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ORIGINAL ARTICLE

FINANCIAL CRISIS MANAGEMENT IN INDIA

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Abstract:

It is also time for the Reserve Bank of India (RBI) to begin steps to make possible liquidity in the economy as the commercial banks are finding it tough to meet real credit requirements of industry and trade.

KEYWORDS:

Financial Crisis Management , Reserve Bank of India (RBI) , US economy .

INTRODUCTION:

The financial crisis in the US, the most horrible since the Great Depression of 1929, is intimidating to reach serious proportions. The fall down of the big five financial gigantic on Wall Street like Fannie Mae, Freddie Mac, AIG, Lehman Brothers and Merrill Lynch with revenues totaling about $322 Billion in 2007, followed by two of the major banks Washington Mutual and Wachovia that has sent distress waves in the form of global financial securities industries.

GRAVITY OF THE CRISIS

The gravity of the financial crisis that has struck the US economy can be measured from the fact that the cost of the liberators of these financial giants to the Federal Reserve and Treasury Department has been expected at close to a Trillion Dollars (equal to India's national income). According to some analysts, the total cost on this count up could go upwards to $2 Trillion as the financial disorder is not likely to end anytime soon. Most of these banks had created debts to the tune of 30 - 40 times their equity against the prudential standard of not exceeding 10 times.

According to some estimates, the derivatives trade had risen five times between 2002 and 2007 to go above $500 Trillion, so making this 'shadow' economy approximately ten times more dependable than the material economy of the World. Later on an anxious week and protracted debate, the US Congress on October 3, finally passed the $700 Billion financial post security plan to head off a major national crisis. Thus far, still after the permission of the post security enclose, the stock markets, world over, have plunged further as the idea of uncertainty remains. The financial disorder is fast opening to Europe, whose savings are also exhibiting signs of slipping into a place, and the undulation effects are leaping to experience some unpleasant effects on the rest of the space, including China and India.

IMPACT ON INDIA AND CRISIS MANAGEMENT

The RBI has been forced in liquidity into the system and local banks have been borrowing at least Rs 70,000 Crore on an average over the past 3 weeks under its liquidity adjustment facility (LAF). Yet so, liquidity has been ventilated.

Recently, the Asian Development Bank (ADB) down - scaled the growth estimate of many Asian

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economies, including India's.

The ADB featured this to the deteriorating weather in major industrial economies that will turn down demand for commodities and services. "The myth of disconnection has been exploded", the account rank.

India's GDP growth for the current fiscal (2008-09) has been demoted from 8% to 7.4% and, for the next fiscal year (2009-10), from 8.5 per cent to 7 per cent.

ADB in a straight line states that "very large fiscal inequality created by the current stage of subsidization of oil, fertilizer and food, as gladly as other off-budget items, sets an intimidating project for economic management". With the financial disorder in the US and Europe showing signs of corrosion and if GDP growth in India turns out to be even lower than that expected by ADB that just around 7% or so for the current fiscal. In line with the declining capital markets across the globe, which have previously wiped out an investor wealth of over $10 Trillion this year thus far, the Indian stock market has observed an unmatched fall over the past few weeks. Non-surprisingly, Foreign Institutional Investors (FIIs) have been plucking out of the fund market in an vast manner, corporate borrowings from the international marketplaces are becoming more and more hard, putting up money for new investments through public issues is on hold, and liquidity in the economy is fast drying up.

Plentiful concern exercised by the former RBI Governor, Dr Y. V. Reddy and going slow on opening up new composite financial products helped to cut off the country's from a major financial crisis. Abiding by the sub-prime crisis in the US over a yr ago, his move toward was cautious on all fronts — whether in allowing the hedge funds to invest in Indian equities and real estate, better Foreign Direct Investments (FDI) in the banking sector or permitting extreme capital inflows. Dr. Reddy has received greetings from a number of experts, including the Chief Economic Advisor, Dr Arvind Virmani. This is, of course, not to point out that India should not move in front with financial sector reforms but such reforms should be escorted by prudential standards, efficient dictatorial systems, and above all, fixing to healthy capital competence norms.

The ongoing disorder in the banking and financial sectors worldwide, have methodically exposed the insufficiency in the system to tolerate massive losses, only because of the deficiency of a sound risk evaluation and management arrangement and a considerable capital base to contain on the impacts of these losses. In the interim, the growing trade and current account deficits following a vertical climb in oil and non-oil imports, delay in capital inflows and services exports, call for suitable policy reply. Understandably there is a demand to run slow on capital account convertibility and it is also time for the RBI to begin steps to alleviate the liquidity circumstances in the economy as the commercial banks have been finding it stiff to satisfy the authentic credit requirements of industry and trade. In a straight line, welcome measure, has announced a 1.50 basis point cut in CRR from a record 9% to 7.5% to infuse Rs 60,000 Crore into the system but it is enough. An additional lowering of CRR as well, some reduction in the repo rate will be in order not simply to impart more liquidity, but likewise to bring down interest rates to get sure that the growth of the economic organization is not retarded. For, at that place is already evidence that the relentless money tapering by the RBI for pretty close to time to restraint in inflationary pressures has been hurting the growth prospects of the economic organization.

Effects of the US Financial Crisis in India

When the US sneezes the rest of the world caught a cold. During the Great Depression, there was no work and there was extensive poverty, and people resist through the winter with no heating and food. In the US, August 2008 unemployment statistics were at 6.1%, according to the US Bureau of Labor Statistics. In the Great Depression unemployment was higher than 25%. The Commerce Department reported that GDP growth was at 2.8%, barely analytic of a recession; although this was amend down from the 3.3% figure it projected a month ago. Even before this controversial liberate plan was shot down; Indian grocery stores took a jump on their own on. The stock market sinks to an 18-month low and the rupee a 5-year low. The stock market lean-to 5.3% to 12,595.75. According to Business Standard, vice-president of Karvy Stockbroking Ambareesh Baliga, said, "We are advising our customers to stay aside from trading till selling by FIIs stops. Likewise, in that respect is no support to the markets from any domestic institution. While markets are below their fundamental levels, fear has gripped investors and there is panic selling." While US investors and consumers are worried about who will foot the bill for this $700 billion plan, to Indian and non-US markets that does not matter. They just want it to take office so as to reinstate confidence. The first major period of anxiety is that the US rescue plan will directly be in 3 tranches of $250 billion, then $100 billion and finally $350 billion and the second and third tranches will need further congressional authorization. This means, effectively, only $250 billion is directly available for buying anxious assets of banks in its place of $700 billion outright and this acts not solve the problem of liquidity. Crowds gathered outside the Bombay Stock Exchange to watch the markets free fall, with many investors annoyed.

Agreeing to some analysts, the total cost on this count could go upwards to $2 trillion since the financial disorder is not likely to stop anytime soon. Most of these banks had created debts to the tune of 30-40 times their equity against the prudential standard of not exceeding ten times.

According to some estimates, the derivatives trade had grown-up five times between 2002 and 2007 to exceed $500 Trillion, therefore making this 'shadow' economy almost ten times bigger than the real economy of the world. After a stressed week and protracted argument, the US Congress finally passed the $700-billion financial bailout plan to head off a major internal crisis. However, yet after the mandate of the bailout package, the stock markets, world over, have sinked further as the impression of indecision remains. The financial confusion is fastest opening to Europe, whose savings are also exhibiting signs of slipping into a place, and the undulation effects are bound to experience some unpleasant effects on the residue of the universe, including China and India.

60 years young India, having a GDP that is touching 9%, is tomorrow's economic superpower. With all its companies doing politely well, the Indian Share market has become a spicy and a preferred goal of investors. Liberal economic policies, an ever-growing GDP, and relatively less competition all these agents are pulling the potential investors. But these elements are certainly not the only factors account for the unexpected boom in the number of NRI investors in the Share Market of India. There are other factors as well that has given big reasons to NRIs to start investing in India.

India is identical with the word "resilience". The people are pliant in catastrophe and thus are the Indian market. While the world was considered the US securities industry, India, after initial jitters, was back on her feet soon. This is because the Indian grocery store, still in its early years, has not, unlike the American market, become a sunshade market taking all the major economies in its close. Investors are still coming in on this growing market. The flexibility is mirrored in the fact that since the rehabilitated economic policies of 1991, the economic growth rate has hit new heights.

Ex-PM Dr. Man Mohan Singh liberalized the economy, the two sectors that were rather left i.e. Agribusiness and infrastructure. FDI has turned out to be an advantage for the Indian economy, while the invasion of FDI has become less in the recent times, they persist benefiting us enormously. India is even so a developing rural area and a ground of many needs. FDI helps us assemble our units as it not only augments capital, it also brings with it improved technology, products, services and so on and it also creates an extent for employment. This, of course, leads to larger productivity and competitiveness, which in turn results in a better standard of living, higher income stratum and more investments.

Business Process Outsourcing, a growing craze in India, Business Process Outsourcing (BPO) is, in general, measured to be a claim center. But there is more to this global outsourcing explosion than just BPO. These include research and evolution, manufacturing of various machine parts etc. And this is mostly due to the expansion in the assurance in India's skilled labors and its powers. Once more, as is the case with increased concentration in agriculture and infrastructure, and FDI, outsourcing is people-oriented, resulting in more reputable living standard, raised income and higher investments.

India holds a strong domestic consumption, since the greater part of the Indian masses come in the "acting class" group, they are definitely profiting from more specialist paychecks. According to McKinsey, the number of households taking in an ordinary yearly income of US$ 10000 is increasing by 20% per annum. The corporate world has come out as ace of the strongest industries. It is said that the Indian economy is entirely set to benefit in the long run from the cultivation affluence and the willingness to spend of the Indian masses.

The Securities and Exchange Board of India (SEBI), along with the RBI, regulate the market capably. Be it anything of Indian stock markets: mutual funds, Indian stocks, NRI demat account deposits or life insurance, the Indian Share market has arrived all along the global program. NRI demat account deposits or life insurance, the Indian Share market has arrived on the globular level. Equalize measures, countless choices, no major liquidity anxiety for the investors and better investment opportunity – all these, jointly have made India a favorite among all.

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