

Global uncertainties

The UN's 'World Economic Situation and Prospects 2012' report has warned that the world is on the brink of another recession and even economic powerhouses such as China and India, which led the recovery last time, will get bogged down. The report has cut the global growth forecast for next year to 2.6 per cent from 4.0 per cent in 2010. "Following two years of anaemic and uneven recovery from the global financial crisis, the world economy is teetering on the brink of another major downturn," it added.

The markets were quick to celebrate the new fiscal pact signed by European Union members (except UK).

This latest attempt at a solution certainly goes further than the earlier ones in tightening fiscal discipline, putting more stringent oversight mechanisms in place and strengthening punitive measures for non-compliance.

"Yet, even at the risk of sounding cynical, it is worthwhile to ask whether the celebrations were premature. The 'fiscal compact' is essentially the old Stability and Growth Pact in a new form-automatic penalties will get triggered off when the 3 per cent deficit target is breached, but we have to see whether this works in practice. Euro 1.1 trillion euro-zone debt falls due next year. The bond markets will remain jittery until there is an unconditional bailout commitment from the ECB-which is not yet forthcoming. In the absence



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of norms to transfer funds from richer to poorer countries, and of a lender of last resort, it is difficult to see how future crises can be handled. This is unlikely to enthrone private lenders, given the haircuts they have been forced to endure," says Mr. Dangi.

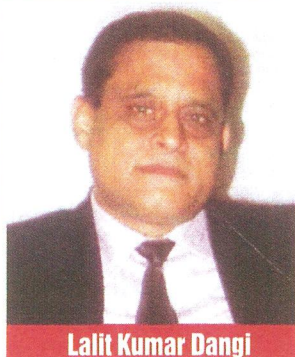
The old economic and political issues are sure to come up again. How does a country in trouble get out of it when policy options like inflation and currency devaluation are not available? How political leadership reacts to faceless bureaucrats taking over their sovereign functions remains to be seen.

The US seems to be relatively better off. The median forecast for US growth for 2012 is two per cent, which though

low looks robust compared to Europe. However, the housing market, which has traditionally been a strong leader or indicator of growth, remains sluggish. And political brinkmanship on the eve of Presidential election next year keeps the course of fiscal policy uncertain. The Chinese economy is slowing down though China's policy makers are known to be nimble and have the tools (including quantitative controls on credit) to fight the slowdown. Japan remains mired in recession.

Slowdown at home

At home, the government has been forced to acknowledge some sobering facts. The Mid-Year Analysis from the Ministry of Finance admits that growth is stuck, inflation



Lalit Kumar Dangi

Opportunity amid gloom

With the economic scenario deteriorating and the rupee sliding so fast and so sharply, the stock markets have been thrown into disarray. Not only indices have charted a distinctly downward trend, but the investors have started moving away

from equities. In fact, there is a marked loss of confidence in the India growth story. FIIs have started taking dollars back home. Having lost heavily in the current depression, the domestic investors are also keeping away from the market.

The fortunes of stock markets are directly woven with those of the corporate sector, which is facing strong

headwinds. Says Mr. Lalit Kumar Dangi, "with the rupee plunging to record lows, companies with foreign debt and those depending on import of raw materials or other inputs are taking a big hit on their bottom lines. Most of the industries face slowing demand and declining earnings. There are no hopes for any fiscal stimulus unlike in 2008 as the government's finances are in a bad shape. Indeed, the economy and stock markets are in the midst of a prolonged downward cycle".

Of course, stock prices will remain more or less depressed during the next one or two quarters. And in the process blue chips with bright long-term prospects will be quoted at unbelievable low levels. We feel this will be the time to pick up scrips with strong fundamentals, of course with a medium to long term perspective. ■