

GLOBAL CRISIS, RECESSION AND UNEVEN RECOVERY

Dr. Y.V.Reddy





Introduction



“Central Bankers may leave their jobs but their heart never leaves central banking”

~ Jerry Corrigan

(Former Fed Reserve President)

➤ Sequel to : **“India and Global Financial Crisis :
Managing Money and Finance”** - 2009

➤ Sections :

1. The Global Financial Crisis and its Aftermath
2. Financial Sector : Retrospect and Prospects
3. Public Policy : Challenges and Response
4. Global Financial Architecture : The Debates
5. India : Performance and Prospects

About the Author



- Dr. Yaga Venugopal Reddy, a 1964 batch IAS officer, was governor of RBI from 2003 to 2008
- Subsequently, he was Member of UN Commission of Experts to the President of UN General Assembly on Reforms of International Monetary and Financial System
- He is currently Professor Emeritus, University of Hyderabad
- He was honoured with Padma Vibhushan in 2010
- Mr. Reddy is described as *“the man who saved India from the global economic crisis.”*

GLOBAL FINANCIAL CRISIS AND IT'S AFTERMATH

- Central bankers' awareness of the impending crisis and their failure to identify the risk ridden areas
- Under-pricing of risks by financial sector
- Experience of central banks of developing countries in averting the crisis to an extent
- Causes of the crisis: synchronised extensive excesses
- What is to be done for financial and economic management

➤ Plight of global economy post crisis

➤ Global financial crisis and Asia

➤ Will there be a new normality? If so, what kind of ideological differences will be there when compared with the current situation?

➤ Future of finance

➤ Ethics and the world of globalised finance

Financial Sector: Retrospect & Prospects

- Lessons from Global Crisis
- Scope & limitations to countercyclicality in regulation
- Comprehensiveness in the regulatory scope
- Improvements in Regulatory Structures
- Border issues kept in mind

Countercyclical Polices

- Relevance of Background
- Dynamics of countercyclical policies in India
- Countercyclical Policies adopted by India
- Specific measures adopted for implementation
- Policy response to the crises
- Conclusion from Indian experience

Proposals for Financial Sector Regulatory Reforms

- Rebuilding the competing considerations that govern regulations.
- Financial sector balanced with Real Sector
- Requirement of Active Public Policy
- Cross border policies
- Macroeconomic management
- Future of Domestic Financial System
- Integration with the international financial system

PUBLIC POLICY: CHALLENGES AND RESPONSES

➤ Challenges to the Public Policy:-

- Maintaining a level of confidence
- Absence of Excessive Volatility
- Ensuring Uninterrupted Financial Transaction

➤ Suggestions:-

- Regulating the Market
- Taxing financial sector

GLOBAL FINANCIAL ARCHITECTURE: THE DEBATE

- IMF-current status
- Proposal under discussion

Feasibility of a global currency(multipolar) replacing SDR and current financial system

UN made a commission headed by prof Stiglitz to look into the matter of global crisis and come up with recommendations, suggestions of reforms

- G-20 origin, evolution and its changing role in new economic scenario
- Importance of volatility on the overall economic condition of country and dilemma related to new policies
- Making new global financial architecture, its need and usefulness.
- Role of India in this system.

INDIA: PERFORMANCE AND PROSPECTS

➤ Deregulation of financial sector

- Due to regulation of financial sector, India economic growth was hampered and the goals of financial inclusion could not be achieved; but, it brings stability in both the public and private sectors. It shows that the optimum level of regulation is yet to be achieved. So reforms should be to tackle the problems of financial stability and regulation with focus on development of monetary and fiscal responsibility
- Suffering from financial exclusion and poor services, so to resource allocation has to be efficiently

➤ Macro-Economic Management

- Serious imbalances due to vulnerable in four shocks : Fuel, Food supplies, Fiscal and External Finance

➤ Monetary Policy

- Apart from achieving the objectives of price stability, administering interest rates still remains and also a need for regulatory co-ordination of MoF and RBI

➤ Excessive Financialisation

- Occurs due to multiplicity in financial transactions without any distribution of risk and efficiency in reallocating resources which is observed in money markets due to absence of an appropriate regulatory authority

➤ Management of External Sector

- As India is suffering from CAD, adjusted current account deficit would help in appreciation of the relationship of the economy with exchange rate

➤ Banking System

- Deposits and providing credit for working capital and other productive sector shows hollowness in its lending system
- Issuing new licenses to make it globally competitive as well as focus on developmental banking on rural India.

➤ Countercyclical Policies

- It is needed for financial stability with regards to regulation in financial sector during the boom period which would serve to minimize the impact of the global downturn

➤ Macro - Prudential approach

- The focus is for enhancement of the quality and quantity of bank capital. In India, capital in all banks is in excess of Basel norms of K-adequacy. RBI initiates through merging and acquisitions of weak banks and increasing the efficiency through economies of scale and scope

ASIAN RESILIENCE AND RECOVERY

- China and India have shown exemplary performance
- Prospects and challenges
- Asian experience and its claim for leadership in global economy

EXIT STRATEGIES: AN INDIAN PERSPECTIVE

- Perceptions of Indian economy prior to crisis
- Measures taken during crisis
- Exit strategy after crisis

Evaluation

- The Book is composed of the experience and insight gained as Governor of RBI and various lectures delivered.
- The author himself being a Central Banker provided an insight understanding of the genesis, anatomy and impact of the crisis.
- He has reasoned out the reason for differential economic recovery in different countries, indicating a shift of economic balance towards EMEs.
- Though the author did not appreciate that the crisis is a continued process as Indian economy suffered couple of years after the crisis.

- Internationally, financial relations and domestic regulations were reshaped in advanced economies.
- Finally the question was left open whether the crisis was failure of policies or theories or discipline in itself.
- As put across by Paul Volcker, “No one is better equipped than Dr. Reddy to set out the crisis lessons because of his dogmatic approaches and pragmatic judgement in guiding the Indian economy...”

CONCLUSION

- Science and Art of policy making
- Appreciation of comparative merits and demerits of West and East
- Healthy optimism – Rising India
- Mature insights on regulatory reforms in World Economic Organizations
- Importance of Ethical Banking



**“ Central Bankers have to take away the punch bowl
just when the party gets interesting ”**

~ William McChesney
(Fed Reserve System Chairman)



THANK YOU