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REVIEW ARTICLE

GLOBAL FINANCIAL CRISIS AND ITS IMPACT ON INDIAN ECONOMY

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ABSTRACT

Globalization has ensured that the Indian economy and financial markets cannot stay insulated from the present financial crisis in the developed economies. Global financial crisis is commonly believed to have begun in July 2007 with the credit crunch. The credit crunch may have its root in the US but now its global problem. The impact of this will be three fold: the element of GDP growth driven by offshore flows will be diluted; correction in the asset prices which were previously pushed by foreign investors and demand for domestic liquidity putting pressure on interest rate. India should quickly focus on alternative remedial measure to limit damage.

INTRODUCTION

Global financial crisis is commonly believed to have begun in July 2007 with the credit crunch. The credit crunch may have its roots in the U.S., but now it's a global problem. It caused liquidity crises when the US investors lost the confidence in the value of subprime lending. It resulted in the US federal bank pushing a large amount of money in to financial markets. By September 2008, this crisis had affected negatively around the world, stock markets crashed and it became highly volatile. Global financial crisis has impacted on all the developing countries. The world GDP growth which already projected by IMF to slow down by 5% and also global GDP per capita slipped down. Global financial crisis has not left the ASIA resilient. India also affected by this global financial crisis. Its GDP also slipped down in the last quarter of year 2008. For this purpose RBI took necessary steps was raising the interest rates until August 2008 with the objective of handle the economy and the GDP rates. This paper attempts an analysis the origin and causes of Global financial crisis and its impact on the Indian Economy.

Origin of Global financial crisis

The US and the global economy have been and continue to be in serious crises and the global recession is the worst economic downturn since the great depression of the early twentieth century. The global capitalist economy is going through the deepest crises since the great depression of 1929 and this signals serious challenges for the global capital. Since 1990's deregulation of the financial markets under it the risk pricing replaces prudential supervision, bank loans replaced the bond etc and the rise of derivatives 'assets' with opaque market. After 1990 the US house prices fall down negative and in 2008 after the credit crunch the prices more fall down as compared to the year 1990. In 1992 in UK when mortgage bubbles are familiar with obvious potential costs and join recurrent bubbles in past decades. But this is by far the most serious systematically because it threatens the global banking system itself as creditor and whole US electorate as debtor. The periodic crises resulting from the capitalist business cycle now unfolds at the global level. The current financial crises of world economy is an outcome of the consolidation of the economic power that the globalization of capital has secured for the transactional corporations, this has to led to a string of problems associated with the financial, real estate, banking, and productive sectors of the economy that have triggered the current economic crises.

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Global financial crisis enter a new phase

Global financial crises enter a new phase can be marked on august 9, 2007. The last four years have seen five stages of the global financial crises on 9 August, 2007, 15 September 2008, 2 April 2009, 9 May 2010, and 5 August 2011. From the subprime lending to downgrade the five stages of the most serious crises to hit the global economy since the great depression can be found in those dates. Subprime lending had spread from inner city areas right across the US by 2005. By then, one in five mortgages were subprime and they were popular among recent immigrates trying to buy a home for the first time and the poor. These mortgages had a much higher rate of repossession then convention mortgage because they were adjustable rate mortgages. Payments were fixed for two years and then become higher and linked to feed interest rates. Which also raised substantial? A wave of repossessions is sweeping US as many of these mortgages reset to higher rates. As many as two million families will be evicted from their homes as their cases make their way through the courts. In the global financial crisis the collapse of Lehman brothers on September 15, 2008 marked the beginning of a new phase. Governments around the world struggled to rescue giant financial institutions as the fallout from the housing and stock market collapse worsened. Many financial institutions faced the serious liquidity issues. In 2008-09 the newly formed G 20 group of developed and developing nations took co-ordinate steps in an attempt to prevent recession turning in to a slump. Interest rates were cut, variation in the size of fiscal stimulus packages announced and electronic money created through quantitative method. For this, when the global economy was changed then the global co-operation started too disintegrated as individual countries followed their own agendas. In 2009 the US Government proposed for federal spending of around $ 1 trillion in an attempt to improve the stage of financial crisis.

Causes of Global Financial Crisis

There are several causes of the Global Financial crisis. Many people think that the housing collapse in the United States is commonly referred to the Global Financial Crisis. US and other European countries enjoyed the boom in the prices of houses since the early 1990's to 2007. People believed the prices of house never fall. They lend the money from banks for purchasing the house. It raised the concept of Subprime lending. This was the biggest financial crisis. As an indicator of this huge borrowing the ratio of debt to GDP of US business, household and Government increased as 160% in 1982 to 320% in 2007. Huge increase in borrowing motivated by financial innovation and helps to reduce and transferred the risk by borrowers. The US government announced the $700 billion rescue plan which was failed to pass by the some members of US congress who objected to use this massive amount of the taxpayer money being spent to bail out the investment bankers that was the reason people may believed that it was the cause of Global Financial Crisis.

Impact on Indian Economy

This study is related to the Global Financial Crisis and its impact on Indian Economy. During the Global Financial Crisis Indian Economy has been facing the major challenges. Global Financial crisis has already affected the Indian economy on various fronts like as fall in share prices, fall in rupee value, impact on exports, and fall in Forex reserves, FDI inflow, job loss, economic growth and impact on the various industries.

- **Information Technology:** Global Financial crisis has affected the Indian software industry. US banks have running relations with Indian IT industries. Around 30000 Indian jobs impacted by the US financial crisis. Approximately 61 % revenue of Indian IT sectors are from United State's financial corporations like Bank of America, Goldman Sachs, Citigroup, Lehman Brothers etc. IT companies may face hard days ahead. Between 1999 and 2008 the share of US financial services as a % of total revenues for the top 3 Indian players thus went up from 25 to 38%.
- **Impact on Indian Banking System:** Global Financial crisis have adverse impact on the Indian Banking Systems. Indian Banks are financially sound and well capitalized and regulated. At the end of the march 2008 the average capital to risk weighted asset ratio for the Indian banks was 12.5%. Indian banks were not much affected by the US financial crisis. They have not experienced that kind of losses and that the bank in Western world have faced. Indian banks are better protected by the financial meltdown because of the batter role of the nationalized banks. Banks in India follow the strict regulations and conservation policies which are adopted by the RBI.
- **Impact on Employment:** there is increased in unemployment after the Global financial crisis. Industrial sector is adversely affected by the global financial crisis. It has effected on employment. The employment in various sectors like as textiles, automobiles, transport, IT sectors etc. went down from 16 million during September 2008 to 15 million during December 2008. With this increase in unemployment the gap between the poor and rich will be increased. All these will change the job market position in India.
- **Export:** the adverse impact of the Global Financial crisis on export. Decline in the export growth may critical affect the Indian economy that is export oriented. In October 2008, India registered its first year over year decline in export following of 35% growth in the previous 5 months. Indian shipments declined 33.3% in March. It is the biggest fall since last 14 years. In April 2009 the goods exports dropped by 33%. Asia is suffering from the domestic as well as external recessions. In India the export total share in GDP is near about 20%. Export growth has been negative after the Global financial crisis.
- **Investment:** in India after the Global financial crisis the investment in healthcare, tourism and hospitality is slow down. The adverse impact of Global financial crisis on investment. The capital inflows in to the country will slow down.
- **Stock Market:** The impact of Global Financial crisis on stock market was not so good. Foreign institutional investors pulled out close to $10 billion from India, capital market fall down with it. The prices of shares have fallen by 60%. The immediate impact of the Global financial crisis has been felt when India's stock market started declining. On 10 October, Rs. 250000 crores was worn out on a single day bounces of the India's share market. In the stock market the sensex lost 1000 points on that day before regaining 200 points, an intraday loss of 200 points. This withdrawal from the India's stock market was mainly by foreign institutional investors and participatory notes.

Conclusion

Global financial crisis is the biggest financial challenges to the world economy which is started in US. The Global financial crisis is already causing a considerable slowdown in most developing countries. India is witnessing a mixed result with respect to its growth prospects in the wake of the global economic downturn. Real GDP growth has moderated to 6.6% and is projected to grow at same rate in 2009-10. India's strongest economic growth in the last decade combined with the population makes it one of the potentially largest markets in the future.

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