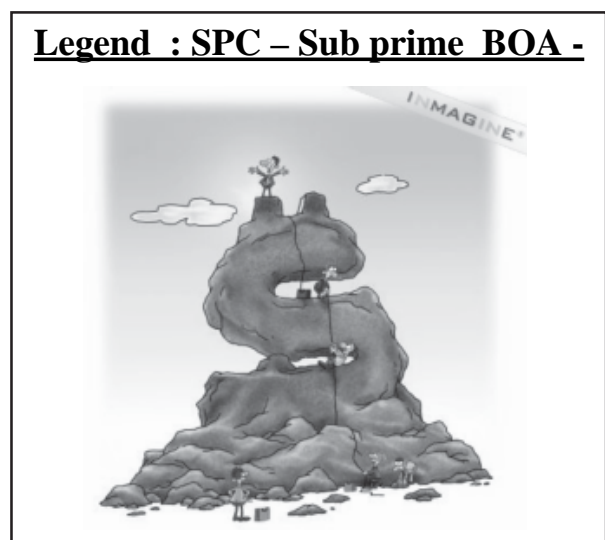
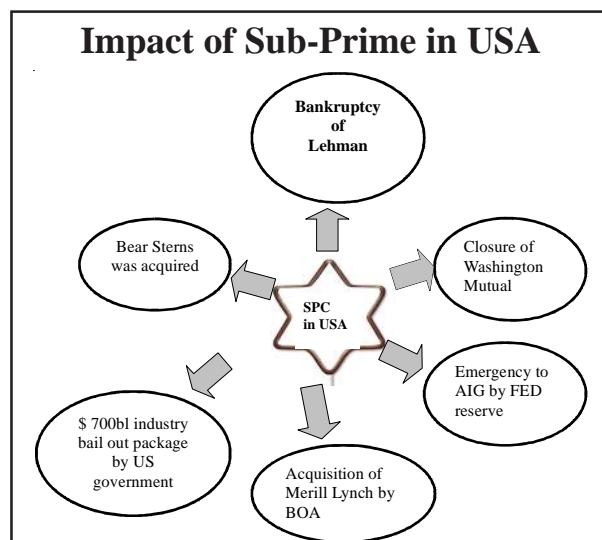


'Subprime lending by the credit intermediaries in the developed world was premised on the assumption of continued benign interest rate environment and an enduring uptrend in the housing prices.'

- Shri V Leeladhar
Deputy Governor RBI

Impact of Sub-Prime in USA

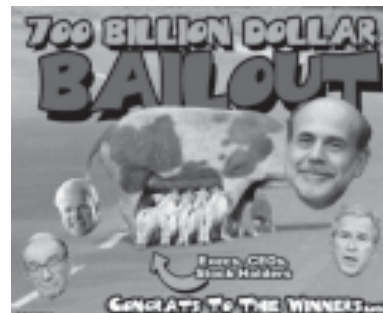
- ☞ The problem with investment bank balance sheets is that on the left side nothing is right and on the right side nothing is left
- ☞ What's the difference between a guy who just lost everything in Las Vegas and an Investment Banker? A tie



How did Regulators Respond?

“Nobody trips over mountains. It is the small pebble that causes you to stumble. Pass all the pebbles in your path and you will find you have crossed the mountain”

- Infusion of liquidity to the interbank market (Fed) – liquidity provided in exchange for securities that “nobody else wants”
- Lowering interest rates (Fed) – with the objective to prevent a sharp recession in the U.S. and to ease conditions in the mortgage markets
- Recapitalization of large, systemically important banks –substantial role of the so called sovereign wealth funds
- Business Stimulus to bailout mortgage finance giants like Fannie Mae& Freddie Mac, AIG, FORD, GM
- Bailouts of failed banks – nationalization in case of Northern Rock, takeover (by JP Morgan Chase) in case of Bear Stearns, with the objective to contain systemic risks
- Measures to improve the conditions in the mortgage market (U.S.) – moratorium on loan repayments, increased authority for intervention by government sponsored enterprises (GSEs), fiscal stimulation
- Reconsidering the role of regulation and supervision of nonbank financial institutions and off balance sheet conduits and investment vehicles



control to solve.





Recapitalization

- Nov 6, 2007 to Feb 15, 2008



- Major financial institutions

1. Citigroup
2. UBS
3. Merrill Lynch
4. Credit Suisse



- Ranging from \$ 500mn to \$10 bn



Questions?

“Learn from yesterday, live for today, hope for tomorrow. The important thing is not to stop questioning”

- *Albert Einstein*

- Capitalizing Profits and socializing losses



- Using tax payers money for providing bonus during crisis and now bailout from losses



- Tinkering with market forces without regulation



PAUL KRUGMAN Noble laureate (Economics)



ON GLOBAL FINANCIAL CRISIS

Charlie Rose:

***A Conversation with Paul
Krugman***

October 24, 2008

Lou Dobbs Tonight, November 7, 2008

- ☞ It was a polite debate between Paul and Lou Dobbs on the American financial crisis, where Paul argues for fiscal stimulus and now it is not the time to worry about deficits
- ☞ “The epicentre of the earthquake has shifted from the financial system (Wallstreet) to the working system (Mainstreet)”
- ☞ “The economy would need four to five percent of GDP, which is basically saying \$600 billion to \$700 billion of stimulus”

The Rachel Maddow Show,
November 19, 2008

Alison Stewart interviews Paul, and he argues why the Big Three U.S. auto makers need to be rescued

- ☞ “It`s not that it`s special. It`s just that it`s big and that it`s on the verge of failure, the economy is in a nose dive. And this is something that will greatly accelerate the nose dive. If GM goes under, which looks like a real possibility, then that`s a huge blow to huge anti-stimulus program at exactly the wrong moment. If this was 1999 and we had four percent unemployment and the credit markets were working, I would say, let it fail and let bankruptcy do its work. But this is not a good time to be having a really major industry just turn belly-up”
- ☞ “Estimates run from one million to three million jobs lost if GM goes under”

Krugman at Stockholm University December 8, 2008

Discusses the worst case scenario on the Global downturn

- ☞ “A scenario I fear is that we`ll see, for the whole world, an equivalent of Japan`s lost decade, the 1990s ,we`ll see a world of zero interest rates, deflation, no sign of recovery, and it will just go on for a very extended period”
- ☞ “We can easily be talking about a world economy that is depressed until 2011 and maybe beyond”

Overview

- ☞ The U.S is printing and throwing dollars at all its problems
- ☞ Following the footsteps of Gideon Gono- Governor of Reserve Bank of Zimbabwe printed more and more Zimbabwean Dollar
- ☞ The country has an astonishing Inflation of 230 million %
- ☞ Can be Sarcastically called as ‘Gonoism’