

# PANIC BUTTON

Take a deep  
breath and  
don't run for  
the door

**R**EADING AN ACCOUNT of the Great Fear, or *Grande Peur*, that swept across France in July and August of 1789, I was struck by the description of what triggered the French Revolution: "economic concerns, rural panic and the power of rumour".

With the BSE Sensex 'tanking' on the day this column was written – I would call a 2.5 per cent decline a fall, and avoid verbs like tank, plunge, or crash – it is remarkable how similar the reasons for India's blue funk today are. Although we are reminded every day that India is the fastest growing economy in the world, the NBFCs crisis triggered by the IL&FS collapse is only the scum on the surface of a pool of problems.

Our current-account deficit is very likely going to breach three per cent of GDP. Our trade deficit is widening. The government is desperately raising import duties. Central bankers and ministers speak soothingly but few people believe them. The rupee is about to hit 75 to the US dollar. Farmers are in full cry on their wretched lot despite higher procurement prices. And there is no shortage of panic-inducing rumours – all you need is WhatsApp and a febrile imagination.

The BSE Sensex has fallen 10.8 per cent from its lifetime high of 38989.65 on August 29 to end at 34760.89 on October 10. Foreign portfolio investors (FPIs) have been running for the doors – they sold a net Rs 21,000 of stocks and bonds in September, after dumping Rs 61,000 crore in the April-June period.

What is spooking the markets? Globally, escalating US - China trade tensions, the fallout from tightening interest rates, rising commodity prices and crude oil nudging \$85 a barrel are knee-jerk causes. At a broader level, there is a retreat from globalisation and a rising tide of populist but short-sighted policies in many countries.

Rising bond yields are setting off a broad sell-off in stock markets everywhere. The Dow Jones Industrial Average lost more than 800 points on October 10, its

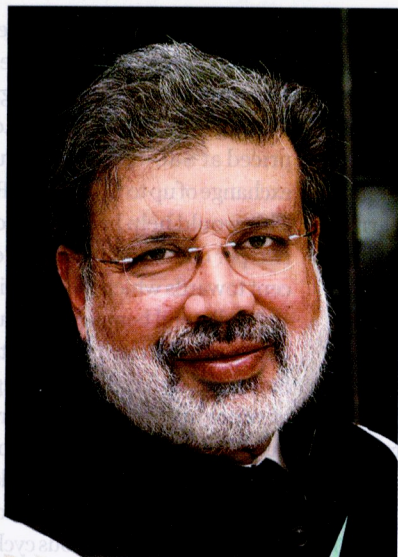
worst day in eight months.

The IMF's latest World Economic Outlook takes a rather sombre view of what lies ahead. You would think that 10 years after the Lehman Brothers collapse brought the world economy to the brink of meltdown all of us – investors, banks, policymakers and politicians – would have learnt some tough lessons. Instead, the IMF noted, most emerging economies have higher levels of corporate and sovereign debt, making them more vulnerable to shocks. "With geopolitical tensions also relevant in several regions, we judge that, even for the near future, the possibility of unpleasant surprises outweighs the likelihood of unforeseen good news," said Maurice Obstfeld, who is retiring soon as the IMF's Chief Economist.

He will be succeeded by the Fund's first woman chief economist, Harvard professor Gita Gopinath who, we are reminded reassuringly, has authored some 40 research articles on exchange rates, trade and investment, international financial crises, monetary policy, debt, and emerging market crises – in short, the gamut of headwinds India is flying into.

India's GDP is seen growing at 7.3 per cent in 2018-19, rising slightly next year and then at 7.7 per cent in 2020-21. In oil-producing Venezuela, GDP is seen shrinking by 18 per cent this year, and inflation at 1,370,000 per cent. We should count our blessings. **BW**

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