

Domestic Market Strength to Help India Fight Slowdown



L-R: Tushar Poddar, Chief Economist, Goldman Sachs; Shankar Acharya, Member, Board of Governors and Honorary Professor, Indian Council for Research on International Economic Relations; Aniljit Singh, Chairman, Max India Group of Companies; Omkar Goswami, Founder and Chairman, CERG Advisory Private Limited; Moderator: T.N.Ninan, Editor, Business Standard

The ongoing global slowdown will certainly impact India but this will be overcome to a substantial extent by the strength of the domestic market. In fact, it is the risk-averse stand of the Indian banking system that has helped the country to withstand the full scale of the ongoing crisis.

Pointing this out, participants at the session on 'India and the Global Economic Challenge' during 'Ideas India 2008', which is being organized here by Aspen Institute India, said that the Indian growth story would certainly see a slowdown, with the GDP growth rate easing to below 6 per cent in 2009-10.

For **Mr Shankar Acharya, Member, Board of Governors, Indian Council for Research on International Economic Relations (ICRIER)**, this was the first major recession since the 1930s and it was likely to last until the de-leveraging of the global financial systems is complete. "India should hear the warning bell and use the period in the interregnum to prepare itself to capitalise on the likely revival of the US economy."

The impact of the current crisis is evident from the decline seen in export and investment demand, Mr Acharya said, adding that the government had already taken several steps to boost domestic demand. "But it is the tightening up of the financial markets that will affect the domestic corporate sector and slow down growth."

Mr Omkar Goswami, Chairman, CERG Advisory Pvt Ltd, traced the genesis of the US slowdown and said that a weak US economy was not good for other economies either. "Already, one can see Indian corporates adapting the old adage that 'cash is king', and resorting to cost-cutting. Such measures will only intensify in the coming days. But, it is unlikely that the Indian GDP growth rate will fall below the 5 per cent mark," he added.

Mr Goswami also said it was unlikely that the world will be able to use the current crisis to come up with a currency grouping that substitutes the US dollar. "Too many countries in too many parts of the world use the dollar-peg, and it was unlikely that they would shift to any new mechanism any time soon.

Giving the industry perspective to the US crisis, **Mr Analjit Singh, Chairman, Max India Group of Companies**, said that the strength of the domestic markets would certainly see India through the current slowdown. Conceding that there would be certain sectoral impacts, Mr Singh said that this "would largely be overcome by the huge domestic market and our traditional habit of savings."

To a question whether the corporate sector would be able to meet its obligations arising from their FCCB (Foreign Currency Convertible Bond) borrowings, Mr Singh said that this would certainly be a tight and difficult period for companies that had adopted this route.

Raising concern over the slowdown in the banking sector, **Mr Tushar Poddar, Chief Economist, Goldman Sachs**, said that this was forcing corporates to review their expansion plans. He said that global consumer spending, which fuelled by the availability of cheap credit, would see a sharp fall, with no recovery likely in the short-term.

According to him, "it was going to be a prolonged period of adjustment, with corporates seeing their sales decrease, capital lines tighten and investment decline." Mr Poddar said that domestic companies should use the current crisis to widen their market reach, by including the rural segment.

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