensex. This shows that there is near to partial correlation between both the variables.
- **F Test:** The F- test for 5 % level of confidence comes to 3.21 which is more than the table value of 1.96 which means that the null hypothesis is rejected.
- **T-Test:** The T-test for 5 % level of confidence comes to 2.79 which is more than the table value of 1.96 which means that the null hypothesis is rejected. This implies that there is significant relationship between FII flows and Sensex.
- **Forecast:** The level of Sensex which is dependent variable would be 9446 when 1000 million dollars of FII flows come, 16892 Sensex when 5000 million dollars of FII flow comes and Sensex would be at 26401 when 10,000 million dollar of FII flows comes.

Conclusion:

The FII's are having huge impact on the Indian capital market since they are holding shares worth $ 200 billion and having 46% of free float market capitalization. If the FII starts selling even 10 % of the $ 200 billion shares hold by them, then the market would come down like the pin of cards. The issue is that out of 120 crore only 2 crore KYC are registered with SEBI. This means that only miniscule part of our population is trading in equities.

The dependence of our markets on FII's have increased as in the global financial crisis of 2008, our markets gave negative return of 52% and in 2011 due to Eurozone crisis our markets came down by 26.45%. Both the crisis showed that our stock markets are very heavily dependent on the global factors. Wherever there is slight turbulence in the global markets, there is huge selling by FII's and the markets have witnessed steep fall. In 2015, during the Chinese Economic issues the FII invested only $ 3 billion as compared to $ 20 billion in 2012, 2013 and 2014. This led to the Sensex giving negative return of 5 %. This again proved the fact that whenever there is global issues, our markets have a free fall and thus the year 2015 was no exception. The fear this time is that with the current macro variables of Indian economy weak like the IIP data in negative zone, Core Sector data in negative zone and corporate profitability at the lowest level and the banking sector filled up with huge NPA problems. The above factors create issue for the GDP data which is being projected at 7.5 %.

Suggestions:

In order to have a strong capital market which is not so much dependent on the foreign flows, the need of the hour is to have some mechanism which generates huge retail participation. The scheme like the Rajiv Gandhi Equity Saving schemes if modified with the following features could be a big hit.

- All new and existing investors should be allowed to invest in the product rather than only the new investors.
- The entire amount invested of Rs. 50,000 should be given the income tax benefit rather than currently 50 % of the amount invested. This will ensure that long term delivery base money comes into the market and this will give the market much needed support.
- The lock in period should be reduced from 3 to 1 year which makes the entry for the new investors much easier.

Additionally, scheme could be launched where in any individual who invest Rs 1 lakh in the stock market would get deduction over and above section 80 C. It could have lock in period of say 2 years, this would create huge delivery base investment for the market and thus large number of individuals would be attracted to invest in the markets.

SECTION 5

Banks' Lending --- The Trigger Point for Collapse

Indian Banking industry has stood the test of the times and the credit goes to none other but the RBI who has always been cautious when it comes to lending norms. The RBI has been much appreciated even by the agencies like the World Bank and IMF after the global crisis since none of the Indian banks had any financial strain when the whole world was struggling. Banks are the back bone to any financial system and if there is something wrong in the banking sector, then the whole financial system has to suffer. Indian Economy was protected during the 1997 South East Asian Crisis when the Asian economies had collapsed as they had allowed Full Capital Account Convertibility while RBI still has not allowed that and we have only partial capital account convertibility. The Global Crisis which had been triggered due to the reckless lending done by USA investment banks led the whole world into the crisis.

The key question which arises about how the banking system had dealt with the global crisisare:

1. Why was India been hit by the crisis?
2. How was India been hit by the crisis?
3. How RBI responded to the challenge?

1. Why has India been hit by the crisis?

The first argument goes as follows: The Indian banking system has had no direct exposure to the sub-prime mortgage assets or to the failed institutions. It has very limited off-balance sheet activities or securitized assets. In fact, our banks continue to remain safe and healthy. So, the enigma is

how can India be caught up in a crisis when it has nothing much to do with any of the maladies that are at the core of the crisis.

The second reason for dismay is that India's recent growth has been driven predominantly by domestic consumption and domestic investment. External demand, as measured by merchandize exports, accounts for less than 15 per cent of our GDP. The question then is, even if there is a global downturn, why should India be affected when its dependence on external demand is so limited?

The answer to both the above frequently-asked questions lies in globalization. First, India's integration into the world economy over the last decade has been remarkably rapid. Integration into the world implies more than just exports. Going by the common measure of globalization, India's two-way trade (merchandize exports plus imports), as a proportion of GDP, grew from 21.2 per cent in 1997-98, the year of the Asian crisis, to 34.7 per cent in 2007-08.

Second, India's financial integration with the world has been as deep as India's trade globalization, if not deeper. If we take an expanded measure of globalization, that is the ratio of total external transactions (gross current account flows plus gross capital flows) to GDP, this ratio has more than doubled from 46.8 per cent in 1997-98 to 117.4 per cent in 2007-08.

Importantly, the Indian corporate sector's access to external funding has markedly increased in the last five years. Some numbers will help illustrate the point. In the five-year period 2003-2008, the share of investment in India's GDP rose by 11

% points. Corporate savings financed roughly half of this, but a significant portion of the balance financing came from external sources. While funds were available domestically, they were expensive relative to foreign funding. On the other hand, in a global market awash with liquidity and on the promise of India's growth potential, foreign investors were willing to take risks and provide funds at a lower cost. The year (2007-08), for example, India received capital inflows amounting to over 9 % of GDP as against a current account deficit in the balance of payments of just 1.5 % of GDP. These capital flows, in excess of the current account deficit, evidence the importance of external financing and the depth of India's financial integration.

So, the reason India has been hit by the crisis, despite mitigating factors, is clearly India's rapid and growing integration into the global economy.

2. How Has India Been Hit By the Crisis?

The contagion of the crisis has spread to India through all the channels – the financial channel, the real channel, and importantly, as happens in all financial crisis, the confidence channel.

Let us first look at the **financial channel**. India's financial markets - equity markets, money markets, forex markets and credit markets - had all come under pressure from a number of directions. First, as a consequence of the global liquidity squeeze, Indian banks and corporates found their overseas

financing drying up, forcing corporates to shift their credit demand to the domestic banking sector. Also, in their frantic search for substitute financing, corporates withdrew their investments from domestic money market mutual funds putting redemption pressure on the mutual funds and down the line on non-banking financial companies (NBFCs) where the MFs had invested a significant portion of their funds. This substitution of overseas financing by domestic financing brought both money markets and credit markets under pressure. Second, the forex market came under pressure because of reversal of capital flows as part of the global deleveraging process. Simultaneously, corporates were converting the funds raised locally into foreign currency to meet their external obligations. Both these factors put downward pressure on the rupee. Third, the Reserve Bank's intervention in the forex market to manage the volatility in the rupee further added to liquidity tightening.

Now lets turn to the **real channel**. Here, the transmission of the global cues to the domestic economy has been quite straight forward – through the slump in demand for exports. The United States, European Union and the Middle East, which account for three quarters of India's goods and services trade, are in a synchronized down turn. Service export growth is also likely to slow in the near term as the recession deepens and financial services firms – traditionally large users of outsourcing services – are restructured. Remittances from migrant workers too are likely to slow as the Middle East

adjusts to lower crude prices and advanced economies go into a recession.

Beyond the financial and real channels of transmission as above, the crisis also spread through the **confidence channel**.In sharp contrast to global financial markets, which went into a seizure on account of a crisis of confidence, Indian financial markets continued to function in an orderly manner.Nevertheless, the tightened global liquidity situation in the period immediately following the Lehman failure in mid-September 2008, coming as it did on top of a turn in the credit cycle, increased the risk aversion of the financial system and made banks cautious about lending.

The purpose of the above explanation is to show how, despite not being part of the financial sector problem, India has been affected by the crisis through the pernicious feedback loops between external shocks and domestic vulnerabilities by way of the financial, real and confidence channels.

3. How Have RBI Responded to the Challenge?

The failure of Lehman Brothers in mid-September was followed in quick succession by several other large financial institutions coming under severe stress. This made financial markets around the world uncertain and unsettled. This contagion, spread to emerging economies, and to India too. Both the government and the Reserve Bank of India responded to the challenge in close coordination and consultation. The main plank of the government response was fiscal stimulus while the Reserve

Bank's action comprised monetary accommodation and counter cyclical regulatory forbearance.

- **Monetary policy response**

  The Reserve Bank's policy response was aimed at containing the contagion from the outside - to keep the domestic money and credit markets functioning normally and see that the liquidity stress did not trigger solvency cascades. In particular, targeted three objectives: first, to maintain a comfortable rupee liquidity position; second, to augment foreign exchange liquidity; and third, to maintain a policy framework that would keep credit delivery on track so as to arrest the moderation in growth. This marked a reversal of Reserve Bank's policy stance from monetary tightening in response to heightened inflationary pressures of the previous period to monetary easing in response to easing inflationary pressures and moderation in growth in the current cycle. The measures to meet the above objectives came in several policy packages starting mid-September 2008, on occasion in response to unanticipated global developments and at other times in anticipation of the impact of potential global developments on the Indian markets.

  Our policy packages included, like in the case of other central banks, both conventional and unconventional measures. On the conventional side, we reduced the policy interest rates aggressively and rapidly, reduced the quantum of bank reserves impounded by the central bank and expanded and liberalized the refinance facilities for

export credit. Measures aimed at managing forex liquidity included an upward adjustment of the interest rate ceiling on the foreign currency deposits by non-resident Indians, substantially relaxing the external commercial borrowings (ECB) regime for corporates, and allowing non-banking financial companies and housing finance companies access to foreign borrowing.

The important among the many unconventional measures taken by the Reserve Bank of India are a rupee-dollar swap facility for Indian banks to give them comfort in managing their short-term foreign funding requirements, an exclusive refinance window as also a special purpose vehicle for supporting non-banking financial companies and expanding the lendable resources available to apex finance institutions for refinancing credit extended to small industries, housing and exports.

- **Government's fiscal stimulus**

Over the last five years, both the central and state governments in India have made a serious effort to reverse the fiscal excesses of the past. At the heart of these efforts was the Fiscal Responsibility and Budget Management (FRBM) Act which mandated a calibrated road map to fiscal sustainability. However, recognizing the depth and extraordinary impact of this crisis, the central government invoked the emergency provisions of the FRBM Act to seek relaxation from the fiscal targets and launched two fiscal stimulus packages in December 2008 and January 2009.

These fiscal stimulus packages, together amounting to about 3 % of GDP included additional public spending, particularly capital expenditure, government guaranteed funds for infrastructure spending, cuts in indirect taxes, expanded guarantee cover for credit to micro and small enterprises, and additional support to exporters. These stimulus packages came on top of an already announced expanded safety-net for rural poor, a farm loan waiver package and salary increases for government staff, all of which too should stimulate demand.

- **Impact of monetary measures**

Taken together, the measures put in place since mid-September 2008 have ensured that the Indian financial markets continue to function in an orderly manner. The cumulative amount of primary liquidity potentially available to the financial system through these measures is over 75 billion US dollars or 7 % of GDP. This sizeable easing has ensured a comfortable liquidity position starting mid-November 2008 as evidenced by a number of indicators including the weighted-average call money rate, the overnight money market rate and the yield on the 10-year benchmark government security. Taking the signal from the policy rate cut, many of the big banks have reduced their benchmark prime lending rates.

- **Evaluating the response**

In evaluating the response to the crisis, it is important to remember that although the origins of the crisis are common around the world, the crisis has impacted different economies differently. Importantly, in advanced economies where it originated, the crisis spread from the financial sector to the real sector. In emerging economies, the transmission of external shocks to domestic vulnerabilities has typically been from the real sector to the financial sector. Countries have accordingly responded to the crisis depending on their specific country circumstances. Thus, even as policy responses across countries are broadly similar, their precise design, quantum, sequencing and timing have varied. In particular, while policy responses in advanced economies have had to contend with both the unfolding financial crisis and deepening recession, in India, our response has been predominantly driven by the need to arrest moderation in economic growth.

CURRENT SCENARIO:

Banking Sector Outlook 2015: Easing asset quality pains

During 2014, the Indian banking industry faced major concerns with regards to asset quality led by sharp increase in gross non-performing assets (NPAs) in sectors such as aviation, metals, infrastructure and power. However, in 2014, most of the banks under coverage have started focusing on comparatively safer segments of retail and small and medium enterprises (SMEs). After going through significant stress in the past three years, we expect Banks to show slow but steady improvement in asset quality leading to gradual improvement in earnings in 2015 and 2016.

Credit growth likely to be higher at 14-15% in CY15

- As per the data from the RBI, (as on December 12, 2014), deposits growth 10.6% y-o-y and credit growth 10.9% y-o-y was much lower as compared to deposits and advances growth of 16.6% y-o-y and 14.6% y-o-y in same period last year, respectively. The lower advances growth was due to lack of fresh investments and tepid credit demand from the corporate. Lower credit growth was also on back of increasing incremental borrowings of corporates from money market (like CP) where interest rates are lower. The lower deposits growth was due to high base effect of same period last year as the banks mobilized Foreign Currency Non-Resident Banks (FCNR B) deposits of USD 34 billion under the Reserve Bank of India's (RBI) special swap window in Q3FY14.

- Key macro factors are already showing signs of improvement as compared to last year. Further expected rate cut in CY15 will lead to pick up in credit growth by the end of Q2CY15. Overall credit growth may revive marginally at 14-15% in CY15; private sector banks will continue to outpace PSBs in credit growth. We expect bank credit and deposits to grow at 14-15% and 13-14% in CY15, respectively.

KEY CHALLENGES:

1. <u>Introduction of Basel III norms:</u>

Despite an improving economy, capital constraints will create major headwinds for profitability in CY15. Banks will have to bring in an additional capital of Rs 1.8-2.0 trillion to meet Basel III norms. Out of this 45-50% may be issued in the form of Additional Tier I, 35-40% through Tier II and balance through common equity. Basel III norms have to be implemented in phased manner starting from April 2013 till March 2019. Clearly, sourcing equity capital of this size in the face of fiscal constraints poses significant challenges.The banks in India require Rs. 4 lakh crore for the implementation of the BASEL III norms. The problem is more acute with the PSU banks since they require around 2.5 to 3 lakh crore rupees. The issue is that the government is tied up with fiscal deficit issues and hence is not being able to infuse the capital into the banks in the required amount. This would create pressure on the lending abilities of the banks and even the deserving projects would also suffer, thus the GDP growth would be under stress.

2. <u>Increase in NPAs:</u>

If there will not be any significant improvement in economy then NPAs and restructured loans of banks may go up and it will have impact on the profitability of the banks as they will be required to make higher provisions. Infrastructure exposure will remain a key risk especially for PSBs, given the elevated execution challenges leading to project delays.The key issues

lies with the rise in the NPA which has reached Rs. 3 lakh crore. There are around 150 corporate accounts which account for Rs. 90,000 crores which are difficult to recover by the banks. This creates questions on the corporate governance of the Boards of the PSU banks.

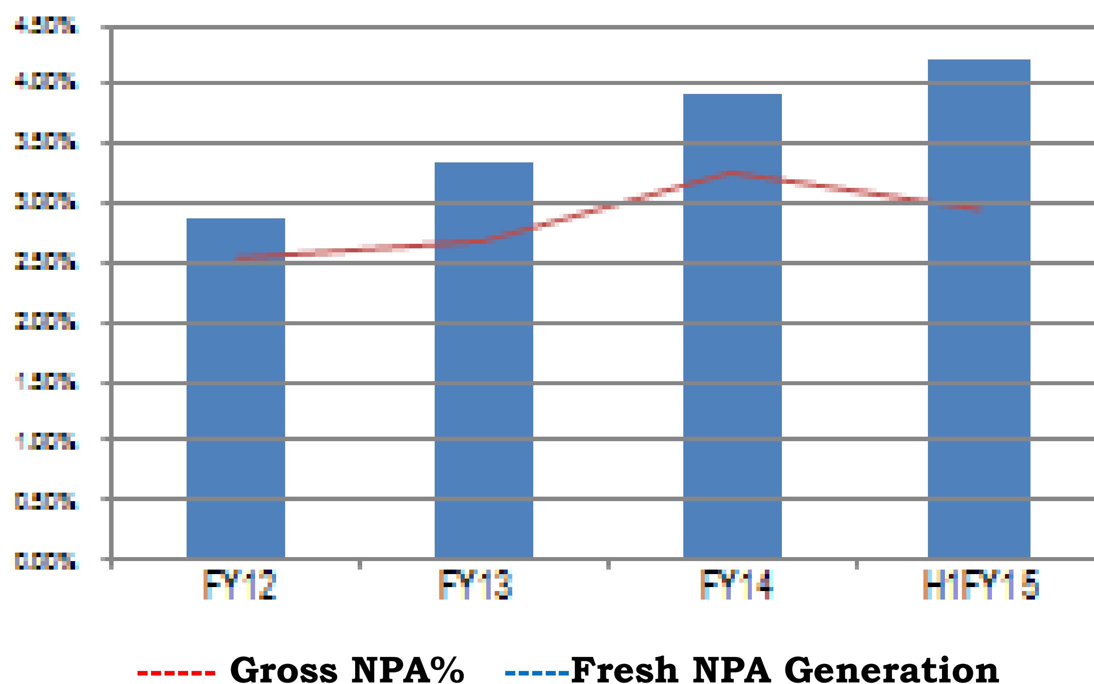
3. Increase in Competition:

The universal banking license to new players in CY14 will be the game changer for the banking sector as it will allow non-financial, non-banking companies to establish banks which will increase competition in banking over the medium to long term scenario. Such competition in the industry may decrease the market share of the existing banks.

INDIAN BANKS - PERFORMANCE UPDATE AND OUTLOOK:

This paper analyses the performance of the 26 public sector banks(PSBs) and 16 banks in the private sector(private banks) for the quarter ended september 30,2014 (Q2, FY15) and presents the outlook for the Indian banking sector for the current fiscal year. The 41 banks collectively account for more than 90% of the total credit portfolio and deposits of all the commercial banks in India as of september 2014.

Chart 1: Trend in Banks' Gross NPAs and NPA Generation Trend



------ **Gross NPA%** -----**Fresh NPA Generation**

Asset quality pressures continued to take a toll of banks' performance during Q2, FY15. While the accumulationof fresh impaired assets (fresh generation of non-performing assets, or NPAs, and restructured advances) has moderated somewhat in the current fiscal, they remain elevated compared with the long-term averages. Apart from slippages from standard advances, higher slippages from standard restructured advances have been the chief reason for the banks' worsening asset quality in the current fiscal; slippages from standard restructured advances were 5-7 % in the first half(H1,FY15) or 10-15 % annualized. Besides with the Reserve Bank of India(RBI) tightening norms for the sale of NPAs to Asset Reconstruction Companies (ARCs), banks' NPA recovery dropped in Q2, FY15 versus the previous two quarters. During Q4, FY14 and Q1, FY15, banks sold

sizeable NPAs to ARCs in a bid to clean up their balance sheets. Overall, as a result of the elevated fresh NPA generation rate and drop in recoveries and upgrade, the banks' gross NPAs increased by 20 basis points (bps) from 4.0 % as in June 2014 to 4.25% as in September 2014.

The weak asset quality of Indian banks is attributable primarily to the PSBs, which reported gross NPAs and standard restructured advances of around 4.8% and 6% respectively, as in September 2014; private banks' gross NPAs and restructured advances were 2 % each as on the same date. Going forward the anticipated improvement in economic activity and moderation in the interest ratesare likely to reduce banks' fresh impaired asset generation rate. ICRA expects PSBs' gross NPAs to be at 4.4-4.7 % as on March 31,2014 and 4.8% as on September 30,2014. Overall, the Gross NPAs of the banking sector (PSBs + private banks) are likely to be at 4-4.2% as in March 2015, as against 3.9% as in March 2014 and 4.25 % as in September 2014.As for incremental flow of restructured advances and NPAs, the RBI norm for flexible structuring of existing long-term project loans to infrastructure and core industries is expected to reduce the flow of restructured advances and NPAs; however, the positive impact of this regulation would be witnessed primarily FY16 onwards. Additionally flexible structuring could reduce the pressure on(and therefore slippages from) some of the existing restructured advances if the repayment pattern of these exposures is revised in the line with the new guidelines, nonetheless with a lag.

Status of NPAs

As per the data made available by the Reserve Bank of India (RBI), Gross NPAs of the Scheduled Commercial Banks (SCBs), especially Public Sector Banks (PSBs) have shown an increase during the recent years, i.e, Rs. 71,080 crore (March, 2011, GNPA ratio 2.32%), Rs.112,489 crore (March, 2012, GNPA ratio 3.17%), Rs. 1,55,890 crore (March, 2013, GNPA ratio 3.84%) and Rs. 1,76,009 crore (June, 2013, GNPA ratio 4.39%, provisional).

Although GNPAs have increased at system level, the GNPAs ratios of banks do not indicate systemic vulnerability. Main reasons for increase in NPAs of banks, *inter-alia*, are:

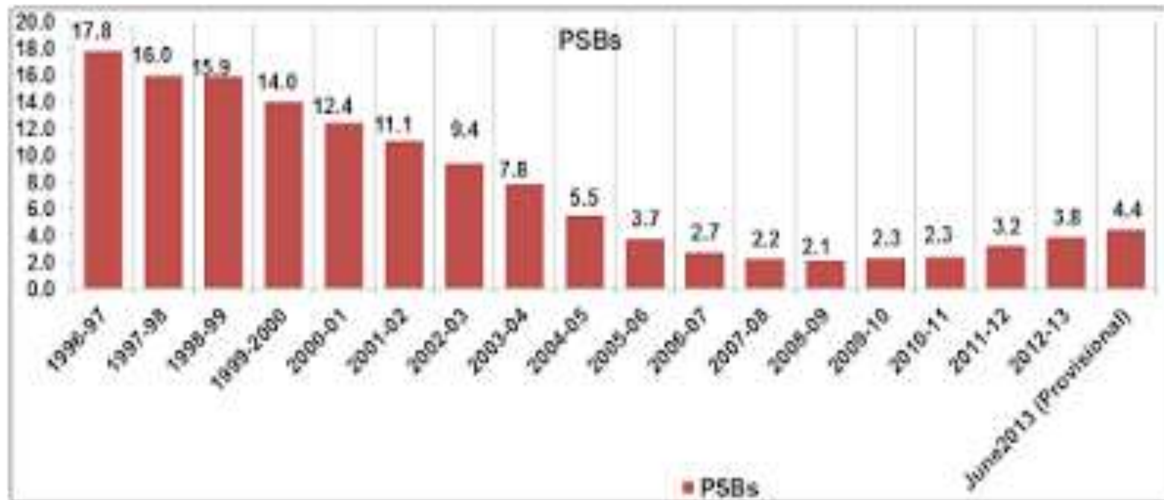
1. Switch over to System Based Identification of NPAs as against the manual compilation earlier where individual officers tended to suppress the extent.
2. Current macro-economic situation in the country.
3. Increased interest rates in the recent past.
4. Lower economic growth in 2011-12 (6.2 %) and 2012-13 (5 %) and
5. Aggressive lending by banks in the past, especially during good times.

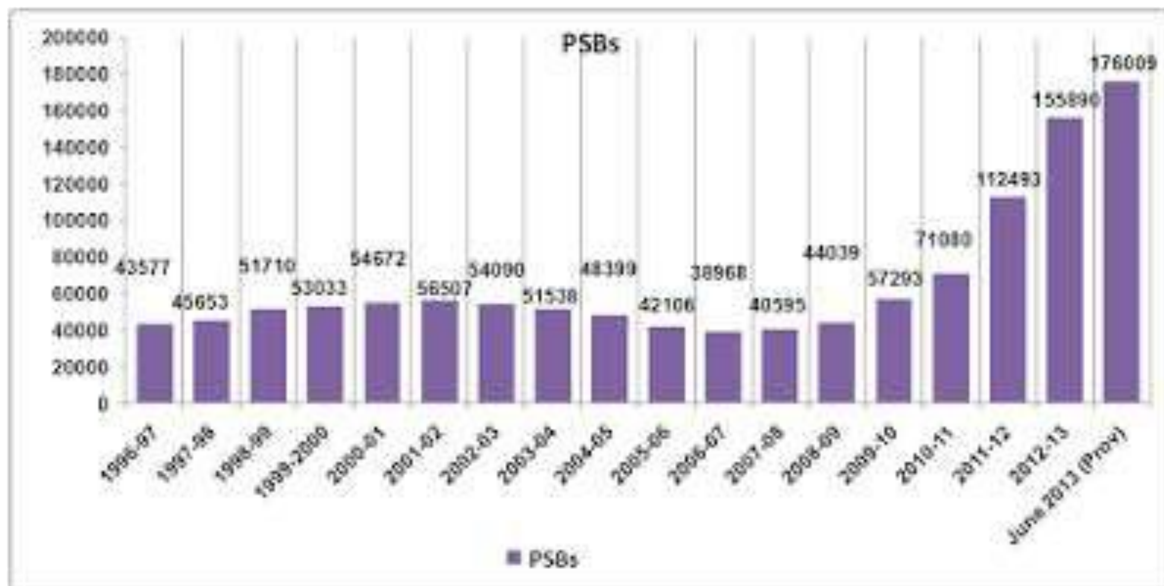
	Gross NPA (Rs Crs)		Gross NPA to advances (%)	
	March '13	June '13	March'13	June '13
Nationalized Bank	95922	107742	3.42	3.89
SBI Group	59967	67597	4.80	5.50
Public Sector Banks	155890	175339	3.84	4.39
SCBs	183856	205961	3.42	3.85

The levels of NPAs vary for different sectors in % of gross advances:

	Mar-11	Mar-12	Mar-13
Gross NPAs	2.32	3.17	3.84
NPA – Priority Sector Lending	4.00	4.93	5.42
NPA - Agriculture	3.48	4.80	5.46
NPA - MSE	4.08	4.87	5.82
NPA - Other Priority	4.72	5.22	4.66
NPAs- Other than Priority Sector	1.47	2.33	3.07
Retail loans	2.79	2.72	2.37
NPA Corporate#	1.59	2.65	3.44
Real Estate loans	1.76	2.02	1.92

The NPAs as percent of gross advances has come down over the years even though in absolute terms it has gone up. The first graph shows NPAs as percent of gross advances for Public Sector Banks while the second graph shows the actual NPAs in Rupees crores.


PSBs
17.8
16.0
15.9
14.0
12.4
11.1
9.4
7.8
5.5
3.7
2.7
2.2
2.1
2.3
2.3
3.2
3.8
4.4
1996-97
1997-98
1998-99
1999-2000
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
June2013 (Provisional)
PSBs


PSBs
43577
45653
51710
53033
54672
56507
54090
51538
48399
42106
38968
40595
44039
57293
71080
112493
155890
176009
1996-97
1997-98
1998-99
1999-2000
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
June 2013 (Prov)
PSBs

BANK GROUP-WISE DETAIL OF TOP 30 DEFAULTERS OF RS. 1 CR. AND ABOVE:

If one looks at the proportion of top 30 NPA accounts for each Bank, it amounts to 40% of the total NPAs. What it means is that it's not the smaller, poor people or companies who are responsible but it's these large corporates who are primarily responsible for NPAs that we have today.

Bank Groups	2010	2011	2012	2013
Public Sector Banks (PSBs)	16,998	20,845	38,836	61,123
Gross NPAs PSBs	57,293	71,080	1,12,489	1,55,890
As %age of Gross NPA	29.67%	29.33%	34.52%	39.21%
Scheduled Commercial Banks (SCBs)	24,610	28,698	49,218	76,472
Gross NPAs of SCBs	81,808	94,121	1,37,102	1,83,856
As %age of Gross NPA	30.08%	30.49%	35.90%	41.59%

Source: RBI (OSMOS Database (Domestic Operations))
Figures in crores for the period April-March

The Table below shows the capital adequacy ratio of the banks in India.

Capital Adequacy ratio of the Banks in India in 2007-08

Banks	CRAR	Banks	CRAR
Federal Bank	22.5	Oriental Bank of Commerce	12.1
Barclays Bank	21.1	Corporation bank	12.1
Kotak Mahindra Bank	18.7	Allahabad Bank	12.0
JP Morgan Chase bank	17.7	Bank of India	12.0
ICICI bank	14.0	Citi Bank	12.0
Axis Bank	13.7	State bank of Hyderabad	12.0
HFDC bank	13.6	Indian Overseas bank	12.0
Yes Bank	13.6	IDBI Ltd.	12.0
Deautch Bank	13.6	IndusInd Bank	11.9
Canara Bank	13.3	United bank of India	11.9
Punjab National bank	13.0	Bank of Rajasthan	11.9
ABN Amro	12.9	BNP Paribas	11.8
Bank of Baroda	12.9	State bank of Mysore	11.7
Indian bank	12.9	Punjab & Sind bank	11.6
Jammu & Kashmir Bank	12.8	State bank of Indore	11.3
Lakshmi Vilas bank	12.7	Syndicate Bank	11.2
State bank of Travancore	12.7	Vijaya bank	11.2
State bank of India	12.6	Dena bank	11.1
Karur Vysya Bank	12.6	HSBC	10.6
State bank of Bikaner	12.5	Standard Chartered	10.6
Union Bank of India	12.5	Central Bank of India	10.4
State bank of Patiala	12.5	Bank of Maharashtra	10.3
State bank of Saurashtra	12.3	ING Vysya Bank	10.2
Karnataka Bank	12.2	UCO bank	10.1
Bank of America	12.1	Andhra bank	10.2

Source: Calculated from Banks profile, Reserve Bank of India

GLOBAL RECCESION- IMPACT ON THE FINANCIAL MARKETS:

Impact on Indian Economy:

The impact of the crisis is deeper than estimated by our policy makers although it is less severe than in other emerging market economies. Further, the Indian banking system is one of the least affected in the whole world and has been praised by many of the economists and financial experts. The banks were saved from this downturn because of the financial policies which were very well formulated that acted as an insulator for the Indian banks. The extent of impact has been restricted due to several reasons such as:

- Indian financial sector particularly our banks have no direct exposure to tainted assets and its off-balance sheet activities have been limited. The credit derivatives market is in nascent stage and there are restrictions on investments by residents in such products issued abroad.
- India's growth process has been largely Domestic Demand Driven and its reliance on foreign savings has remained around 1.5 % in recent period.
- India's comfortable Foreign Exchange Reserves provide confidence in our ability to manage our balance of payments not withstanding lower export demand and dampened capital flows.
- Rural demand continues to be robust due to mandated agricultural lending and social safety & Rural Employment Generated programs.

- India's Merchandise Exports are around 15 % of GDP, which is relatively modest.

Despite these mitigating factors, India too had to face the negative impact of the crisis due to rising two-way trade in goods, services and financial integration with the rest of the world. Indian economy is experiencing the following incidental effects of the global crisis.

1. Slowing Gross Domestic Product:

In the past 5 years, the economy has grown at an average rate of 8-9 %. Services which contribute more than half of GDP have grown fastest along with manufacturing which has also done well. But this impressive run of GDP ended in the first quarter of 2008 and is gradually reduced and now it is projected at 6 % for 2009-10. Hence, the slowdown in Indian economy is evident from the low GDP growth with deceleration in the industrial activity, particularly in the manufacturing and infrastructure sectors and moderation in the services sector mainly in the construction, transport and communication, trade, hotels and restaurants.

2. Reduction in Employment:

The recession is likely to have a dual impact on the outsourcing industry. Appreciating rupee along with poor performance of US companies will affect the bottom line of the BPOs, which are operating at a net margin of 7-8 %, will find it difficult to survive.

3. Taxation:

The economic slowdown has severely dented the Center's tax collections with indirect taxes bearing the brunt. The tax-GDP ratio registered a steady increase from 8.97 % to 12.56 % between 2000-01 and 2007-08. But this trend has been reversed as the tax-GDP ratio has fallen to 10.95 % during current fiscal year mainly on account of reduction in Customs and Excise Tax due to effect of economic slowdown.

4. Reduction in Exports:

The growth in exports was robust till August 2008; however, export growth evinced a sharp dip and remained negative till the end of the financial year on account of major outsourcing deals with US companies, which were effected in the crisis.

5. Forex Market:

The current economic crisis was largely insulated by the reversal of foreign institutional investment (FII), external commercial borrowings (ECB) and trade credit. Its spillovers became visible in September-October 2008 with overseas investors pulling out a record USD 13.3 billion and fall in the nominal value of the rupee from Rs.40.36 per USD in March 2008 to Rs.51.23 per USD in March 2009, reflecting at 21.2 per cent depreciation during the fiscal 2008-09. However, now it is recovered and hovering around Rs.46.00.

6. Money Market:

The money market consists of credit market, debt market and government securities market. All these markets are in some

or other way related to the soundness of banking system as they are regulated by the Reserve Bank of India. NPAs of banks may indeed rise due to slowdown but given the strength of the banks' balance sheets, that rise is not likely to pose any systemic risks.

7. Stock Market:

Indian stock market crashed from the high of 20000 to a low of around 8000 points during the year 2008-2009. Corporate performance of most of the companies remained subdued, and the impact of moderation in demand was visible in the substantial deceleration during the said years. Corporate profitability also exhibited negative growth, which has led to the bearish trend in the stock market. Recession has affected the investments made by Foreign Institutional Investors (FIIs) in the Indian Stock Market as FIIs started disinvesting to meet their commitments abroad. This is putting lot of pressure on domestic financial system, which has led to liquidity crunch in all major sectors of the country.

"Necessity is the Mother of Invention". Thus, the present crisis definitely will be an enabling factor to come up with innovative ways to handle the problems for survival, which is need of the hour.

HOW THE INDIAN BANKS SURVIVED THE GLOBAL CRISES:

The world has witnessed many recessions but the current one is quite severe, the like of which has not been experienced in the last 40 years. The global crisis has hit India too, though its effect has not been as severe as in many developed countries. India has also displayed the ability to recover from recession faster than US or any other developed country. Still it is the world's second fastest growing economy.

The cautious approach of Reserve Bank of India in the last two to three years advising banks to go slow on their exposure to sensitive sectors like real estate and capital market has saved the day for the banking industry. The regulatory authorities had shown vision to foresee the dangerous signals ahead.

The Indian banking system was not affected severely by the global crisis because its parameters have remained strong. The present financial system itself is adequate enough to allow both public and private sector banks to play an active role to ensure more financial inclusion, make priority sector obligations more meaningful, liberalize branch licensing and ATM policies, allow greater capital inflows to increase liquidity in financial markets, beef up credit information system and credit infrastructure, among a slew of measures even as it urges a more transparent macroeconomic framework.

The economic reforms since 1991 has had a salutary impact on the financial health of the banking system as evidenced by the significant improvements in a number of prudential parameters. The average capital adequacy ratio for scheduled commercial

banks that was around 2 % in 1997 had increased to 13.15 % on March 31, 2009. The improvement has come about despite significant growth in the aggregate assets of the banking system.

In regard to asset quality, the gross NPAs, which were as high as 15.7 % at the end of March 1997, declined significantly to 2.4 % by March 2009. The net NPAs of these banks during the same period declined from 8.1 % to 1.12 %. The NPA ratios have recorded remarkable improvements, despite a progressive tightening of the asset classification norms by RBI over the years.

The reforms have also improved the profitability of banks. The return on assets of scheduled commercial banks increased from 0.4 % in 1991-92 to 1.02 % in 2008-09.

The banking sector reforms also emphasized the need to improve productivity. A variety of initiatives taken by the banks, including adoption of technology, has resulted in increased productivity. Banks need to work further to achieve the desired results, particularly to further leverage the available technology.

RBI took a series of measures in addition to providing liquidity and special refinance. While the impact of global recession on India cannot be wished away, Indian banks, encouraged by the government and RBI, rose to the occasion to implement various stimulus packages and restructured facilities to tide over the crisis. In the middle of the previous financial year, the volatility in the global financial markets and closure of many big banks in the western world has given a shock to the banking system in India. However, the strong fundamentals of banks as

well as support and guidance by regulators helped mitigate the severity of these trans-national developments. Having withstood the testing times, things are looking bright, as signs of recovery of Indian economy are visible. It gives us some hope that we can expect robust growth of the Indian banking industry in the medium term.

Indian Banking sector scenario:

The Government announced a slew of measures for the revival of the banking system starting with the recapitalization programme which includes spending Rs. 20,000 crore in this fiscal and then infusion of about Rs. 70,000 crores in the next five years to make the PSU banks more capital adequate. The Government has also formed Bank Board Bureau to ensure that there is steady consolidation in the banking sector and that there are few PSU banks of large size are there in the system. The decision to provide ESOP (Employee Stock Option Plan) is also considered very important since this would lead to retaining of the talent in the banking sector and would attract good talent from the private sector bank space also.

The RBI surprised the country with the announcement of 11 payment banks out of 42 applications. These include Reliance Industry, Aditya Birla Nova, NSDL, Mahindra and Mahindra, Department of Post. This definitely would change the landscape of the financial services sector. The payment banks would be used for sending money to the most remote areas of India which would result into the financial inclusion and bringing more people into the main stream economy. The banking sector situation in 2016:

- PSU banks likely to reach Rs. 4 lacs crore
- PSU banks have 1.5 times of bad loans as compared to their total assets.
- More than market cap of all PSU banks
- 24 PSU banks are listed

- Private banks have only 6.6 % of total assets as Bad Loan
- The problem appears less acute at private sector banks as their gross NPAs are only about one-eighth at about Rs 46,000 crore, which is also well below their total market value.

The gross NPA of 16 listed private sector lenders stood at Rs 46,271 crore as on December 30, 2015. This compares with their total market value of over Rs 7 lakh crore. Taken together, the cumulative gross NPAs of all listed banks - public and private - has risen to Rs 4.4 lakh crore, while their total market value stands at Rs 9.6 lakh crore. The shortage of capital would slow the growth of the Indian banks and they would not be able to lend to the deserving projects and thus the GDP would come under pressure.

The stock price of the PSU banks have crashed like pin of cards since the NPA of the banks have come out in public. Giant banks like Bank of Baroda have posted their first ever loss in the banking sector. In total, there are some 150 accounts which are responsible for Rs. 90,000 crore of bad loans in the PSU banks. The Government along with RBI is trying to solve this problem by taking the bull by the horn.

RBI has asked banks to clean up their balance sheet by March 2017. This has created huge pressure on the PSU banks as their NPA problems are much larger and difficult to get solved in the short run. The banks will have to shore up their tier I capital since from 2018 the BASEL III norms would be coming where the Capital Adequacy Ratio (CAR) of 11.5% would be required. The

banking sector in India had emerged as a very strong sector during the Global Crisis of 2008 and Euro zone crisis of 2011 but in the recent times, lot of NPA has cropped up in the banking sector. Banking sector is considered as the backbone for any economy.

SECTION 6

Conclusion

The Indian Economy contributes around 2.4 % to the world GDP which is miniscule as compared to what the global giants like US, China, Japan contribute. The impact of these economies is much higher on the financial markets of India. The integration of the Indian economy with the world economy has been something debated. The key question that comes to mind is whether Indian economy has been de-coupled with the US and global events. The apparent answer seems to be "NO" since the world economies are much more integrated with the dollar flowing into the international capital markets. USA which printed tons of dollars in the form of quantitative easing (QE) has resulted into too much money chasing too few goods. The world economy has expanded but the top nations have expanded with debt capital. This has created huge leverage capital flowing in the world markets. USA currency printing in the form of Quantitative Easing has actually created more complication for the emerging economies as when USA decides to pull back this money, there could be steep fall in the global capital markets. The debt capital has taken a toll in some of the world advanced economies. We have seen that Greece in EU which has the Debt to GDP ratio of 177% and unemployment rate of 62% is the result that how the debt capital if not used appropriately can result into sovereign default. The world economy integration has resulted into two sided sword like situation. Especially for the Indian capital markets, if there is little bit of good news in the world markets, then the Indian stock markets goes up like anything and if there is little bit of nervousness the market falls like the pin of cards.

The entire issue which the world economy is facing is that the global economies have expanded through the leverage route. Once the leverage capital is taken on balance sheet, we really don't know what could be the magnitude of impact on the world economy. The flow of capital tends to get reverse and there could be severe implications on the world economy. The World Bank in its statement in 2016 expressed that India was set to grow at 7.5 % GDP as compared to 6.8 % of China which was for the first time in the world. The World Bank has projected emerging economies to grow at 4.4 % in 2016 and 5.2 % in 2017 which shows that emerging economies are all set to grow at faster pace than the western world. The USA which is the epic centre of the world economy is back on track with its job creations rising and also its corporate earnings rising. The USA which contributes 23 % in the world GDP is tipping point for any major economic movement in the world economy. The collapse of the world markets in 2015 August after China devalued its currency is the biggest proof that still the world economy is fragile and not out of woods. China which is the world's second largest economy has reached its Debt to GDP ratio of 282 % as per some estimates which is scaring for the fact that the slowdown in China would mean that world economy would also slow down. This would lead to the situation that world would face recessionary threat. The fact that the leverage capital is rising would create havoc in the world markets. The excess capacity which has been created in China due to investment driven theory has ultimately failed since there is no demand and consumption is less, so it creates bubble in the economy. This has lead to excess capacity creation and

thus would lead to property bubble getting busted. The stock market too has leverage capital which leads to the stock market crash. In the world markets crash, China contributed 41 % which shows how big impact it has on the world markets and world economy. China is also the world largest consumer and producer of steel, aluminum and copper and also to the house of rare earth metals which are used in high level defense and electronic gadgets.

The integration of the Global economies is a two way sword; it has benefits along with challenges. We need to understand, that if the world economy is growing, Indian economy gets the benefit with the rising demand and consumptions, exports rising giving benefit of rising forex reserves, FII flows takes the markets up but when the world economy is weak the entire phenomenon gets reverse with exports getting slower, FII pulling out funds, demand and consumption drying out. Thus today Indian Economy is not mere spectator but a virtual party to the global growth story. We need to have one thought that India which has the potential to become Super Economic Power has to roll out the economic reforms which can create job opportunities. The entire growth story of the Indian economy is based on job creation theory which is the base for the long term growth of the economy.

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