No question about it. I think we have to be very complimentary of the regulators, the politicians, and indeed the banks for coming together as cohesively as the head in the fourth quarter, fourth quarter of O eight that is. Ah, and there is no debate about the fact that the world looks in much better shape today.

I would have said that very much that to be the case back in November December when economy markets were making new highs, credit spreads particularly were very tight, but certainly over the last three to four weeks if you have seen there has been actually significant correction. Most sees there now nine or ten percent of their highs, credit spreads have widened again. We have had this very well publicised asset of travails with government bond markets. I would say that over-confidence tag has come away.

Good question Shaili, because there are three questions hanging over us. The significant long-term question which is an exit from this unprecedented amount of monetary and fiscal injections that have taken place. That is a longer term question. The timing on that can be debated fourth quarter this year, first quarter next year.

I think the lessons of 1929 and the lessons of Japan are being heated to very closely by most regulators and policy-makers, so the chances of a type I error, which is a premature exit, are lower than the chance of a type II error, which is a delayed exit. Which in term and time will have its own predominantly inflationary consequences.

and for deficits of course. But two other questions, which I think are more eminent factors hanging over us: one the price we have had to pay two significant costs to engineer this recovery. One: private indebtedness has been transferred over to government indebtedness, which is hanging over us, the problems Greece is facing are now well publicised.

The numbers are very clear. And I think if you read what most analysts were talking about for the last year, the analysis of the size of government bond deficits as a function of the underlying economies are have insic of a source of worry for a while now. The speed has got the markets a bit by surprise. But it might be, and I think we will work way out of this.

The answers well What the TEXTBOOK gives you the Governments have to cut spending and raise taxes. The problem now, which is the third question which I alluded to earlier, lies in the political willingness of people to accept that. Which is not going to be easy.

That is a question hanging over the markets right now, no question about it. And I think the source of worry is precisely that. That governments are not able to fund these deficits prudently. If government confidence, or sorry, markets confidence in government bond markets get shaken, that could be a source of tremendous.

Ah, not really. If you look at the big economies in the bigger countries - the U.K., the US -, government bond options are still taking place with great confidence without a problem. And those are the really significant afficets.

Could there be a domino effect if Greece would actually default? Yes, indeed. But I think that is well understood by the other countries, particularly in Europe. And so I am reasonably confident that a solution will be found. Greece represents a real challenge for the European Union. There is no question about the fact that the Greece problem is a serious one. And its ramifications for the Euro and the European Union are significant. No one knows exactly what that solution will be. But I have a feeling that there will be a European solution that will be found and it will come from the other member states helping Greece directly and indirectly to solve its problems. Because were that not to happen – ramifications for the euro and for the possibility of there being a cascade to other countries is significant.

Levels of indebtedness in the UK are far higher, that is that is true. In fact, among the 20 countries I believe the UK might be right on the top for an indebtedness standpoint. But the UK could still manage to have someone deal with its own currency, which is a key difference. So the UK solution will be a domestic solution. The Greek solution needs to be done within a context of a broader area.

Yes. Banks are facing a separate challenge, Shaili. The banking challenge really is a regular tripolitical banklash ah from the of in the fourth quarter of 2008.

I hear a lot of it. I was in Davos two weeks ago and there was a crescendo there. You pick up the newspapers every single morning in the west, more so than in India. I was pleasantly surprised over the last two days to find that the headlines talk about things other than greedy evil bankers, which is a bit of a relief. I think with all with all honesty, there is no debate about the fact that banks did make mistakes.

No, sometimes, I think, all people can be greedy and evil. But the universal consensus that is, that seems to be forming around bankers, I think, is a tad over that.

I think there were two factors. One: there is need for general reform. There is no doubt about the fact that risk management practices of many banks were found wanting. The total amount of capital that was set aside versus the amount of risks banks were carrying was inadequate. Banks needed to be overhauled. Banking regulation needed to be overhauled. That is a very genuine process, it is a painful process, it will mean banks have to go through a long and difficult period.

Banks have actually made tremendous progress on their own behalves. There is no doubt about the fact that the fourth quarter experience was traumatic enough for most banks, that you have seen an incredible amount of change in the year 2009. Bank bound sheets gotten have been cut in half, capital has been raised, bonus practices have been overhauled dramatically, risk management practices have been overhauled. In most banks senior management has been overhauled. So, the fact is, to say that this industry has not gone through a change would be a complete mistatement. Clearly, politicians can, I guess, make people feel that change is not sufficient and more needs to be done.

The super tax issue. Well, a lot has been written and said about it. The critical question would be: Is this a one off tax or indeed, is this tax here to stay? We are being assured by the government in print and privately as well that it is a one off tax. And if in fact it is a one off tax then many advantages that London enjoys overwhelms the financial impact of this tax. If, however, London chooses to impose a tax unilaterally – and I think, France was the only other country which join suit – well, then clearly that will affect at the margin of its competitors.

I think it is going to interplay two as I said at the beginning of this interview. Three factors, one we talked about, which is a potential of an exit down the road. The markets are very concerned about that. Short-term impact will serve overwhelm markets at some point, and the third which we have not talked as much about which is a political backlash which came from taxpayer money being used to engineer the bailout. You know taxpayer money being used to engineer a bailout, and on top of that now governments need to cut back on services in the west and raise taxes. It is a very difficult time.

So, Shaili, off the peak we go back to 2007, pre-crisis somewhere 2007. The indian economy has lost approximately three percentage points of its growth. At the best I think we were growing ten, ten and a half percent in this country. That growth rate is now seven, seven a half per cent. Inflation, on the other hand, has been cut in half. So if you take a look at just those two statistics, a slightly more moderate pace of growth but with a clear control of inflation, India actually comes out of this a net winner from the crisis.

I think we have to take great heart from the fact that the Chinese Central Bank has started to show some real circumspection around monetary supply and around the possibility of there being too much liquidity in the system. I am surprised markets found that to be a negative. I personally took great heart from it. It shows a great deal of circumspection and caution around precisely that issue. Chinese banks are in good shape, typically which we have to worry about is a nexus between the real estate sector in the country and the banks that lend against it. I am not as concerned.

This inflation does not wear its ugly head again. I am not as concerned about choppy higher rates choking off Indian growth. Our economies are predicting a fairly sustained seven, seven and a half percent. Six to eight percent growth rates in India for the next two to three years with contained inflation. Which by the way for markets is a wonderful story. You would much rather have that as a backdrop than very high growth with very high inflation, because that always has the specter of our interest rates as you said which in the end would then choke off.

The real source of worry for India has to be energy inflation even more than food inflation, because India in the end imports a lot of its energy. And that can be a real factor which can choke off growth in this country. And the fact is that a few percentage points are being taken off global growth, and even Chinese growth slowing down takes some of the heat off commodity inflation and particularly energy inflation which I think is a real boom forever.

The outside inview in India is that India is uniquely positioned. There is such a buzz around the whole emerging markets story again. Because of the fact that we talked about earlier. Growth in the west is going to be very slow, western investors are looking for emerging market growth. Their concern with emerging markets is their own countries, that there is the least gap towards western exports. And India from that standpoint is in a tremendous position.

It will, there is there is no doubt about that and and positively ideally, as you have got a country which has got high savings, it is got a need for infrastructure investments. And it does not need to turn to the west for either capital or as an export market. So you have got self-sustained prospects within the country, which is a very attractive proposition for western investors.

India is linked to the global economy. I mean at no point am I suggesting that India will be in a cycle of its own. The point I am making here, Shaili, is a differential story again versus other indices that India has outperformed and will continue to outperform.

So giving an international perspective back, interested in looking at the rest of the world. So I think after an 18-month-period where there is been a fair amount of introspection, not the least because few of the Indian corporate venturings overseas clearly ran into increment business cycle and were challenged by it. The others withdrew to an extent. On this trip, and the last one that I had back in October, sense I am getting is that Indian corps are back confident again. There is tons of cash in their balance sheets, that is some story I am hearing across the board. And they are back looking pretty aggressively.

Any time you make acquisitions at what turns out to be the peak of the business cycle in hindsight you can say that that was a mistake. Ex ante I think it is a very harsh judgment to look at it like that.

Well, it was a logical thing to do. I think to deliver an exposed judgment on that would be somewhat unfair.

I think it is a story that has to be analysed one culprit at a time. But there are many that have a real opportunity right now.

I think the energy and oil sector in particular is one where I think there is a real opportunity, but I think there are other sectors as well. And again I think it is a combination of very strong cash positions and differential equity premium which Indian corporates enjoy and that will make a possibility, sorry, this is just one of the things which I will point out. I think the possibility of there being a currency opportunity as well is one which could really trigger this over the next twelve to eighteen months.

No doubt about it. I think what we will be chatting a year from now, certainly two years from now, we will look back and we will recognise transactions that were every bit as significant if not more significant than the ones we saw in 2007.

Indian banks have actually come through this crisis remarkably well. Real cudos to the Reserve Bank of India. I think the restrictions that kept a very high leverage of consumer debt from growing too rapidly and also to bank lending into the real estate sector have proven to be very wise decisions. And that means that Indian banks have weathered this crisis in much better shape, not just compared to western banks but other Asian banks as well. So the Indian banking sector and the financial sector in general all include insurance companies there as well is in very good shape, which means that high savings rate which India enjoys has been abandoned to capital veer banks in a very efficient way.

Insurance has been open for a few years now, you have got a number of global players.

Oh no question about it. I mean if you are asking me the question that is a liberalisation question, yeah I would undoubtedly be in favour of that.