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Financial Crisis : An Indian Experiences

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Abstract: In current times, the process of globalization is inevitable whether the country is developed, developing or less developed. Globalization deals with an increasing global connectivity and integration of the international market. Naturally, states are aware of adverse and favorable effects of changes in global economic conditions. Although a financial crisis looks like a more current phenomenon, it has a long history. But it is not that easy to say since when financial crisis really began. 'Global Financial Crisis' has become an important issue in the discussion of researchers, academicians, students, media and politicians. It is a huge challenge for the government and central bank of developing economies. World economies linked through various types of financial relations. The fiscal and monitory policies have an important place in the economy. On the background of global crisis the role of government and central bank became very difficult. The government and central bank have to execute their strategy very carefully. This paper is an analysis of various aspects of global financial crisis. The same paper evaluates the global financial crisis, falling of currencies, consequences, lessons and measurements of main developing economies. However, the experience of financial crisis to India is at the center place in this paper. In order to find out the answer of queries and objectives the present work used the secondary database research methodology. The findings are useful in the unavoidable process of international market integration. The present paper divided into four major parts. The **first** part will clear the story of global financial crisis and objectives. **Second** part indicates the experience of major developing countries under the influence of global financial crisis. **Third** part emphasis the consequences on Indian economy and adopted measurements by the government and central bank. The **fourth** part concluded the paper with some constrictive notion on the backdrop of global financial crisis.

JEL Classifications: E5, E6, E44, F01, F36.

Keywords: developing economies, financial crisis, globalization, India, measurement.

1. Introduction: A Story of the Global Financial Crisis

The global financial crisis has become huge challenge for the policymakers. The financial crisis has become unavoidable part of the world economy while financial systems have an important place in the world economy. An innovation in communication diminishes the gap between two nations. Indeed, any financial crisis in any nation could be a cause of failure of another economy. The global financial crises 2007-8 have created enormous trouble for the developed and developing world. It is still not ended, circa five years over. Slowing in global economy and billions of losses become major features of this crisis. Global financial crisis resulted in the collapse of many financial institutions, increases in CAD, problem of recession, unemployment, inflation and increases in fiscal deficit. Many economists consider it is a most horrible crisis since the 1930s great deprecation. Many causes are responsible for such financial crisis. However, main cause is the collapse of U.S. housing market. Nonetheless, it is not new phenomenon because the economic histories provide evidences of financial crisis. Latin America debt crisis (1982), savings and loans crisis (1980), stock market crash crisis (1987) Junk bond crash (1989), Tequila crisis (1994), Asia crisis (1998), Dotcom bubble crisis (2000) and Global financial crisis (2008) all these occurrence clear the history repeat itself. Many aspects of these crisis repeated again and again with adverse outcome for the various parts of the world. The major difference is intensity and place where the crisis occurred.

On this backdrop, it was realized that there is a great potential for undertaking research in the area for global financial crisis in developing countries in the perspective market integration.

Objectives:

i. To explicit the history of financial crisis.

ii. To assess the economic factor of developing economies' in global crisis.

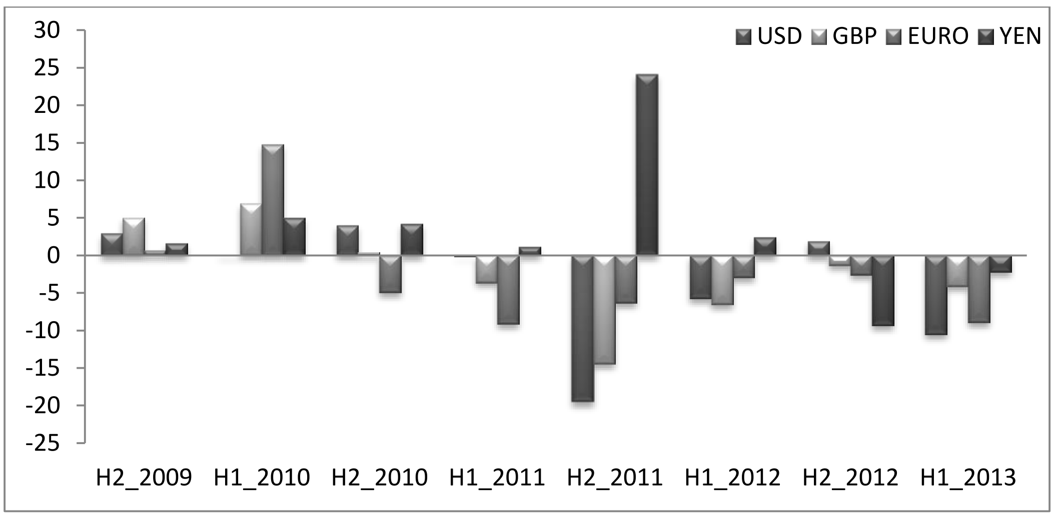
iii. To understand the effects on developing country particularly India.

vi. To make constructive conclusion on the backdrop of global crisis.

2. Emerging Markets under Global Crisis:

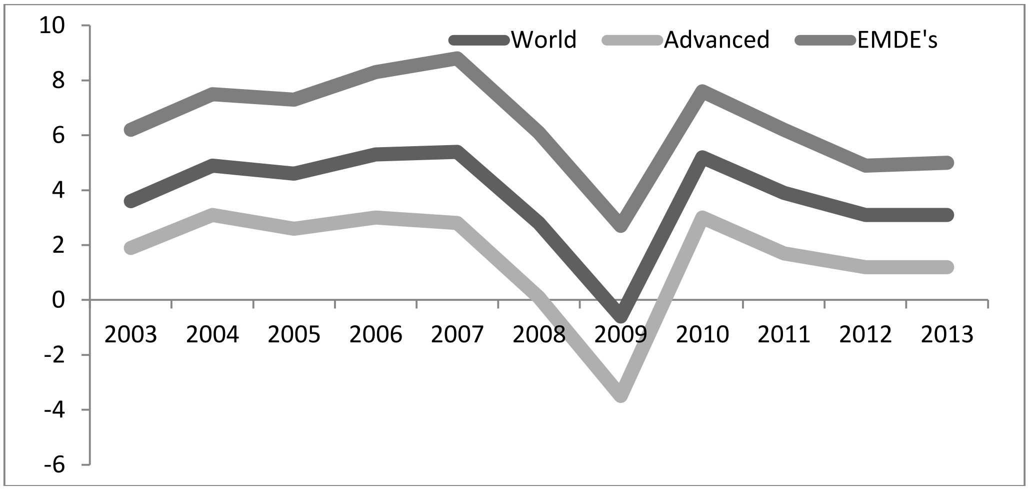
The falling value of domestic currency to dollar is one of the impact factor of financial crisis. Most of the developing economies could not maintain their currencies value against dollar. The Indonesian rupiah, Brazilian real, Argentina peso, Turkish lira and South African rand fail into sustain their currencies value against dollar. Currencies of all these economies came under the pressure of dollar. However, the rupee has terribly affected in this crisis as compare to other emerging market. The rupee had been lost over 20 percent against the dollar since the beginning of financial year. This is the worst hit of shining dollar to rupee amongst other emerging markets. The value of rupee not only declined against US dollar but it declined against other currencies like EURO, YEN and GBP also. (figure 1)

Figure 1 Depreciation of the Rupee (%)



As far as real GDP growth is concerned, the growth of EMDE's (Emerging Market and Developing Economies) reached at 8.1 per cent which is the highest level between the period 2003 and 2013. Advanced countries GDP growth started to decline since 2007, it goes down at lowest level in 2009 as compare to world's and EMDE's growth. However, since 2010 the improvement in GDP growth of advanced and EMDEs could not maintain their pace. (figure 2) Thus, not only advanced but EMDEs also badly suffered during and after the period of global crisis.

Figure 2 Real GDP Growth Rates 2003-2013 (%)



Source : IMF

The global financial crisis has enormously disturbed Asian economies. The falling of Indian rupee record a low, Indonesia's rupiah recorded to the lowest level since 2009 and Thailand is in difficulty of recession. China is one of the major economies of Asia, itself also in trouble of bad loans and Malaysia is facing the problem of low growth rate. The outflow form Asia could be a very serious factor for an individual economy. "The tough challenges ahead for the fragile five, as Indonesia, India, brazil, South Africa and Turkey. The policy makers need to be cautions while measuring tapering issue" said IMF dy. MD Nemat Shafik.

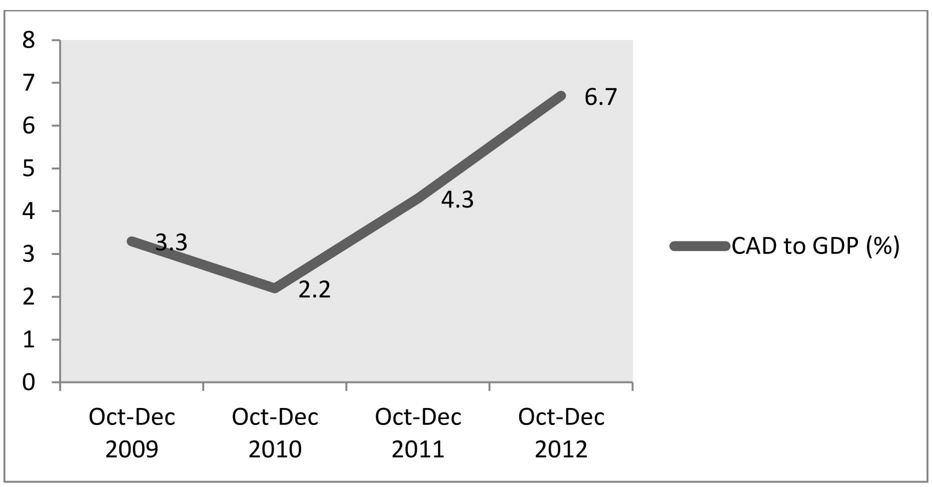
3. Indian Economy: Experience, Lessons and Measurement

India is one of the countries which adversely affected after the global financial crisis. It becomes difficult task for the government to implement decisive policy for the correction of economic factor. The depreciation of rupee has created the major problem in the implementation of fiscal and monitory policy. Indian economy experienced very bad during the period of falling of rupee value. Generally, depreciation of rupee refers the falling value of rupee against the dollar currency. There are many external and domestic factors responsible for the declining in rupees value. In this crisis period of rupee many questions are raised in everyone's mind like Why rupee falling against dollar? What would be impact on Indian economy? How to overcome this problem? When such debacle will stop? The answers of these questions are hidden in the inflation, fiscal deficit, export, import, CAD and other nation's policy. Because all these factors creates path for glooming rupee against dollar. Lack of Manson, government's spending, inefficiency of agriculture, and future expectations are some of the reasons of inflation in India. The inflation rate was recorded at 8.84 percent in August of 2011-12. An increase in the domestic price against other economy particularly US expected falling of rupee value. The huge spends of governments increase the fiscal deficits. Non-productive spending of the government and borrow from the abroad have increased from the government. The fiscal deficit recorded 5.8 percent to GDP in 2011-12. The higher inflation and fiscal deficit badly affects the exchange rate. As far as export and import is concerned, the exports have not increased and imports not declined as much as expected. It increase gap between exports and imports value. India's current account deficit (CAD) stood at 4.9 percent of the GDP in calendar year 2013. The policy of Ben Bernanke (Chairman of the US Federal Reserve) created massive trouble for India in maintaining rupee value against dollar. US Federal Reserve declared their policy; it stopped $85 billion bond buy back program. It was unpredicted decisions of US for the policymakers of emerging economies. As a result of these investors pull out their money from the emerging markets including India. Thus, all these factors led rupee in the darkness of shining dollar.

As a part of measurement against rupee falling government has increased import duty on gold. The yellow mettle is one of the important commodities of Indian import basket. India spends huge amount on the imports of gold. This measurement restricts the imports of gold. But in order to exports of gems and jewelers gold plays an important role as a raw material. As a result of increases import duty on gold the exports of gems and jewelers suffers. In addition oil and fertilizers are the commodities from imports side increases pressure on balance of payments. The process of falling rupee against the dollar increases the price of such commodities so, the deceleration expected in the imports. But unfortunately it has not happened with India. The less price incentive commodities occupy in major proportion of India's exports. Hence exports not increased as expected in the process of falling the rupee. The lower investment grade rating loses the confidence of foreign investor who want to invest their funds in India. The future expectation and low confidence plays a crucial role in the inflow.

From the measurement side exports promotion creates healthy impression for the rupee appreciation. The exemption tax policy can promote the pace of exports. In the deprecation it is expected an increase in the exports but exports not increases which cover the disaster of rupee. It results widen gap between the value of exports and imports. Another option is to impose controls on outflow of capital which helps for the appreciation of rupee. The purpose of governments imposing controls on capital is to curb the domestic individuals and company's interests to invest in gold and overseas. In order to expand exports it would be better to treat exports credit as priority lending sector. Single handed regulatory is another way to control the falling of rupee. It is difficult to control declining rupee due to multiple regularity. The political stability creates confidence in investor's decisions making and attracting investment. As far as India's current account deficit is concerned, it increased after the global financial crisis with 6.7 per cent of GDP in October-December 2012. (figure 3)

Figure 3 India's current account deficit to GDP (%)



The implementation of fiscal and monetary policy not given expected results. However, the restrictions on money supply and import duty on gold have controlled modest inflation or CAD. Most of the developing economies have domestic problems like political instability, religious riots and social security etc. An economic and social problem has creates bottleneck in the expected fruits of policy execution. "Some Asian countries especially, India have their own domestic challenges", said Jim O'Neil, the former economist of Goldman Sachs.

4. Conclusion

In the process of globalization it is difficult to face any challenge at macro level. There is a need to become sound at macro level for developing economy especially who broken due to financial crisis. Not only falling of rupee but other issues like CAD, fiscal deficits, inflation, are also important. In order to overcome these problems there is a need of collaboration between government and central bank. Only R. Rajan or P. Chidambaram could not generate a clear path for growth. No one has a magic wand of truthful or trusts to correct the tragedy of rupee falling. The episode of falling rupee have developed over a years. Obviously it will take more time to correct this economic debacle. The policy of developed world can not be ignored. There is a need to implement policy which is on paper. It is good thing that Indian economy is doing well in the beginning of New Year. The controlled CAD, appreciation of rupee, squeezed imports and growing exports have created hope of rays. The good turn of macro factors will create ability to fight against 'king dollar' or coming financial crisis. However, there is needed to be clear plan by ignoring gain of vote. The voters should know that only food security or subsidies are not sufficient to secure their vote. Nevertheless, it is possible to carry a torch in the slowdown or deprecation of the rupee like Egypt or Israel.

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