



TUTICORIN BRANCH OF SOUTHERN INDIA REGIONAL COUNCIL THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

(SETUP BY AN ACT OF PARLIAMENT)

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JAN' & FEB' 2009

NEWS LETTER

Thoughts of Chairman

Dear Esteemed Members and Students,

It gives me immense pleasure to communicate with you as the Chairman of the Tuticorin Branch of SIRC of ICAI. I take this opportunity to thank the management committee for their great confidence in me to continue as the Chairman.

As we all know, our Tuticorin Branch has been awarded the '**Highly Commended Performance Shield, 2008**' (Small branch category) on the 4th February 2009, by the Union Minister for Corporate Affairs, **Shri Prem Chand Gupta** at New Delhi. Our tireless and dedicated efforts striving towards excellence have been rightly recognized and rewarded. Our goal should be to make "Excellence a Habit" and break our record. As it is rightly said, "**the positive thinker sees the invisible, feels the intangible, and achieves the impossible**" Let us in harmony work towards achieving the impossible. The year 2008 witnessed the global economic crisis, the worst of its kind, since the Great Depression and it is felt that, despite the financial meltdown in the global arena, the Indian economy has weathered the global economic crisis reasonably well.

With the general elections scheduled to be held in less than 3 months, the interim union, budget for 2009-10 has emerged to be a "**vote on account**" budget as it has been termed. With the expected growth rate of 7.1% in 2008-09, the interim budget has projected, fiscal deficit - "a yardstick that measured Government spending beyond its means", at 5.5% of the GDP and revenue deficit at 4% of GDP. However it has been mentioned that, there would be a like in the

Plan Expenditure for the entire 2009-10 fiscal substantially, to give the economy the stimulus it needs to cope with the global recession that is likely to continue through the current year also.



The GDP records growth of over 9% for the three consecutive years, and the financial sector reforms strengthen regulatory mechanism of securities market. The finance minister has announced the revenue forgone of Rs.30000 crores which has not figured in the interim budget estimates for 2009-10 lowering of Cenvat rate to 8% and service tax to 10% intune with GST. Let us hope that the current year in progress recovers itself from the fiascoes taking place.

Points to Ponder - 'From Journeys to destination' :
It is said, 'Begin with the End in mind'. Always visualise the target, have the big flame of passion inside' - plan towards its achievement, grab opportunities, work towards the goal and emerge successfully. I would like to conclude with the words of Swami Vivekananda, "Take up one idea. Make that one idea your life - think of it, dream of it, live on that idea. Let the brain, muscles, nerves, every part of your body, be full of that idea, and just leave every other idea alone. This is the way to success".

No man fails if he does his best. Let us tune our journey to reach the desired destination. Wish you all success and happiness in the following year.

CA.B.Francis Amal George



GLOBAL FINANCIAL CRISIS

- CA.G.Xavier Fernando

It is nearly two months since the global recession has hit the headlines and it seems that the bad news is not going away. We are hearing about multi-national bank closures, government bailouts, a revaluation of the capitalist economic system the world over, and scary forecasts about local unemployment in India. Along with the jargon being thrown at us from every so called 'expert', there seems to be a base ignorance or an unwillingness to name the underlying reasons behind the gloom at the heart of the financial crisis.

The United States of America has been the only superpower in the world for the last 15 years - after the collapse of the Soviet Union in the early 1990's. This event resulted in a radical shift of economic policy in almost every country in the world - on both sides of the Cold War fence. The few countries that refused to switch to the Capitalist system and free trade have been almost completely marginalized and are arguably much worse-off today as a result. In our own country the economic liberalization was not so much a choice as a necessity.

The 'with-us or against-us' strategy of the U.S has been an accepted form of their foreign policy, both economic and military, for most of the last two decades. And this is the major reason that their current economic crisis is now affecting almost the entire world.

What exactly happened? How did this financial crisis come about?

Every aspect of economic activity is dependent on the laws of supply and demand.

If I create a product or service is dependent on how many people need it. When they buy what they think they need they are called consumers. These people are labeled consumers. Consumers, who can very well do without it a product, can be led to believe that they absolutely need it - that they can't do without it. In the U.S local consumers were led to believe that they absolutely needed bigger and better houses. It was not important that most of these consumers would not be able to afford the high mortgages that came with the decision to buy a house. Big banks lent vast sums of money to small banks, and the small banks lent vast sums of money to millions of people, at 'competitive rates' of course, without worrying if they would be able to repay the loans at their current levels of income. The banks hoped that these people would work harder to be able to afford to pay back the loans. This was termed 'the encouragement of progress'.

American consumers, like their counterparts in other regions of the world, believed wholeheartedly that it is not necessary to assume that you cannot possess a thing that you cannot afford - you can always buy things on credit. 'Get a loan and buy whatever you want. You can pay back the loan later.'

Because of globalization, this 'housing bubble' - artificially created demand for houses - led to raw materials being sourced from thousands of small, medium and big industries across the



world. This provided employment to millions of workers in countries as far as China.

So houses were built for people who couldn't afford them but brought them on credit. The well-oiled wheels of 'progress' were churning on, until it was time to pay back the loans - the mortgage. Naturally the plumbers, electricians, teachers, small businessmen etc who had brought homes on credit, could not pay their large mortgages back to the small banks. The small banks could not pay the big banks back, and the big banks became bankrupt and so had to close down.

You might ask, at this point, why all at once? These sorts of things happen all the time, don't they? And the answer is that this is the definition of a 'bubble'. Bubbles occur in every industry - the valuation of a product or service is some time inflated to many times its value, and then the inevitable correction to its real value arrives. But the issue in this case is that a house is the largest purchase that most people, even Americans, make in their lifetimes. And the ancillary industries that depend on the building of houses are varied and spread out across a range of industries - e.g. steel, cement, timber etc. When houses have to be vacated or 'foreclosed', because who bought them on credit are unable to pay their mortgages, a lot of these subsidiary industries suffer. And in today's world, the subsidiary industries are located in various other countries in the world, all with their own companies and local workers. When you put such a large amount of money into one particular industry such as housing, which is experiencing a bubble, and you do not get repair when the correction comes, then all the other areas or industries that you have been putting money into at a lesser level become liabilities. And because you do not have the money any more to be functional you declare bankruptcy. And a hole is now created.

A major fact in this system is that the big banking institutions get their money from the stock market,



or more accurately, from investors who invest in them. Investors, of course, except to be paid back. When a company cannot afford to pay such a large amount of money back to so many investors, there is a knock-on effect in all the other industries that investors have put their money in. The worries investors tend to withdraw from the stock market, which leaves all the other companies in the stock market without the money to conduct their own business in other areas of industry. So they too are forced to close up.

The fear now spreads to banking institutions that are not in any way connected with the housing industry. Can we lend money now to people to buy a car, they ask. Suppose they don't pay back? And they start to re-evaluate the potential of consumers to pay back their car loans. If they don't lend the money needed to buy a car, the demand for cars diminishes. This leads to less production by the car companies, because they are dependent on financial institutions to lend them money to make their cars. Because they make fewer cars, they begin to lay-off workers. And the workers now cannot afford to be the consumers they once were, because they have now lost their jobs. Those who bought homes or cars on credit can't pay their mortgages and so have to abandon their homes or cars to the bank or financial institution that gave them credit. And the knock-on effect goes on until it permeates the life of every individual dependent on his salary,

