Global Financial Crisis & Way Forward

15\textsuperscript{th} November, 2008
Matunga, Mumbai.

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Global Crises

1. What are the reasons of global crises?
2. What is the action being taken by the world governments (including Central Banks)? Are they on the right track?
3. Give reasons for your perception.
4. Will the action being taken succeed?
5. How would you define success?
6. The crises have spread from finance to trade & industry; and from USA to rest of the world. What can be done to control the spread?
Global Crises

7. What is the position in India? How deep may India be affected? What can be done to minimise damage in India?

Decoupling.
India is not export dependent except in case of IT & BPO.
We are not FDI /FII dependent. However, sentiment is strongly affected by FDI & FII.
With huge unsatisfied needs, how can India have a recession!
Need ≠ Demand.
Global Crises

8. What is the role of IMF & World bank? Are they doing adequate? Are they doing the right things?

9. Is it a crisis of liquidity or a crisis of confidence!

10. Identify Indian dead-wood:

    Share Market, Property market, Corruption, incompetent & un-trust-worthy politicians.
    Share markets: Whole system of cheating the retail investors.
Myths

1. U.S. economy is too big to fail.
   Banking industry is too big to fail.
   AIG is too big to fail.

2. Land is limited in supply. Hence the prices have to only go up.

Finance is a matter of flows - 1

Consumer

Buys products & services

Pays for the same.

And Pays taxes
Finance is a matter of flows - 2

- Consumer himself is also a provider. That is how he earns money.

Provides services
Professional income/salaries/ Business Profits/Investment incomes.

Pays taxes

Consumer
Finance is a matter of flows - 3

- Consumer augments his resources by

  - Taking loans from Banks, Institutions,
  - friends

  → Consumer

  → Buys Immovable Property
  → Car/Durables
  → Goes on foreign tour/revenue expenditure

  → Pays Taxes
Finance is a matter of flows - 4

Incomes

Banks, Institutions.
Loans

Consumer

Expenditure
Investments
Loan Repayments

Taxes to Government

Slide No. 8
Finance is a matter of flows - 5

Industry - Provides goods & services and also consumes goods & services

- Takes loans, Issues shares
- Receives Finance

- Buys goods & services
- Pays purchase costs, salaries, different bills,
- Pays taxes

Sells goods & services

Finance

Receives sale price. Pays taxes

Repays loan & interest

Pays taxes.
Finance is a matter of flows - 6

Consumer

Investor  Government  Industry

Banks & Financial Institutions
Flows of Finance - 7
Several Cycles of Finance.
Cycles within Cycles
Flows of Finance - 8
Several Cycles of Finance.
Cycles within Cycles

• If we divide the Economy in five groups, each group interacting with the rest; then we may have twenty (5 X 4) cycles of financial flows. We have shown only a few financial cycles.

Same entities perform several roles.
The five groups are not separate groups. Each group has several roles.
Flows of Finance - 9

Taxes

→

Govt. provides services –
Law & order
management & Economics

Prices collected.

→

Some services charged.
Most services are free.
Finance is a matter of flows - 10

Flows of finance in the economy are like flow of blood in human body.

An adult man may have about 6 litres of blood. Let us assume Mr. USA has full 6 litres of blood.

However, he has a clot in the heart. With all the blood being available, he will still suffer a heart-attack.
Tipping Point

Butterfly Effect

Leveraging.
Global Financial Crisis - Some Reasons.

What is the Critical Mass / Tipping Point?
When does a bank get toppled?

When the leverage is 33 times a Company’s net worth, the critical mass to topple is less than 3%.

When the leverage is 1:1: critical toppling mass is 50%

Doubt the Merchant Banker.

Don’t take it for granted that they are noble people.
Sub-Prime Crisis – 2007
How it developed.
Let us make a presentation of world currencies as in say .... June, 2008.

Assume, at some future time. All currencies collapse.
What will happen?
The internal parity amongst currencies may still:

(A) remain same; or
(B) may be disturbed.

But prices of Gold & other commodities rise.
Industrial activity falls.
Hence commodities that constitute industrial raw materials; fall.
FX Rate fluctuations Vs. Collapse – 3

World currencies as in say .... June, 2008.
A Comparison.

Gold, Commodities, Land
Gold, Commodities, 400
Land
300
GBP 100
Euro 50
$ Rupee
0 Rouble

More likely probability

Gold, Commodities, Land
300
GBP 100
Euro 50
$ Rupee
0 Rouble

Extreme probability

More likely probability

Gold, Commodities, Land
300
GBP 100
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Extreme probability

Slide No. 21
GDP and Finance: Cause & Effect - 1

Funds Available in a Country

Dangerous: Investment Banks, FIIs
Big Drains: Politicians Business
Terrorists

Leakages
Black Money
Swiss Banks & Other tax havens
Money Laundering

When the finance goes out

As the circulation of finance increases, GDP increases.

If finance is reduced, GDP is reduced. If GDP is reduced, finance is reduced.
### GDP and Finance: Cause & Effect - 2

**What if U.S. collapses?**

<table>
<thead>
<tr>
<th>Production</th>
<th>Domestic Consumption</th>
<th>Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>100 units</td>
<td>30 units</td>
</tr>
<tr>
<td>India</td>
<td></td>
<td>At very low price starving domestic poor</td>
</tr>
<tr>
<td>Brazil</td>
<td></td>
<td>70 units</td>
</tr>
</tbody>
</table>

With the collapse of the U.S. Economy, these 30 units will stay within the domestic market or will be shared with other countries. U.S. economy is the biggest drain on rest of the world’s economies. If it collapses, it will be beneficial to rest of the world.

Slide No. 23
The Mayajal of Deficit Financing

Government of U.S.A

100% owner of Federal Reserve Bank

Deficit Financing called loan by Federal to Government

Govt. pays interest on loan to Federal.

Federal Reserve Bank

Out of the interest income Fed. pays

Pays Dividend to Government.

These are treated as income by the Government to reduce Budgetary Deficit.

Out of Surplus

Salaries & expenses

Slide No. 24
Relationship

One Perception:
The relationship is important. by & for itself. We build relations to share love & enjoy. Business & income are incidental.
Another Perception:

All relations are for personal benefit.
All benefits reside in money.
Relations & net works are a means to money.

Who will have peace & rest at heart!
Who will have high B.P./depression ruining the life
For many – employer – employee relationship is nothing but business.

Employer wants to extract maximum work; &

Employee wants to extract maximum money.

Indian philosophy says – not only human – relationship but even the relationship with our animals should be based on love.
The employer takes care of employees as family members. And the employee contributes to the office like a family member.

We even take care of our cows, buffaloes, bullocks & horses. If you go to villages & stay with good farmers, you will see the difference.
Some philosophical thoughts

1. Un Ekant Vad

2. Maya.

Nearest English word for Maya is “Illusion”.

Illusion means: “What is being seen does not exist.
And what exists cannot be seen.”

The difference between Maya & Illusion is:
Even if you know that some thing is Maya, you are still tempted by it.
3. Law of Karma

4. History repeats itself.

One who does not study the history, is punished to experience history.

No-one can predict what will happen how & when. It repeats itself in different manners all the time.
Some philosophical thoughts

5. Tulsidas: “Samarth ko nahi Dos Gusain”
   “People do not see faults in the Rich & Powerful.”

Hence certain people claim –rightly or wrongly, to be superior/rich/powerful.

“Garva Karyo So Nar Muvo.”

Whoever indulges in ego is bound to be destroyed.

Bhartruhari.
Some philosophical thoughts

   What is most important for a King!
   Confidence of the people.

   In case of WAR with enemies?
   Still, citizens’ confidence is the key.
Some philosophical thoughts

What is more important in case of a FAMINE! *Peoples’ Confidence in the King.*

When confidence is gone, every thing is gone.
Thank You

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15th November, 2008