

# Current Financial/Economic Situation

Bankers' Perspective

2/2/2010

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## Where do we stand?

- Continuing Political Fluidity
- Unfriendly Investment Climate
  - Poor Security Environment
  - Labour Militancy
  - Logistical Nightmare
  - Lack of Rule of Law / Low Confidence in Judiciary / Impunity
  - Uncertain Property Rights
  - Unstable/Uncertain Economic Policies
  - Poor Governance / Accountability
- External Imbalance / Cash Crunch
- Financial Sector & Economy on Edge

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## Liquidity Crunch: Causative Factors

- Trade Imbalance/Low Remittance Growth leading to Deficit BOP
- Delay in Gov Expenditure / Fiscal Surplus
- Imprudent Lending Practices of BFIs
- Poor Liquidity Management Culture within BFIs
- Proliferation of BFIs, Branches and ATMs
- Increasing Tendency to Hold/Transact in Cash
  - VDIS / Capital Gains Tax / AML Measures / Currency Shortage
- Portfolio Rebalancing by BFIs Due to Regulatory Directive (SLR)

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## Liquidity Crunch: Causative Factors

(cont'd)

- Unregulated Financial Players (Loans & Savings Co-operatives / Commodities Exchanges)
- Capital Flight???? Speculation on NPR/INR Re-pegging
- Slow Monetary Authority Response : Sense of Denial
- Poor Surveillance / Early Warning / Forecasting

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## Fallout

- High Cost of Capital
- Increase in Market Risk for BFIs affecting Profitability
- Possible Liquidity Crisis if Monetary Authority not to Provide Adequate Support
- Increase in Credit Risk due to Business Failures / Counterparty Defaults
- Possible Bank Failure
- Crisis of Confidence

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## Prescription: Immediate

- NRB to Continue Adequate Liquidity Support: Target Interest RATE not VOLUME
- BFIs to Ensure Strict Regulatory Compliance and Review Lending Policies and Curtail Speculative Lending. Stop lending what they don't have.
- Accelerate Government Spending
- Provide Subsidy thru Re-financing to Job-Creating Manufacturing and Exporting Industries (not trading firms)
- BFIs to Strengthen Liquidity/Market Risk Management

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## Prescription Immediate (cont'd)

- Ensure Timely Economic Data Disclosure / Dissemination
- Implement Immediate and Effective Moratorium on Bank Licensing
- Review and Revise Capital Gains Tax & AML Disclosure Requirement
- Put an Immediate Halt to NPR/INR Peg Adjustment Speculation

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## Prescription: Follow On

- Review Bank Licensing Policy
- Review Trade / Industry & Tariff Policies
- Review Monetary Policy
  - However, Over-Cautious Knee-jerk Non-Accommodative Policy would be Counter-Productive to supporting growth.
  - NRB should also refrain from the temptation to increase directed lending
- Legislate Equitable Labour Legislation
  - Wage-Price Spiral Needs to be Broken
- Increase Spending in Infrastructure and Incentivize Private Sector Investment in Infrastructure
- Enforce Laws against Cartels and Anti-Competition Practices

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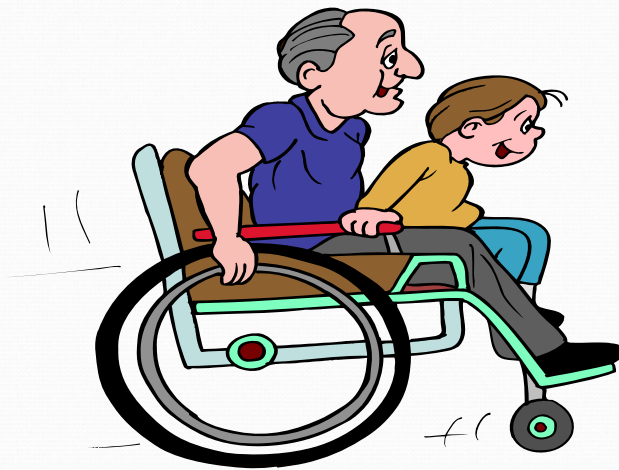
## Prescription: Follow On

- Power is the Key: Beg or Borrow
- Parallel Economy: Fine Tune / Review Taxation Policy
- **Above All: Key Political Players Must Agree on a Broad Economic Policy Framework – Continue Fighting for Power in the Parliamentary Ring**

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## Thank You



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