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GENERAL
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GLOBAL MELTDOWN: THE EFFECT ON HR

Introduction

The world has suddenly plummeted into a deep economic crisis (called Global Meltdown), the worst ever since the 1930's. It has almost taken all the countries across the globe into its grip. The economic down turn has witnessed various HR practices across global companies. This paper highlights the HR practices and issues in five key areas of human resources classified as 5 Rs – Recruitment, Results, Rewards, Retention, and Retrenchment.

HR functions at the Cross-Road

Recession has brought an era of gloom and doom for HR and in the present scenario it is buzzing with terms such as layoff, cost-cutting, right-sizing. The human resource management sector is facing a huge talent crunch with only a handful of human resource professionals being fashioned every year. India needs 50,000 HR professionals every year. (Indian Management Dec-2008). Tough decisions, like providing sabbatical leaves, cutting down production, reducing bonuses and salaries, retrenching employees etc., have almost become imperative for organizations.

Mrs.R.Vijaylakshmi, Associate Professor &
Mrs.K.Sujatha, Assistant Professor Department of Commerce,
Seethalakshmi Ramaswami College, Tiruchirappalli.

HR Activities and Challenges to Managers

HR Activity	Challenges to Managers
Recruitment	1. Should we recruit people with new skills or train an existing employee for new skills? 2. When and whom to recruit? 3. How much compensation needs to be paid? 4. What benefits need to be promised? 5. Should we offer compensation based on the true worth of the candidate to the company or price the same on the job requirement of the candidate? (Essentially, what is the compensation mechanism?) 6. Should we recruit on the rolls of the company or as a contract employee? 7. Should we recruit an over qualified candidate for a junior position? 8. Should we recruit keeping in mind age, gender and family status of the employee or keeping only merit as criteria (especially relevant as a long term factor in retention?)
Results (Performance Management)	1. Should the organization continue to train existing employees for new skills or recruit from the 'employers market' during recession? 2. What mechanism of handling employees' queries and loss of trust does the company have? 3. What mechanism has the company instituted for handling employee stress arising out of uncertain business economy? 4. Does the HR policy of the company focus on 're-skilling' the employees as per organization requirements to ensure retention? 5. What is the result measurement mechanism prevalent in the organization and does it help the organization to identify stragglers and employees who are drain on company resources? 6. Should we modify our results measurement (appraisal) system to suit the changing economic situation?

Rewards (Compensation Management)	1. Compensation structure-fixed or performance pay? 2. Should we pay higher compensation to retain talent or reduce expenses to help retain more staff? 3. Providing fringe benefits and other facilities to the employees?
Retention (Talent Management)	1. How to recruit the best? 2. How to induct new recruits into your culture for immediate productive contributions? 3. How to manage the growth of your employee through training and education?
Retrenchment (Downsizing / Rightsizing)	1. How do we identify employees for layoffs? 2. How do you balance the motivation of the remaining employees when layoffs are administered? 3. Should layoffs or termination follow only contractual clauses of 3-6 months notice period or provide some financial payment in the current scenario? 4. Should we layoff employees who were recruited recently based on promise and capabilities or employees who have been trained?

Suggestions

Organizational Tool

- ⌚ Layoff is not the only alternative to manage surplus workforce during economic slowdown. Examine other ways of cost cutting like freezing benefits etc,. Lay-off may be the last resort.
- ⌚ Help out of the way to keep them engaged in Training, EDP, Sabbatical education, may be full-time MBA, short-time programs or on-line courses.
- ⌚ Have lots of fun at the workplace to relax the mood as the current slowdown has induced a great amount of anxiety and fear among the employees.
- ⌚ Reinvent policies so that employee's feel wanted and that will improve employee's loyalty.

Tools for employees

Have a positive frame of mind; make a self assessment and introspects "Am I update and do I have upgraded my employability skill".

- Think what value "I can add to the task/organization?"
- Acquire new skills, be multi- skilled and have cross functional exposure.
- A great time to reinvent self, have great time with family.
- Network tactfully, and establish valuable rapport
- Do physically exercise, practice yoga and pranayama.
- Spend more time with positive people and read inspiring books on personality development.

Conclusion

Ups and downs are the basic nature of a country's economy as well as an organization. It must be remembered that there is always light at the end of the tunnel.

WORLD ECONOMIC CRISIS AND ITS IMPACT ON INDIAN ECONOMY

Introduction

The term financial crisis is applied broadly to a variety of situations in which some financial institutions or assets suddenly lose a large part of their value. In the 19th and early 20th centuries, many financial crises were associated with banking panics and many recessions coincided with these panics. Other situations that were often called financial crises include stock market crashes and the bursting of other financial bubbles, currency crises and sovereign defaults. The current financial crisis is the worst of its kind since the great depression of 1930s. It became prominently visible in September 2008 with the failure of several large US-based financial firms. The global financial meltdown has spelt disaster for the world economy in general and for the US and the European economies in particular. But surprisingly when world's developed economies are suffering, the developing countries like India and China are still spending money in many projects.

Economic crisis-Root cause

The current crisis has its roots in the US housing market. A large number of sub-prime mortgages, most originating in 2005 and 2006, are extended in the current economic cycle. Sub-prime mortgages are different from prime mortgages in that the credit histories of borrowers are unwholesome or their incomes are more variable or both.

Given the inherently higher default risk of sub-prime mortgages, the interest rate is higher than on prime mortgages. In recent years, many sub-prime mortgages are offered at below-market rates in the early years of the mortgage with none or little down payments. Consumers took these mortgages hoping that they could refinance them after a few years at an affordable interest rate. On the other side of these transactions, rapid developments in financial engineering allowed mortgages of all types to be packaged into

Dr.K.Govindarajalu, Professor Department of economics
Bharathiar University Coimbatore.

pools and sold as high-yielding securities to a range of investors from third-tier banks to sophisticated hedge funds. Investors received payments as long as interest rates are low and home prices are rising.

Two events that were assumed to have a low probability in a booming market in fact happened: first, interest rates increased and second, home prices began falling. This led to sub-prime mortgages resetting at shockingly high rates, with homeowners missing payments and foreclosing accounts. As a result, banks and other financial institutions holding the mortgage-backed securities incurred losses and had to sell their assets to meet margin calls. The virtuous cycle of mortgages turned sour. Banks and other institutions cut back their lending, not only for mortgage-related activities, but also for other legitimate activities. The credit system that oils the economy stopped working. It also became clear that with mortgage security holders spread even outside the US; this was heading to be a global problem. With this background the impact of global financial crisis on Indian economy has been analysed.

India, like most other emerging market economies, has so far, not been seriously affected by the recent financial turmoil in developed economies. India can obviously take comfort in the fact that the global financial troubles have not, so far, triggered a major banking crisis in India, as they did in the UK and a number of other countries. The following are the major sectors which have been greatly influenced by global economic crisis in our country.

1. Banking and financial sector

On the economic slowdown and its impact on various sectors, both the RBI and the Central Government are trying their best to infuse liquidity and give a stimulus to the economy. They have diluted norms so that companies and businesses facing problems are given certain relaxations in terms of prudential norms and asset classification and a chance to restructure their loans.

The direct effect of the sub-prime crisis on Indian banks/financial sector was almost negligible because of limited exposure to complex derivatives and other prudential policies

put in place by the Reserve Bank. The relatively lower presence of foreign banks in the Indian banking sector also minimized the direct impact on the domestic economy.

The Indian banking system also has not experienced any contagion, similar to its peers in the rest of Asia. A detailed study undertaken by the RBI in September 2007 on the impact of the sub-prime episode on the Indian banks had revealed that none of the Indian banks or the foreign banks, with whom the discussions had been held, had any direct exposure to the sub-prime markets in the USA or other markets. However, a few Indian banks had invested in the Collateralized Debt Obligations (CDOs) / bonds which had a few underlying entities with sub-prime exposures. Thus, no direct impact on account of direct exposure to the sub-prime market was in evidence. However, a few of these banks did suffer some losses on account of the market-to-market losses caused by the widening of the credit spreads arising from the sub-prime episode on term liquidity in the market, even though the overnight markets remained stable. Consequent upon filing of bankruptcy under Chapter 11 by Lehman Brothers, all banks were advised to report the details of their exposures to Lehman Brothers and related entities both in India and abroad. Out of 77 reporting banks, 14 reported exposures to Lehman Brothers and its related entities either in India or abroad.

An analysis of the information reported by these banks revealed that majority of the exposures reported by the banks pertained to subsidiaries of Lehman Bros Holdings Inc. which are not covered by the bankruptcy proceedings. Overall, these banks' exposure especially to Lehman Brothers Holding Inc. which has filed for bankruptcy is not significant and banks are reported to have made adequate provisions. In the aftermath of the turmoil caused by bankruptcy, the Reserve Bank has announced a series of measures to facilitate orderly operation of financial markets and to ensure financial stability which predominantly includes extension of additional liquidity support to banks.

2. Industrial sector:

As every business sector is affected by present global crisis and everybody is talking of slow down in business, still in India there are few sectors which will grow in this adverse situation. *Some observers are of the view that the sharp fall in the month-on-*

month annual rate of industrial growth in August 2008 exaggerates the actual and likely slowdown in the growth.

The most up-to-date evidence on the growth of the manufacturing sector is the movement of the Index of Industrial Production (IIP), which is a lead indicator of trends in registered manufacturing. Annualized month-on-month rates of growth of the manufacturing IIP indicate that growth in August 2008 for industry as a whole and manufacturing in particular were 1.27 per cent and 1.15 per cent respectively. This compares with 10.86 per cent and 10.75 per cent respectively in the corresponding month of the previous year.

3. IT Industry

The Indian IT offshores are facing hard times in getting contracts or replenishing their orders. The crisis in the U.S. financial services sector will have an impact in the short term on Indian outsourcers, as new projects may get delayed. This has impacted the revenue flows and would need a substantial increase in SG&A to ramp up their volumes. In spite of the negative effect of the outsourcing business, there has been relatively lesser impact on the Indian IT growth due to the offsetting effect of the favorable revenues on account of the global IT offshore.

With so much competition brewing up in the market and with debut of a new face every now and then in the Indian real estate industry the real estate players are keeping no stone unturned to toughen their grip in the business, and the size of the property deals in India is expected to expand even more.

4. Job market

It is affected considerably. Companies that are export oriented have started reducing the number of people they recruit every year. Companies have started to tighten the appraisal and performance management process and the low performers have been asked to leave. The hikes that the employees may get seems very small for the next

financial year because all companies want to play it safe and are not ready to commit for high pay budgets for the next financial year.

Conclusion

In summary, by the end of the year 2008/09, the global crisis had taken a substantial toll of India's economic performance but it was by no means catastrophic. Yes, the rate of economic growth had slowed to the 5-6% range in the second half of the year from the 9% average of the previous five years, but it was still much better than the negative growth rates in industrial countries and better than the performance of most significant developing countries with the exception of China.

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Global Financial Crisis- Impact on India

Introduction

Recent high economic growth in India was fundamentally dependent upon greater global integration and related to the deregulation of financial combined with fiscal concessions that spurred a consumption boom among the top two deciles of the population, especially in urban areas, even as deflationary fiscal policies, poor employment generation and agrarian crisis kept mass consumption demand low. The middle of 2008, even before the global crisis really hit India, this process too was reaching its limits. The crisis made matters much worse by causing sharp declines in exports of manufactures and reversal of capital flows such that both current and capital accounts of the balance of payments have worsened. The macro issues have been much commented upon, but the specific impact upon certain groups has been much less widely noted.

Cultivators

The impact of the crisis on agriculture is much more severe than has been recognized. Cultivators in India have already been through more than a decade of agrarian crisis, which persisted even through the period of rising international crop prices.

Migrant Workers

The economic boom of the past decade relied heavily on such workers: Not just in the sectors mentioned above but in labour- intensive services, such as cleaning, maintenance, private security, driving and related services. These were not simply informal activities; many of them catered to the requirements of the expanding corporate sector, and in effects subsidized it by providing a cheap and flexible external labour force. Such workers are now forced either to stay in precariopus conditions in the urban areas, or go back to their places of origin- villages or smaller towns. They consequently change from becoming providers of remittance incomes to their households, to becoming dependents

A.Myilsamy, Ph.D.Research Scholar, Department of Economics,
Bharathiar University, Coimbatore.

of these households, even as these households face more fragile material circumstances than before. Many of those migrant workers for obvious reasons come from the most depressed and backward regions of the country where there is a currently little potential for productive income generation

Home-based Workers

The marginal utilisation of women workers in a manufacturing industry is typically at the lowest and poorest –paid parts of the production chain. Such women workers are effectively deprived of all the benefits that may accrue from outside employment except for the low nominal returns that they received from piece-rate work. Very recent evidence suggested that as export-based industries such as garments face heightened competitive pressure, they pass this pressure on to home-based women workers by reducing the effective rates for piece-rate work.

Food and Agriculture Sector

The demand for cereals remained robust, despite the slowdown. While income elasticity of demand for cereals for the Indian population as a whole is declining and may now be near zero, low-income groups still show positive income elasticity of demand for cereals. Thus, even if average incomes fall marginally, the demand for cereals will not decline, as people switch to basic foods.

The economic slowdown does not appear to have affected investments in the food and agricultural processing industry. The sector is expected to attract fresh investments of over Rs.5000 crores in the next two-three years, according to an industry estimate.

Clothing and Textile Sector

Demand in the lower-end of the market continues to be buoyant, it is not so up-market. In contrast a severe slowdown has been reported from the garment export units in Bangalore, with thousands of workers having been laid off. The sector employs about seven million workers in readymade garment manufacturing – 3.9 million for exports and the rest for domestic market. The market sentiment is very weak. The expected

export performance is thus expected to be only 8.8 billion dollars or about 90 percent of the actual achievement 2007-08. There has been about 25 percent drop in the winter business during April to September this year as compared to the corresponding period of 2007-08.

Conclusion

India will not escape unscathed in the present crisis because its economy has become more integrated with rest of the world over the past decade and half. Overseas finance has become increasingly important for Indian corporate and the drying up of such finance is bound to tell on their fortunes. There is also a broader impact arising from tighter liquidity conditions and decline in stock prices. India's authorities have responded to the crisis with both fiscal and monetary stimuli although the scope for the former appears somewhat limited given India's fiscal position.

The Indian banking sector is well placed to weather the storm because it is not directly exposed to the financial crisis. It faces secondary effects arising from the slow down of the economy.

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THE IMPACT OF GLOBAL FINANCIAL CRISIS ON INDIAN ECONOMY

Introduction:

India with a badly shaken image is headed into tougher times in 2009 to confront multiple challenges; ensuring the security and stability of the nation, navigating the economy through the worst global economic and financial crisis. The global financial crisis is termed as the worst financial crisis in the world. According to Paul Krugman, , "This looks an awful lot like beginning of a Second Great Depression".

Impact of Global Financial Crisis

Before the global meltdown, India's integration into the world economy was rapid and Indian economy had performed well during the last decades. Despite the global financial crisis, the emerging Indian economy withstood the crisis reasonably, compared to other advanced economies due to the following reasons.

- There was a high real GDP growth besides increase in domestic savings, to the tune of 37 percent of GDP, increase in domestic investment and domestic consumption.
- There has also been a substantial foreign exchange reserves, The ratio of total external transaction to GDP showed a substantial raise of 117.4 percent in 2007-08 when compared to 46.8 percent in 1997-98.
- The revenue and profitability of Indian corporate increased due to low equity ratio.

The effect of global economic meltdown is felt in India in different sectors of the economy. In spite of the global turmoil, the **GDP** growth in India was reasonable. As per the Central Statistical Organization (CSO) report, on 31st August 2009 the economy has grown by 6.1 percent in the first quarter (April-June) of 2009-10 to fiscal as against a

Dr.Mrs.Chellam Subramanian , Associate Professor, & **C.Guna Sundari**,
Assistant in Economics, Thiagarajar College, Madurai

growth of 5.8 percent in the previous quarter.

The second variable is a slump in **exports** and Industrial production. On 2nd September 2009, the centre announced that India's exports continued to decline for the tenth consecutive month with the export figures down by a whopping 28.4 percent in July 2009. The fall in **imports** in February 2009 was 18.1 percent which reduced the trade deficit to \$4 billion against a deficit of \$5.69 billion in February 2008. The dip in import is largely due to steep fall in international oil prices.

India's **Banking system** has been less affected by the global financial crisis than the banking systems in US and Europe. The major reason for this are, that there has been an appreciable capital account convertibility prudence in opening up the sectors to private and foreign banks; stringent norms on exposure to sensitive sectors, pre-emptive action in respect of housing, real estate and consumer credit stricter norms for securitization ; prudential limits on inter-bank borrowing; and tighter regulation of NBFCs.

The **outsourcing of services industry**, which has emerged as one of the most dynamic sectors of international trade today and in which India has emerged as one of the leading participants is presumed to have been adversely affected by the global economic slowdown. India has felt the impact of the slowdown but opinion is divided on the extent of the impact. Since India is domestically focused economy due to falling consumption demand in the US, India's exports sector is also likely to get seriously affected one.

Suggestions:

- As reflected in the G-20 summit on Bretton Woods II on 15 November which focused on regulation. Indeed, the only silver lining today seems to be that regulatory measures to prevent future crises have become politically far easier to accept.
- Reserve Bank of India resorted to monetary and fiscal response to combat

the crisis. Immediate steps were taken to maintain comfortable Rupee liquidity, to reduced interest rate together with reduction in the reserves to be kept banks with Central Bank. Shortfall in Foreign exchange liquidity was checked by tackling volatility of the Rupee. Export credit received impetus by liberalized refinance facilities, Upward interest rate ceiling on foreign currency deposits by NRI, and to help Indian Banks to manage short term foreign funding Rupee dollar swap facility was introduced.

- Efforts to expand and improve the targeting of social safety nets, which received renewed impetus and importance under the Bank's Global Food Crisis Response Program (GFRP) and will also figure prominently in the proposed Energy for the Poor Initiative (EFPI) which the Bank is in the process of discussing with donors, must therefore be sustained.
- The international community should act in a coordinated and supportive fashion to make each country's task easier.
- Developing countries must ensure that resources are put to their best and most efficient use, including by putting in place well-targeted social safety nets and improving the targeting of resources provided to the poor.

IMPLICATIONS OF THE GLOBAL FINANCIAL CRISIS ON TRADE AND POVERTY

The current financial crisis has evolved differently from other major crises that have hit the developing world in recent decades. Not only is it occurring in a world of unprecedented financial globalization, where the financial sector plays a historically large role in economic activity, but it is also an "imported" crisis, with origins outside the developing world. The crisis also comes on the heels of a major global shock from high food and fuel prices that has imposed a heavy economic burden on many countries and significantly increased the incidence of poverty and vulnerability.

- ❑ The current financial crisis afflicting the world economy has systemic elements and the countries affected cannot deal with the problem in isolation. An effective response needs to combine measures at both national and international levels.
- ❑ Domestic factors have certainly played a major role in financial crises in some countries. However, others with sound economic fundamentals and institutions have also been affected by global financial instability. Moreover, the adverse impact of the crisis on commodity prices has been a major factor in reducing export earnings and growth in a number of countries, especially developing countries.
- ❑ Recent events underscore the importance of a favourable external environment in attaining policy objectives in developing countries. An enabling external financial environment to support domestic measures could require, inter alia, adequate and transparent supervision of volatile, short-term capital flows.
- ❑ The views of developing countries should be taken into account. Effective multilateral and domestic surveillance is essential for the prevention of financial crises. Such surveillance needs to recognize the role of global interdependence in transmitting financial instability. Greater coherence is needed in international policy-making in the areas of trade, money and finance.
- ❑ Strengthened prudential regulation and supervision of the financial system in a well-sequenced process of liberalization can contribute to greater financial stability. Domestic reforms to be considered might include: (a) increased transparency and disclosure; (b) strengthening of domestic regulatory standards; and (c) more effective burden-sharing arrangements, such as improved insolvency and debtor-creditor regimes.

C.Muniyandi, Research Scholar of Economics, Bharathidasan University, Tiruchirappalli.

GLOBAL FINANCIAL CRISIS: CONSEQUENCES AND ITS ECONOMIC IMPACT IN INDIA

Introduction

The turmoil in the worldwide financial markets of advanced economies that started around mid-2007 has exacerbated substantially since August 2008. The financial market crisis has led to the collapse of major financial institutions and is now beginning to impact the real economy in the advanced economies. As this crisis is unfolding, credit markets appear to be drying up in the developed world. With the substantive increase in financial globalization, there is the necessity of finding how much will these developments affect India and other Asian emerging market economies? The bigger challenge for India, however, is to ensure that the current global economic slowdown does not constrain it from catching up with China. Even though India affected to some extent, it not affected poorly like developed countries. India, being an integrated part of the global economic order, was also exposed to the adverse impact of the global economic crisis.

Consequences of the Global Financial Crisis

The major consequences were decrease in production and growth in developed countries and drop in the exports of developing countries.

Global Economic Crisis and its impact on Developing countries

The current financial crisis affects developing countries in two possible ways. First, there could be financial contagion and spillovers for stock markets in emerging markets. The Russian stock market had to stop trading twice; the Indian stock market dropped by 8% in one day at the same time as stock markets in the USA and Brazil plunged. Stock markets across the world – developed and developing – have all dropped substantially since May 2008. We have seen share prices tumble between 12 and 19% in the USA, UK and Japan in just one week, while the MSCI emerging market index fell 23%. This includes stock markets in Brazil, South Africa, India and China. We need to

Mrs.S.Jayaselvi Ph.D Scholar, Economics Department, Bharathiar University, Coimbatore.

better understand the nature of the financial linkages, how they occur (as they do appear to occur) and whether anything can be done to minimize contagion.

Second, the economic downturn in developed countries may also have significant impact on developing countries.

Impact of the Crisis on the Indian Economy

a). Economic Growth:

RBI estimates place India's growth rate during 2008-09 at 7.7 per cent. Most other estimates also place GDP growth for the year in the range of 7-8%. During the first quarter of 2008-09 (April-June) Indian economy grew at 7.9 per cent, though growth is expected to slow down in the subsequent quarters as the slowdown takes hold. The first indication has already come from the index of industrial production (IIP). According to latest data, the IIP grew 4.8% in September 2008 as against 7% in the corresponding period last year. The cumulative growth during April-September 2008 was only 4.9% as against 9.5% during the corresponding period in previous year. While the September figure is an improvement over the dismal growth of 1.3% recorded for August 2008, it is too early to see it as a recovery from the previous low.

b). Banking Sector:

Indian banks are well-capitalized with a low level of non-performing assets (NPAs), though the level of NPAs is expected to go up as the slowdown begins to bite. The Reserve Bank of India has initiated a series of steps to ease the liquidity problems being faced by banks. It has cut the cash reserve ratio to 5.5% and the repo rate at which the central bank pumps liquidity into the system to 7.5%. It has also reduced the SLR or statutory liquidity ratio to 24%, down from 25% earlier.

c) Capital market:

After the macro-economic reforms in 1991, Indian economy has been increasingly integrated into the global economy. The financial institutions in India are exposed to the world financial market. Foreign institutional investment (FII) is largely open to the India's

equity, debt market and market for mutual funds. The present crisis has significant impact on FII investment in India, as investors all over world lack confidence on the market. The crisis in confidence resulted in net outflow of \$10.1 billion from both the equity and debt market in India in the year 2008. This has significant impact on India's stock market and exchange rate.

Government's policy to deal with the Crisis:

The government has adopted a multi-pronged approach to deal with the crisis. While the Reserve Bank of India has acted decisively to ease liquidity by cutting the Cash Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR) etc, the government has announced its determination to follow through with additional measures if necessary. But infusion of liquidity through these measures is counterbalanced by selling pressure of foreign exchange in the spot market to stabilize the value of domestic currency.

Suggestions

The current macro economic and social challenges posed by the global financial crisis require a much better understanding of appropriate policy responses:

- ☒ There needs to be a better understanding of what can provide financial stability, how cross-border cooperation can help to provide the public good of international financial rules and systems, and what the most appropriate rules are with respect to development;
- ☒ There needs to be an understanding of whether and how developing countries can minimize financial contagion;
- ☒ Developing countries will also need to manage the implications of the current economic slowdown – after a period of strong and continued growth in developing countries, which has promoted interest in structural factors of growth, international macro economic management will now move up the policy agenda.
- ☒ Developing countries need to understand the social outcomes and provide appropriate social protection schemes.

**LESSON FOR CORPORATE GOVERNANCE FROM THE
GLOBAL FINANCIAL CRISIS**

An accurate diagnosis of the role that corporate governance has played in the current crisis is easier said than done. The causes of the crisis are complex and multi-layered. Furthermore, as time passes, it becomes increasingly difficult to distinguish proximate symptoms from ultimate cause.

It implies that the problems that have emerged are very specific to a particular sector of the economy: the financial sector. They do not reflect a more widespread failure in the capitalist economic system or broad-based failures in the corporate governance framework. Consequently, any policy response to the current crisis needs to be carefully targeted at the financial system.

The current crisis should not be used as excuse to abandon the incremental progress that many countries have made over the last decade towards a viable system of corporate governance (for example, based on the OECD Principles).

Secondly, although appropriate regulatory reforms are necessary in the financial sector, this is no reason for the growth of a similar regulatory burden in the broader economy. The financial sector is a special case. There is a need for the state to monitor and define the behaviour of financial institutions to a degree which is not appropriate in other sectors. In the rest of the corporate sector, the process of wealth creation is maximized when shareholders rather than regulators fulfil the primary role in monitoring and enforcing standards of corporate governance.

However, although many corporate governance systems in developed economies remain broadly fit for purpose, there is no need for complacency. There remain various respects in which national corporate governance systems could be made more conducive

Ms. N.Kogila & Ms. S.Jayalakshmi, M.Phil Research Scholars, Department of
Commerce, St.Joseph's College, Tiruchirappalli

to wealth creation and economic success. The key issues vary significantly around the world, depending on the starting point of individual countries. So a secure position for minority shareholders in such economies is essential as a means of encouraging foreign investment, and to encourage the growth of domestic investment institutions (e.g. pension funds, mutual funds, insurance companies), which represent a key aspect of any modern economy.

IMPACT OF GLOBAL FINANCIAL CRISIS ON INDIAN ECONOMY

The global financial crisis has knocked on the country, broadly, in three ways. First, the reduction in foreign equity flows – especially FII flows – impacted the capital and forex markets and the availability of funds from these markets to domestic businesses; second, the shrinking of credit markets overseas had the impact of tightening access to overseas lines of credit including trade credit and liquidity in the domestic markets with the knock on effects, and third, the fall in global trade and output had impact of all this was slowing down of output and employment. Despite the slowing down, India is still the second fastest growing economy in the world.

The combined impact of the reversal of portfolio equity flows, the perceived increase in the price of equity with lower equity valuations, and pressure on the exchange rate, growth in the Indian corporate sector is likely to feel some impact of the global financial turmoil. On the other hand, on a macro basis, with external savings utilization having been low traditionally, between one to two percent of GDP, and the sustained high domestic savings rate, this impact can be expected to be at the margin. Moreover, the continued buoyancy of foreign direct investment suggests that confidence in Indian growth prospects remains healthy.

D.Pathma priya Lecturer, APA College for Women, Palani.

DOES THE 'GLOBAL FINANCIAL CRISIS' AFFECT INDIA?

Seventeen leading financial institutions in the US bankrupt during the past two years including the Lehman Brothers and American International Group (AIG). British Queen loses 25 million pounds in the crisis; West seeks Gulf's petro-dollars; The US markets had their worst week since the Great Depression of the 1930s; The US is all set to pump in \$700 billion as the bailout money; Domestic liquidity has been enhanced by as much as Rs.2,60,000 crore in India; China is also planning to increase its liquidity for an amount equivalent to 7% of their GDP to manage the Global Financial Crisis and so do the Brazil with an amount equivalent to 40% of their GDP; Japan is entering into the economic recession after seven years; Stock market all over the world is losing its grip - are some of the tormenting news keep coming in almost all the news medias. And there is a great fear among the world leaders as the financial crisis in the US and its subsequent economic recession possibly slipping into the depression like situation of the 1930s are in the making.

Symptom of this is becoming evident from the crumbling of stock markets everywhere spreading its impacts in the real economy too. Can India be an exception to the current crisis or not? is definitely a matter of concern not only for the policy makers but for every common man as well - as many reports suggest a low rate of growth of GDP contrary to the initially projected level of the near 9 per cent on the one hand and the fear of employment retrenchment on the other. Before addressing the matters related to India's concern (given in section C), first we propose to unearth certain causes that are primary to the ongoing mortgage market crisis in the US such as (A) the US mortgage market per se, and (B) the peculiar nature of the present macroeconomic aspect of the US and they are given in separate sections.

Thaarcis Albin Department of Economics
St.Xavier's College (Autonomous), Palayamkottai.

Section – A

The US mortgage market

It essentially comprises of all financial institutions associated with the marketing of mortgages. Mortgage money is mainly provided to buy or construct home. The market in which the actual mortgage transactions are negotiated between the borrowers and the lenders is called the **primary mortgage market**. The market in which the previously created mortgage securities are traded between investors is known as the **secondary mortgage markets** and provides a means for holders of mortgages who need funds to dispose of their holdings before maturity. The numerous savings institutions, commercial banks, mutual savings banks, savings and loan associations, life insurance companies, mutual funds, pension funds are all different sources of mortgage funds. Nevertheless, supply of fund for mortgage would generally depend on fluctuations in general economic activity and interest rate in particular. The volatile interest and inflation rates of the 1970 – 1981 period led to the creation of various alternatives to the traditional fixed-rate mortgage that has dominated the residential housing market since the 1930s.

The alternatives are adjustable rate mortgages (ARMs), graduated-payment mortgages (GPMs), price-level adjusted mortgages (PLAMs) and shared-appreciation mortgages (SAMs). Over the years many changes and developments have taken place in the mortgage market including 'securitisation' that are increasingly rated as investment grade or derivative products of various kinds and have come to stay as part of the much celebrated 'financial innovations' and got equipped it self to escape the regulatory mechanisms and eventually landed up as the **toxic** securities responsible for the current crisis¹. It was all done in the name of innovation, and any regulatory initiative was fought away with claims that it would suppress that innovation. Nevertheless, in between, with the aid of speculations these innovated securities were able to create many bubbles in contemporary capitalism and attracted much of the global finance too to be a participant of it. Financial institutions, whoever, across the globe got associated with such toxic securities, as an inevitable result of the globalization of finance, have trapped themselves into the deep financial crisis and looking forward to the 'government' – an economic growth

agent often rejected and viewed with much suspicions – to redeem them off their mistakes as the effect of it is fast spreading to the real sector too.

The issue do not stop with this alone unless some answers are made known to us on matters related to what driven the financial institutions and the economy to be blind on the 'bubbles'? Or as the Queen Elizabeth II asked Prof. Luis Garicano, in the first week of November 2008, when she visited the London School of Economics, that "if these things were so large, how come everyone missed them?" Direct answers may not be easy as things are too complicated but it will not be a mistake to attribute it to the averse attitude towards 'more government' or government per se² because the 'invisible hand' often habitually becomes too invisible that it breaches its own limit causing immeasurable damages. Solution or even prevention to such damages, therefore, would lie very much in the due recognition of the government as an economic growth agent as recommended by Kalecki and Keynes – the contemporaries. An insight to this is possible by looking into some of the latest happenings in the US macro economy whereby Cooper's (2008) findings, hereafter, I prefer it to be referred as the **Cooper's hypothesis**, provides more insights to our current exercise.

Section – B

The macroeconomic aspect of the US

Almost every segment of the US society including the household is a net borrower. The net savings of the household is even negative. Their trade balance is a persisting current deficit all through the nineties. Nevertheless, it served as a demand booster of the rest of the world, enabling countries like China and East Asia to register export buoyancy and better economic performances respectively. What then remains as a serious matter of concern for many³ is the issue of sustainability of the US current account deficit at these levels? With others arguing about the seriousness of the same, Cooper considers this to be a non-issue. For Cooper, (a) the current account deficit is taken care by the surplus generated in the capital account (facilitated by inflows to US Treasury bonds from central banks in China and East Asia) and (b) it is witnessed along with an increase in the investment, though a larger rate of increase has been in the residential investment –

which, ever since the pricking of the bubble (i.e., investments toxic securities), has become a matter of concern. The US economy enjoys a situation of both (a) and (b). Nevertheless, the worrying factors are from the increasing consumption and decreasing savings behaviour of the US economy. A disaggregated approach to the US savings unearths the following facts (i) the private sector's savings are at the decline (ii) the contributions from the household sector is at the negative level of -2 %, explained due to the wealth, primarily due to the positive expectations of price increases in stocks and residential property - the toxic securities. But Cooper argues it may not adversely affect the economy because (i) the US currency is having its own advantage of servicing the country's current account deficit (ii) the current account surpluses generated by the less developing countries in their respective countries entering into the US in the form of capital inflows to the US economy and (iii) relatively a less capital outflows from the US. Cooper believed a combined effect of these would provide the necessary cushion to the economy and prevent it from entering into economics disaster.

Does the ongoing economic experiences of the US support what Cooper believed in? i.e., Is Cooper's hypothesis proved correct? Cooper would have been correct had the market not betrayed him - but the market would! Had there been a correct match between the financial innovation and the ability of the regulators to monitor it, the damage would have either avoided or minimized. 'Symmetrical' flow of information in the market - is an important assumption based on which the entire market structure is being built. But the very presence of the act of 'speculation' of the market per se, is an assurance for the existence of the asymmetry of information and makes the market prone to bubbles and bubble burst. Again, the feared attitude of financial institutions in the US not willing to 'lend' to other financial institutions can only further aggravate the crisis, be it sub-prime or what ever, is a typical case to refer. And ultimately in the US and all over the world the acts of government bailing out the private institutions – 'market' to be more precise – is definitely the irony of the whole process. What the \$700 billion bailout means to us is nothing less than a process equivalent to 'nationalization' (i.e., nationalization in proxy) but others prefer it to be referred as the 'smarter government'?

However, what one does not understand is about the rationale behind the bailing out process of these private institutions with the taxpayers' money? Why should the common man's money be used to quench the thirst of the profit mongers when they refuse to part with their surplus for the common man? Can the market be a sufficient force and source in restoring the confidence of the people? Experiences of the 1930s in the past and the 2008 at present and how many more of this nature to be paid as price? Deliberate 'exclusion' of the less developing countries in the 'good times' and deliberate 'inclusion' of them in the 'bad times' are becoming the results of the 'Globalization' and should we be a party to it? Or what should be the role of countries not responsible for the making of the current crisis? are some for the questions which obviously require the due attention but remains unanswered for more of a political reasons than economics.

Having seen some of the essential background of the 'Global Financial Crisis' and its primary cause, what would be the likely impact of it to the less developing countries like India naturally becomes a major cause of concern – to which we turn to in the last section (c) of the paper - Does the 'Global Financial Crisis' affect India?

Section - (c)

Does the 'Global Financial Crisis' affect India?

It is very evident by now, from various reports, that the current financial crisis is not getting confined to the country of its origin alone. Given the global economic integrated setup it would be unwise to say that India is fully free from the crisis. Though we are subject to both direct and indirect impacts, the latter will be more than the former. The extent of damage, however, would depend more on the degree of international economic integration of India with the rest of the world – the US in particular. The commonly employed methodologies to access the international economic integrations are the ratios of (i) exports of goods and services to GDP; (ii) imports of goods and services to GDP; (iii) net FDI to GDP; (iv) trade to GDP; and (v) trade in goods to GDP. These ratios are also known as the indicators of integrations and fall very much within the channels of integration of trade, foreign investments and movement of people across the border – remittances. Of these, we restrict ourselves to certain selected indicators only.

The amount of trade as a percentage of GDP (i.e., the exports and imports of goods and services to GDP) reveals that India's economic integrations with the rest of the world, in terms of trade, remained below 33 per cent for the period between 1990-91 and 2005-06, (refer to figure 1 below). A disaggregate approach to the country's exports shows that much of the export earnings are from service sectors only. Of this, software occupies the most (see table 1 below). The export basket of manufacturing sector also had undergone changes that the three commodity groups (gems and jewelry, textile and textile products and leather manufactures) which used to account for about 50 per cent of exports of manufactured goods now account for only 36 per cent of it⁴. The shares vacated by these are taken up by pharmaceuticals and engineering goods. However within engineering goods iron steel has improved its share over the last three years or so to about 22 per cent. These apart, as a matter of indirect effect, the real sector of the country, on the whole, is getting affected apart from the stock market - is definitely a matter of worry in India. But it has a cumulative effect of more than one factor such as the hot money outflow amounting to be around \$ 13 billion causing unwanted worry in the stock market. The depreciation of the Indian currency making the essential exports costlier, despite the oil prices are not very high for the time being also is a matter of concern for us. On the manufacturing side our usual exports are already stated getting affected and many industries are working only for half of their weekdays causing many worries in the labour market.

However, by taking the entire economy together, one can still say that the degree India's international integration is much less compared to many others, including China, and to this extent Indian economy is distanced itself from the current financial crisis directly. Even with respect to India's exposures to the toxic securities are concerned, it is also found to be very minimum. These apart, except for the present monsoon failures, the economic fundamentals of India is considered to be stronger as we are continuously experiencing a better GDP growth rate of around 8 to 9 per cent for the past five to six years (see tables A1 & A2 and figure A1, A2 & A3 in the appendix for more evidences). Given these major fundamentals in strong position, the paper suggests that there is no need for us to be in panicky of the ongoing financial crisis.

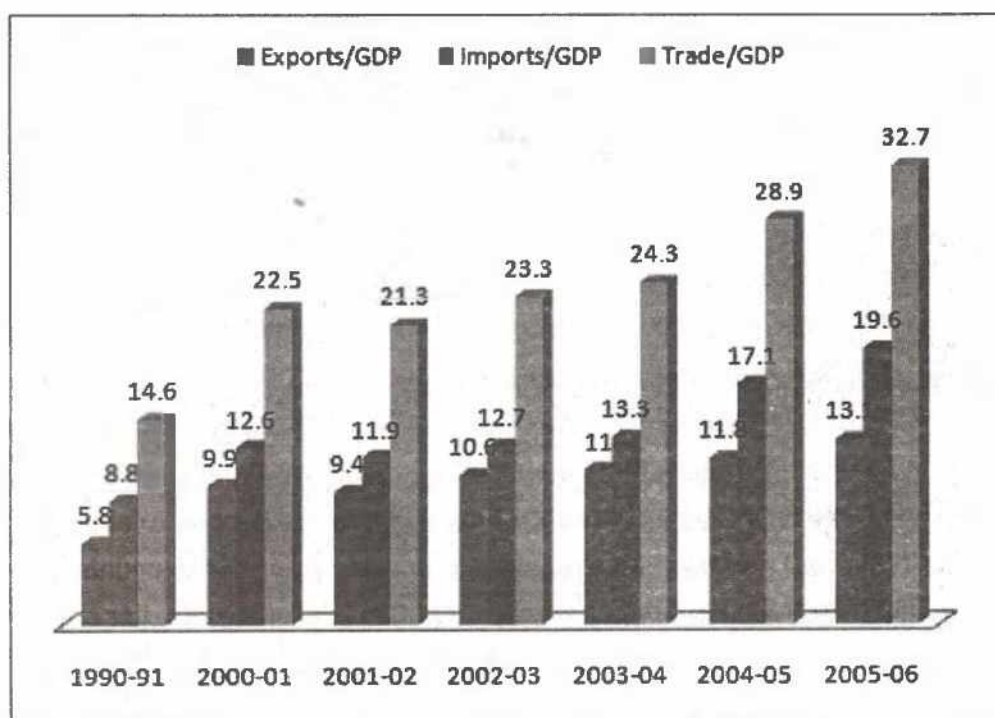


Figure1:Indicator of international economic integration of India, 1991 to 2006.

Table 1: Trends in trade in goods and services, 1991-2007 (Value in Millions of US \$)

	Merchandise	Services	Total	Share of services	Software	Share 1	Share 2	Share 3
1990-91	18477	4551	23028	2				
1991-92	18266	9022	23288	2				
1992-93	18669	4730	23699	2				
1993-94	22683	5264	27947	3	325	1.16	6.17	1.43
1994-95	26866	6135	32990	3	489	1.48	7.97	1.82
1995-96	32311	7346	39657	4	747	1.88	10.17	2.31
1996-97	34133	7474	41607	4	1099	2.64	14.70	3.22
1997-98	35680	9429	45109	5	1760	3.90	18.67	4.93
1998-99	34298	13186	47484	6	2626	5.53	19.92	7.66
1999-00	37542	15709	53251	8	4015	7.54	25.56	10.69
2000-01	45452	16268	61720	8	6341	10.27	38.98	13.95
2001-02	44703	17140	61843	8	7556	12.22	44.08	16.90
2002-03	53774	20763	74537	10	9600	12.88	46.24	17.85
2003-04	66286	26868	93153	13	12800	13.74	47.64	19.31
2004-05	86206	43249	128455	21	17700	13.78	40.93	20.77
2005-06	105152	61404	166556	29	23600	14.17	38.43	22.44
2006-07	127090	81330	208420	39	31300	15.02	38.49	24.63

Share 1 : Software exports as a per cent of total exports
Share 2 : Software exports as a per cent of service exports
Share 3 : Software exports as per cent of total merchandise exports

Source: RBI, Currency and Finance, Various Issues.

Notes

1. The banks were laying huge bets with each other over loans and assets. Complex transactions were designed to move risk and disguise the sliding value of assets. In this game there are winners and losers. And it's not a zero-sum game, it's a negative-sum game: as people wake up to the smoke and mirrors in the financial system, as people grow averse to risk, losses occur; the market as a whole plummets and everyone loses. America's financial system failed in its two crucial responsibilities: managing risk and allocating capital. It was all done in the name of innovation, and any regulatory initiative was fought away with claims that it would suppress that innovation. They were innovating, all right, but not in ways that made the economy stronger. Some of America's best and brightest were devoting their talents to getting around standards and regulations designed to ensure the efficiency of the economy and the safety of the banking system. Unfortunately, they were far too successful, and we the people from all over the world — workers, investors, taxpayers — are paying the price for a mistake which is not of our making. For more details read the appendix.
2. What worries one is a fact that still lessons are not learnt from the ongoing crisis. The US President Bush's address during the last G20 summit at Washington revealed it more prominently. To quote ... "The crisis was not a failure of the free market system. And the answer is not to try to reinvent that system...our aim should not be more government. It should be smarter government" and it would be "a terrible mistake to allow a few months of crisis to undermine sixty years of success." *The Hindu*, Nov. 15, 2008, p. 14

Also it is very relevant here in knowing what Prof. Stiglitz, recipient of the 2001 Nobel prize and the head of the expert panel constituted to probe into the global financial crisis, has got to say. To quote him "we had become accustomed to the hypocrisy. The banks reject any suggestion they should face regulation, rebuff any move towards anti-trust measures - yet when trouble strikes, all of a sudden

they demand state intervention: they must be bailed out; they are too big, too important to be allowed to fail".

3. Obstfeld, Eichengreen and Feldstein to cite a few.
4. The Indian way of classifying exports into manufactured goods does not comply with international practices. Consequently there is an exaggeration of the share of manufactures in total merchandise exports by as much as 30 percentage points. According to Indian data gems and jewelry, textile and textile products and leather manufactures are classified under the manufacturing sector.

Table A1: Structure of financial flows to India, 1990-91 through 2006-07

Item	1990-91	1995-96	2001-02	2002-03	2003-04	2004-05	2005-06PR	2006-07P
1	2	3	4	5	6	7	8	9
Total Capital Inflows (Net)								
US \$ million	7,056	4,089	8,551	10,840	16,736	28,022	23,400	44,944
of which:							(in per cent)	
1 Non-Debt Creating Inflows	1.5	117.5	95.2	55.5	93.7	54.6	86.1	58.8
a) Foreign Direct Investment *	1.4	52.4	71.6	46.5	25.8	21.4	32.7	43.3
b) Portfolio Investment	0.1	65.1	23.6	9	67.9	33.2	53.4	15.5
2 Debt Creating Inflows	83.3	57.7	12.4	-12.3	-6	35.2	37	56.1
a) External Assistance	31.3	21.6	14.1	-28.6	-16.5	7.2	7.5	4
b) External Commercial Borrowings #	31.9	31.2	-18.6	-15.7	-17.5	19.4	12.7	36.5
c) Short term Credits	15.2	1.2	-9.3	8.9	8.5	13.5	7.3	7.3
d) NRI Deposits @	21.8	27	32.2	27.5	21.8	-3.4	11.9	8.7
e) Rupee Debt Service	-16.9	-23.3	-6.1	-4.4	-2.2	-1.5	-2.4	-0.4
3 Other Capital ±	15.2	-75.2	-7.6	56.8	12.3	10.2	-23.1	-14.9
4 Total (1 to 3)	100	100	100	100	100	100	100	100
Memo:								
Stable flows +	84.7	33.7	85.6	82	23.7	53.2	39.3	77.1

Table A2: Net Foreign investments flows to India, 1990-91 through 2007-08 (US \$ in millions)

	FDI Credit	FDI Debit	Net FDI	FPI Credit	FPI Debit	Net FPI	Ratio
1990-91	107	10	97	6	0	6	16.17
1991-92	147	18	129	4	0	4	32.25
1992-93	345	30	315	244	2	242	1.30
1993-94	651	65	586	3960	311	3649	0.16
1994-95	1351	8	1343	4402	823	3579	0.38
1995-96	2173	29	2144	3456	795	2661	0.81
1996-97	2863	22	2841	4953	1641	3312	0.86
1997-98	3596	34	3562	5573	3745	1828	1.95
1998-99	2518	38	2480	3225	3293	-68	-36.47
1999-00	2170	3	2167	9951	6927	3024	0.72
2000-01	4031	0	4031	13619	10859	2760	1.46
2001-02	6130	5	6125	9259	7238	2021	3.03
2002-03	5095	59	5036	8833	7854	979	5.14
2003-04	4322		4322	28218	16862	11356	0.38
2004-05	6052	65	5987	40847	31536	9311	0.64
2005-06	8962	61	8901	68120	55626	12494	0.71
2006-07	22078	87	21991	109534	102530	7004	3.14
2007-08	32453	126	32327	235390	206294	29096	1.11
Cumulative 1991-2008	105044	660	104384	549594	456336	93258	1.12

Figure A1: India is the largest remittance receiving country in the world, 2007 (US \$billion).

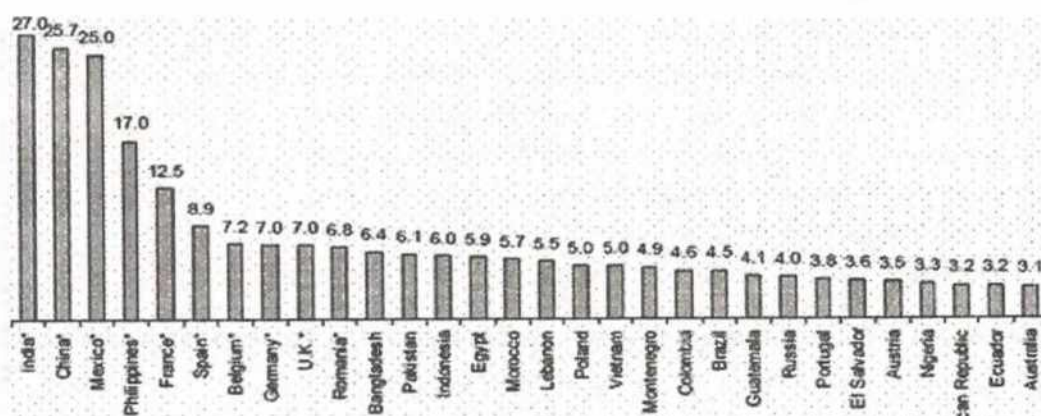
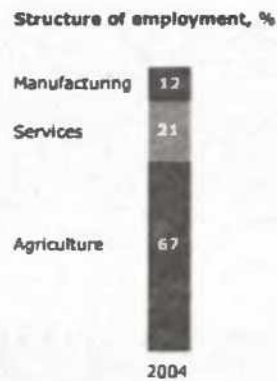
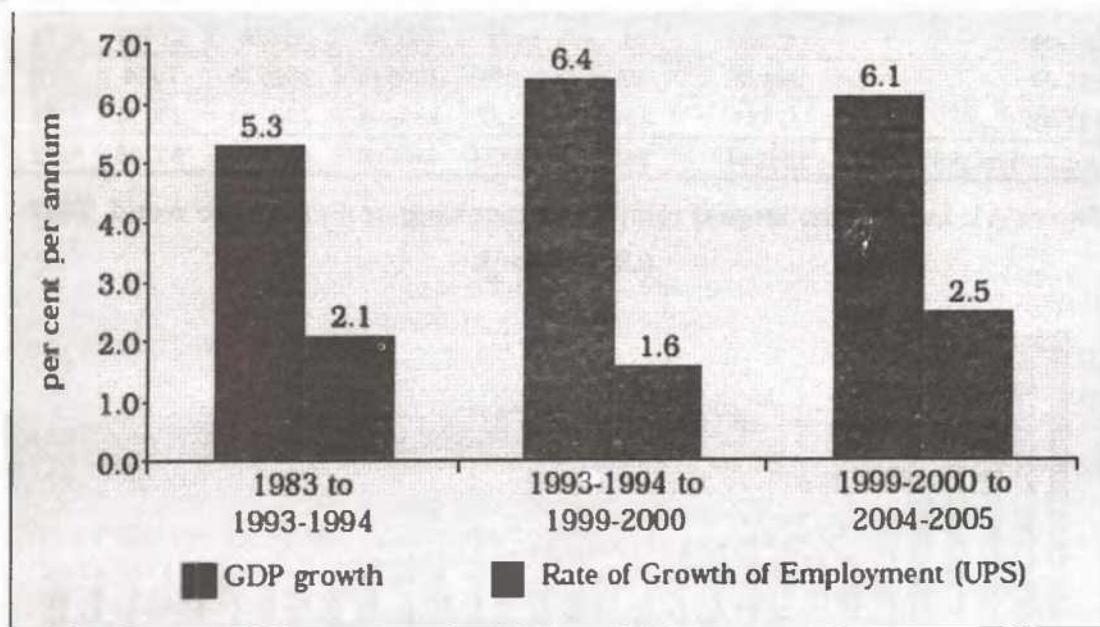


Figure A2 : Structure of employment, 2004.



Source: Economist Intelligence Unit (EIU); Global Insight; McKinsey analysis

Figure A3: Trends in economic growth and employment: Pre and Post Reform Period.



GLOBAL FINANCIAL CRISIS AND DEVELOPING COUNTRIES

India has by-and-large been spared of global financial contagion due to the sub prime turmoil for a variety of reasons. India's growth process has been largely domestic demand driven and its reliance on foreign savings has remained around 1.5 per cent in recent period. It also has a very comfortable level of forex reserves. The credit derivatives market is in an embryonic stage; the originate-to-distribute model in India is not comparable to the ones prevailing in advanced markets; there are restrictions on investments by residents in such products issued abroad; and regulatory guidelines on securitization do not permit immediate profit recognition. Financial stability in India has been achieved through perseverance of prudential policies which prevent institutions from excessive risk taking, and financial markets from becoming extremely volatile and turbulent.

P.Gnana Soundhari Teaching Assistant in Economics
Arulmigu Palaniandavar Arts college for women, palani.

GLOBAL BUSINESS-IMPACT IN INDIA.

A brief note on the impact of global business fluctuation on the Indian economy has been presented in this paper for a wider discussion.

- i) Over five lakh workers have been rendered jobless consequent on global recession just during the last three months of 2008 in 20 sectors which include textiles, metals, automobiles, transports, gems and jewellery etc., which contribute to over 65% of the nation's GDP.
- ii) The Federation of Indian Exporters Organisation (FIEO) has observed that faced with a slump in demand and piled up inventories, the industries like textiles, garments, chemicals and jems and jewellery had cut their production by 10-50% and estimated that over 1 crore jobs would vanish before long if the recessionary trend is not reversed.
- iii) India has been the recipient of over \$20 billions a year through NRI remittances, which accounts for around 3% of the GDP of our country, which goes to sustain their dependants at home and help investments in houses, hospitals, tourist homes, educational institutions, MSMEs (micro, small and medium enterprise) etc. If the economic crisis aggravates, India will face double whammy i.e., dipping of foreign remittances on the one hand, and jobless returnees flooding the domestic market on the other.
- iv) National Commission for Enterprises in the Un-organised Sector, Government of India, has observed that the fruits of development have been enjoyed only by

Mrs. A. Kalaiselvi Lecturer in Economics,
Government Arts College for Women, Pudukottai

23% of the population engaged in the organized sector and un-organised sector. Consequently, over 26 crores of our population continue to toil under seven clutches of poverty and hunger. Over 43% of the children of the country continue to remain malnourished.

- v) The packages of economic stimulus contemplated by the government of India may go to protect only the organized sector by passing the people in the unorganized and informal sectors, most of whom have no access to bank account in spite of no frills account facilities advocated by the government and not to think of bank credit.
- vi) India's growth story will continue despite or slight deceleration due to a series steps have been taken by the Government as well as regulatory bodies like RBI and SEBI.

GLOBAL FINANCIAL CRISIS: IMPLICATIONS FOR INDIA

According to Patnaik, the need of the hour is not just the injection of liquidity into the world economy but also in addition the injection of demand. This can occur only through direct fiscal action by governments across the world. The sectors where government spending will go up will, of course, vary from country to country, but the general objective of such spending must be the reversal of the squeeze on the living standards of the ordinary people everywhere in the world that has been a feature of the world economy in the last several years. He said that "the new paradigm must entail a food grain-led growth strategy, sustained through larger government spending towards this end, which simultaneously rids the world of both depression and financial and food crises." The trade and financial arrangements of the world economy have to be oriented towards achieving this rather than being made to conform to some *a priori* free market principles that have the effect of pushing the world economy into financial crises and slumps, and the peasantry and small producers of the world into destitution both during the booms and also, additionally, during the slumps.

C.P. Chandrasekhar said that the lessons from the ongoing financial crisis make clear that the accumulation of risk and the manufacture of crisis are inevitable in a private-led, deregulated financial system that makes short term profits the prime objective. Limited intervention cannot fundamentally alter financial behaviour to avoid such an outcome. When financial markets are left unfettered, the system goes through a sequence of events that inevitably generate a financial and real economy boom that soon goes bust. He said that setting up Chinese Walls separating various segments of the financial sector may not be the best option. Nor could investment banks and hedge funds be abolished. What

N.Saravana Kumar Teaching Assistant in Economics,
A.P.A. College of Arts & Culture, Palani

could however be done is to monitor investment banks and hedge funds and subject them to regulation, while seeking an institutional solution that would protect the core of the financial structure: the banking system. Fortunately, the current bail-out has provided the basis for such a transformation by opting for state ownership and influence over decision making.

Jayati Ghosh said that the financial crisis has so many ramifications mainly because it is occurring in the very core of capitalism, and originated in the US, the country that had the global power and influence to impose its own economic model on almost all of the rest of the world. And the depth and severity of the crisis are likely to signal global political economy changes that will shape the world for the next few decades. She said that geopolitical shifts are likely to result from such glaring exposure of economic vulnerability in the global hegemon.

GLOBAL FINANCIAL CRISIS - AN OVERVIEW

The Director-General of the International Labour Office (ILO) has stated that the financial crisis could cost as many as 20 million jobs and offered four actions to help stabilize the 'real economy'. ILO's recently published Global Employment Trends Report 2009. This report predicts a dramatic rise in the number of people joining the ranks of the unemployed, working poor and those in vulnerable employment, as a consequence of the global economic slow down.

Dr.A.Rajendran, Associate Professor in Economics,
A.P.A College of Arts & Culture, Palani

GLOBAL FINANCIAL CRISIS-A LESSON FOR INDIA

Introduction

The financial crisis facing the Wall Street is the worst since the Great Depression and will have a major impact on the US and global economy. The ongoing global financial crisis will have a 'domino' effect and spill over all aspects of the economy. Due to the Western world's messianic faith in the market forces and deregulation, the market friendly governments have no choice but to step in.

'Capitalism without failure is like religion without sin', stated a famous American economist/historian while analyzing the causes and consequences of the many financial crisis in that country. To be sure, that statement was not intended to provide an alibi for the excesses in the financial sector in years past. Nor is it an excuse for the buccaneering ways of Wall Street in recent years which have landed even the global economy in a serious crisis now.

The philosophical foundations of free markets with minimal government intervention, have indeed been questioned very seriously by the real economic damage caused by the yet-to subside global financial crisis.

Three key messages or lessons which can be gleaned from the global crisis and which can be applied in framing our financial sector policy/for improving the effectiveness and efficiency of our financial infrastructure going forward are as follows.

i. Large, complex financial institutions are prone to significant loss of control and failures which can even have systemic adverse effects.

ii. the diversification of the financial intermediation activity among different types of institutions and numerous firms within a class of institutions could provide much greater systemic stability since the failure of one or even many firms would not endanger the entire system. Other firms can take the place of the failing firms. Indeed, the thinking

K.Saravanan & S.Parvathi, Assistant professors Department of Economics,
Kandaswami Kandar's College, Velur, Namakkal.

in the western world is now moving towards even breaking up large complex institution and creating the necessary legal frame work to ensure that such 'behemoths' do not rise again. The importance of different types of financial intermediaries-commercial banks, on-banking financial institutions, micro finance institutions, regional and local banks, etc., in India, in this environment, can not be wished away at all.

iii. Another key message flowing from the financial markets crisis is the critical need for better maturity matching of the balance sheets of financial institutions. In the housing finance market (the fountainhead of this crisis), for instance, policy-makers in EMEs such as India have to devote serious efforts towards developing some Long-term liability products-that is, long-term and dedicated liabilities which can be used to fund long-term real estate asserts such as residential mortgages. Such dedicated long-term liabilities straight away go to providing better maturity matching and vastly reduce the interest rate risks for the lending institution. The incentive to securities loan receivables is weakened in the process. Indian policy-makers, in this backdrop, have to seriously think of concepts like 'covered bonds which can provide greater stability in long-term financial intermediation.

GLOBAL FINANCIAL CRISIS AND ITS IMPACT ON INDIAN ECONOMY

- The global crisis has reduced the export level of cotton textiles, leather, and manufacturing.
- In real estate, steel, cement, automobiles etc, domestic supply exceeds demand and hence profit level of these industries fell. Many firms incurred losses.
- Infrastructure industry which accounts for three quarter of national income had a down fall in demand.
- Investment on heavy industries like engineering and construction had fallen.
- There is a continuous fall in foreign exchange reserves because of decrease in capital inflow.

Impact on Foreign Direct Investment:

The most immediate impact on Indian economy has been an outflow of Foreign Institutional Investment (FII) from the equity market. In 2007-08, the net inflow of FII was 20.3 billion. As compared with this, they pulled out \$ 11.1 billion during the first nine and a half in the calendar year 2008, of which \$ 8.3 billion occurred between April to October 2008. Total net capital inflow fell from US \$17.3 billion in April –June 2007 to 13.2 billion in April-June 2008. Foreign exchange reserve dropped \$ 15.5 billion to \$2.58 billion on 31st October 2008.

This resulted in a sharp depreciation of the rupee which affected the foreign exchange payment commitments. The second effect was the exposure on Indian banks or banks operating in India to the impaired assets resulting from the sub-prime crisis. The ICICI bank was the victim of a run for a short period because of rumors that sub-prime exposure had badly damaged its balance sheet, although these rumors have been strongly denied by the RBI.

Dr. C. Dhandapani, ,
Muthurangam Govt Arts College, Vellore.

Measures taken by the Government

The Government of India and the Reserve Bank of India have taken both monetary and fiscal measures in combine. Since October, 2008, the RBI has cut the repo rate five times, reducing it over this period from 9% to 5%. It also slashed the reverse repo rate thrice, bringing it down from 6% to 3.5 %. The cash reserve ratio (CRR), has also been lowered by 4%. Altogether, these measures have effectively given the bank an additional Rs. 4.28 lakh crores to lend.

The fiscal measures to stimulate the economy are in two forms. One is to cut the excise duty and the second is to increase the Government expenditure. Both lead to stimulate aggregate demand. The Government has cut the excise duty to 8% from 10%. This 2% reduction reduced the price of steel, cement and other consumer durable goods.

Suggestions

Building a long- term debt market in India. Government to use its nationalized banks to fund infrastructure by giving various concessions to the banks.

The rating system for small and medium enterprises should be introduced to improve their credit worthiness.

There should be separate stock exchange for small enterprises, as they do not depend upon equity markets. It is essential for better policy related decisions.

There is a compelling need for the public and private sectors to act unitedly. The Government action alone cannot stimulate the whole economy. The private sector needs partnering with the Government and taking serious steps themselves for the economy to recover.

GLOBAL FINANCIAL CRISIS IN INDIA

Introduction

The global economic outlook deteriorated sharply over the last quarter. In a sign of the ferocity of the down turn, the IMF made a marked downward revision of its estimate for global growth in 2009 in purchasing power parity terms – from its forecast of 3.0 per cent made in October 2008 to 0.5 per cent in January 2009. In market exchange rate terms, the downturn is sharper – global GDP is projected to actually shrink by 0.6 per cent. With all the advanced economies – the United States, Europe and Japan - having firmly gone into recession, the contagion of the crisis from the financial sector to the real sector has been unforgiving and total. Recent evidence suggests that contractionary forces are strong: demand has slumped, production is plunging, job losses are rising and credit markets remain in seizure. Most worryingly, world trade – the main channel through which the downturn will get transmitted on the way forward – is projected to contract by 2.8 per cent in 2009.

Policy making around the world is in clearly uncharted territory. Governments and central banks across countries have responded to the crisis through big, aggressive and unconventional measures. There is a contentious debate on whether these measures are adequate and appropriate, and when, if at all, they will start to show results. There has also been a separate debate on how abandoning the rule book driven by the tyranny of the short-term, is compromising medium-term sustainability. What is clearly beyond debate though is that this Great Recession of 2008/09 is going to be deeper and the recovery longer than earlier thought.

Emerging economies

Contrary to the 'decoupling theory', emerging economies too have been hit by the crisis. The decoupling theory, which was intellectually fashionable even as late as a year

P.Thirupathy, Assistant Professor Department of Economics
A.P.A. College of Arts & Culture, Palani.

ago, held that even if advanced economies went into a downturn, emerging economies will remain unscathed because of their substantial foreign exchange reserves, improved policy framework, robust corporate balance sheets and relatively healthy banking sector. In a rapidly globalizing world, the 'decoupling theory' was never totally persuasive. Given the evidence of the last few months – capital flow reversals, sharp widening of spreads on sovereign and corporate debt and abrupt currency depreciations – the 'decoupling theory' stands totally invalidated. Reinforcing the notion that in a globalized world no country can be an island, growth prospects of emerging economies have been undermined by the cascading financial crisis with, of course, considerable variation across countries.

There is, at least in some quarters, dismay that India has been hit by the crisis. This dismay stems from two arguments. The first argument goes as follows. The Indian banking system has had no direct exposure to the sub-prime mortgage assets or to the failed institutions. It has very limited off-balance sheet activities or securitized assets. In fact, our banks continue to remain safe and healthy. So, the enigma is how can India be caught up in a crisis when it has nothing much to do with any of the maladies that are at the core of the crisis. The second reason for dismay is that India's recent growth has been driven predominantly by domestic consumption and domestic investment. External demand, as measured by merchandise exports, accounts for less than 15 per cent of our GDP.

The transmission of the global cues to the domestic economy has been quite straight forward – through the slump in demand for exports. The United States, European Union and the Middle East, which account for three quarters of India's goods and services trade are in a synchronized down turn. Service export growth is also likely to slow in the near term as the recession deepens and financial services firms – traditionally large users of outsourcing services – are restructured. Remittances from migrant workers too are likely to slow as the Middle East adjusts to lower crude prices and advanced economies go into a recession. Beyond the financial and real channels of transmission as above, the crisis also spread through the confidence channel. In sharp contrast to global financial markets, which went into a seizure on account of a crisis of confidence, Indian financial markets continued to function in an orderly manner.

GLOBAL FINANCIAL CRISIS

If the subprime securities market crisis that stalled the U.S. economy in 2008 was a threat, the CDS market posed a potential death sentence. Enormous, seemingly untouchable financial institutions, heavily invested in mortgage-backed securities, began to crumble. And many of these failing institutions owned credit default swaps on their subprime securities. Swaps that didn't pay out forced institutions to lower their asset values, causing them to fail even further, freezing the exchange of money (the so-called credit crunch) and, by extension, the entire economy. What sets the mortgage crisis apart from any potential CDS crisis is that if you follow a mortgage far enough down the line, you eventually come to a house. If a borrower defaults on a loan, the bank can still recoup some of its money by taking possession of the house and selling it. This isn't the case with CDSs; they're based on an action (like a bank failing), not a thing (like a house). And because of their intangible nature, finding a source of capital to cover CDS payouts is less exact. Even more difficult than getting blood from a stone is getting money from thin air.

A clear picture of the precarious state of the economy balanced on the CDS market was drawn in 2008. In September, insurance giant AIG was saved from collapse by an \$85 billion infusion of government cash. The bailout also saved those holding the bag on credit default swaps on the company's bonds; a credit event was averted by government intervention. This wasn't the case when mortgage holding corporations Fannie Mae and Freddie Mac were taken over by the federal government that same month. The action was considered a credit event; investors holding CDSs on bonds (shares) in the two corporations were eligible to submit claims on their policies. Ironically, the government action may have actually averted widespread CDS claims filed on bonds issued by the mortgage giants; government intervention actually caused the corporation's values to rise slightly. The precarious balance was maintained. For how long, such a disaster could be averted — or even if it could be — no one could say.

C.E. Shanmugasundaram, Teaching Assistant, Department of Economics,
A.P.A College of Arts & Culture, Palani

GLOBAL MELTDOWN AND MICRO FINANCE IN INDIA

Introduction

Compared with other financial institutions, Micro Finance Institutions (MFIs) have emerged relatively unscathed from the financial crisis of the past few decades. During the currency crisis in Latin America in the 1990s, institutions serving poor customers generally performed better financing than mainstream banks. At the same time the clients and microenterprises financed by MFIs were not integrated into local banking and currency markets.

Micro Finance now has many links to domestic and international financial markets. As a result of which today's financial crisis is more likely to infect its institutions. Many may suffer and some may fail but the sector has built sound foundation. Many strong institutions and the vast untapped market of credit worthy clients will ensure that the micro finance sector will survive the setbacks brought on by the current financial crisis.

The effects of global crisis are likely to be more complex, deeper, and more difficult to predict than in the past. The medium and long-term effects of the worldwide recession are likely to be punishing for many poor people and institutions that serve them. Evidence from different market reports suggest that the consequences of the crisis ricochet around the globe-credit crunch, currency dislocations, job losses and falling demand.

The Global Financial Crisis and its Impact on Micro Finance in India

In the past, the micro finance industry has been able to weather most macro economic shocks better than the formal financial sector. However, in more recent times, the sector has generated much closer ties to the formal sector and will likely be affected more in this downturn than in others.

H. Esther Rani, Assistant Professor in Department of Economics,

S. Samuel Anand Raj, Bishop Heber College, Tiruchirappalli.

There are two major risks that influence the industry's performance due to the economic fall out. First risk is so widespread, i.e. not concentrated to one geographic region, many of the poor will be directly and indirectly affected by their ability to repay their loans and general demands for credit. The second risk is MFIs ensuring decline of access to commercial credit, restricting growth and profitability of many institutions.

Micro finance has faced a fall in growth and funding because of the global recession. It has also reduced the investors confidence since it emerged in recent decades as a fast growing provider of small scale financial services to the world's poor.

Each part of the world has been experiencing the heat of financial meltdown in one form or the other. Poor people even in rich countries are burnt seriously in the present financial crisis. Its impact has been realized on many sectors.

MFIs face the following problems in the long-run due to the global recession.

- ☺ Liquidity and credit risks because clients are withdrawing savings and finding it difficult to meet repayment commitments.
- ☺ Lower exposure to refinancing risks, if they have a broad deposit costs.
- ☺ Tightening liquidity and rising deposit costs.
- ☺ Interest rates hikes and currency depreciation if borrowing in foreign currency.
- ☺ Loan portfolio of MFIs may shift in favour of wealthier clients.
- ☺ MFIs borrowing in foreign currency face both interest rate increases and currency depreciation.

India - Recent Scenario

In India the MFI has given hope to hundreds of thousands especially women. But there may now be threat because of tighter credit. For MFIs, the cost of their funds has gone up, and at the same time they are under pressure not to raise lending rates to their borrowers.

About 500 commercial, regional and cooperative banks are indirectly involved in MFIs. Now these banks themselves are facing the heat, they might either resist lending to MFIs or increase interest rates on loans further.

Measures to overcome the Global Financial Crisis in MFIs

Short term measures

- ☺ MFIs should provide training to their clients and support when possible.
- ☺ MFIs should provide a forum for clients to share their experiences.

Long Term Measures

- ☺ Ramp up business training, client support and other services.
- ☺ Identifying key areas for improved operational efficiency to reduce costs.
- ☺ Considering partnership with other organizations like food and agencies, health care providers and other social service organizations.
- ☺ Restructuring loans and extending loan terms to the borrowers
- ☺ Offering consumption loans to the clients to meet the food crisis.
- ☺ MFIs should avoid increasing interest rates and debt forgiveness.
- ☺ There should be inter-agency coordination with the banks, regulators, supervisors and fiscal authorities regarding financial stability.
- ☺ MFIs should be integrated into main stream banking.

Conclusion

Micro finance which is an effective tool of poverty eradication – capacity building, social empowerment also seems to be affected by the financial crisis as the interest rate increases and credit squeezes. Realizing the significance of MFIs, the government, RBI and other financial institutions should take effective regulatory norms to strengthen their capacity to attain desired economic growth.

GLOBAL RECESSION AND ITS IMPACT ON INDIA

In the context of current global financial crisis, this paper attempts to analyze the impact of the crisis on India's growth and its impact on money, forex market and its balance of payments position.

Theoretical Reviews

According to Christopher Rude, (2008), emerging market and developing countries at first seemed immune from the turmoil coming from the United States. This immunity did not last long. Soon, countries that had adopted export-led growth strategies and liberalized their capital accounts, found that they were suffering from the effects of a reduction of the aggregate demand of the nations to which they exported.

Jacques Sapir, (2008), remarked that, The emerging markets are less affected by global finance crisis than developed markets and threatens a systemic collapse of the banking system.

Paul B. Farrell (2008), commented that the current crisis is the creation of the conservative revolutions of the 80's and 90's in the U.S.A. and some European countries. It is a crisis for and created by neo' liberal policies and thinking. It become global because of the world financial market deregulation.

Impact on Indian Economy

In India, the impact of the crisis has been deeper than what was estimated by our policy makers although it is less severe than in other emerging market economies. The extent of impact has been restricted due to several reason such as:

T.S. Kalyani, Professor & **V. Kalaiselvi**, Assistant Professor Department of Economics Wing, Directorate of Distance Education, Annamalai University, Annamalai Nagar.

- ❧ Indian Financial Sector particularly Indian banks have no direct exposure to tainted assets and its off-balance sheet activities have been limited. The credit derivatives market is in an embryonic stage and there are restrictions on investments by residents in such products issued abroad.
- ❧ India's growth process has been largely domestic demand driven and its reliance on foreign savings has remained around 1.5 percent in recent period.
- ❧ India's comfortable foreign exchange reserves provide confidence in its ability to manage balance of payments notwithstanding lower export demand and dampened capital flows.
- ❧ Headline inflation, as measured by the wholesale price index (WPI), has declined sharply. Consumer price inflation too has begun to moderate.
- ❧ Rural demand continues to be robust due to mandated agricultural lending and social safety-net programs.
- ❧ India's merchandise exports are around 15 percent of GDP, Which is relatively modest.

Despite these mitigating factors, India too has to weather the negative impact of the crisis due to rising two-way trade in goods and services and financial integration with the rest of the world.

Slowing GDP

The growth of GDP at factor cost (at constant 1999-2000 prices) at 6.7 percent in 2008-09 represents a deceleration from high growth of 9 percent and 9.7 percent in 2007-08 and 2008-09.

Stock Market

The combined effect of the reversal of portfolio equity flows, the reduced availability of international capital both debt and equity and the perceived increase in the price of equity with lower equity valuations has led to the bearish influence on stock market.

Forex Market

Sharp fluctuation in the overnight forex rates and the depreciation of the rupee reflects the combined impact of the global credit crunch.

Money Market

The money market consists of credit market, debt market and government securities market. All these markets are in some or other way related to the soundness of banking systems as they are regulated by the Reserve Bank of India. Committee for Financial Sectors Assessment (CFSA), Setup jointly by the Government and the RBI pointed out that our financial system is essentially sound and resilient, and that systemic stability is by and large robust and there are no significant vulnerabilities in the banking system. Yet, NPAs of banks may indeed rise due to slowdown as Reserve Bank has pointed out. But given the strength of the bank's balance sheet that rise is not likely to pose any systemic risks, as it might in many advanced countries.

Reduction in Employment

Employment is worst affected during any financial crisis. So is true with the current global meltdown. This recession has adversely affected the service industry of India mainly the BPO, KPO, IT companies etc.

Strain on Balance Of Payments

Current account deficit (CAD) was US \$ 96.5 billion as against US \$ 15.5 billion for the corresponding period in 2007-08. The capital account balance declined significantly to US \$16.09 billion in 2008-09 has compared to US \$82.68 billion during the corresponding period in 2007-08. As at end-March 2009 the foreign exchange Reserves stood at US \$ 252 s billion.

Reduction in Import-Export

During 2008-09, the growth in exports was robust till August 2008. However, in September 2008, export growth evinced a sharp dip and turned negative in October 2008

and remained negative till the end of the financial year. For the first time in seven years, exports have declined in absolute terms in October 2008.

Response to the Crisis

The Government introduced stimulus package while the Reserve Bank shifted its policy stance from monetary tightening in response to the elevated inflationary pressures in the first half of 2008-09 to monetary easing in response to easing inflationary pressures and moderation of growth engendered by the crisis.

The Government launched three fiscal stimulus packages between December 2008 and February 2009. These stimulus packages come on top of an already announced expanded safety –net program for the rural poor, the farm loan waiver package and payout following the Sixth pay Commission report, all of which added to stimulating demand.

The RBI has taken several measures aimed at infusing rupee as well as foreign exchange liquidity and to maintain credit flow to productive sectors of the economy such as to infuse liquidity through interest rate management, risk management and credit management.

Risk Management

There has been a sustained demand from various quarters for exercising regulatory for bearance in regard to extend prudential regulations applicable to the banking sector. As a part of counter-cyclical package, RBI has already made several changes to the current prudential norms for robust risk disclosures, transparency in restructured products and standard assets.

Credit Management

There was a noticeable decline in the credit demand during 2008-2009 which is indicative of slowing economic activity- a major challenge for the banks to ensure healthy flow of credit to the productive sectors of the economy. The reduced funding demand on

the banks should enable them to reduce the interest rates on deposit and thereby reduce the overall cost of funds.

- ∂ Opening a special repo window under the liquidity adjustment facility for banks for on-lending to the non-banking financial companies, housing finance companies and mutual funds.
- ∂ Extending a special refinance facility, which banks can access without any collateral.
- ∂ Unwinding the Market Stabilization Scheme (MSS) securities, in order to manage liquidity.
- ∂ Accelerating Government's borrowing program.
- ∂ Relaxing the external commercial borrowings (ECB) regime
- ∂ Allowing the NBFCs and HFCs access to foreign borrowing
- ∂ Instituting a rupee-dollar swap facility for banks with overseas branches to give them comfort in managing their short-term funding requirements
- ∂ Expanding the refinance facility for exports

Conclusion

Over the last five years, India clocked an unprecedented nine per cent growth, driven largely by domestic consumption and investment even as the share of net exports has been rising. This was no accident or happenstance. True, the benign global environment, easy liquidity and low interest rates helped, but at the heart of India's growth were a growing entrepreneurial spirit, rise in productivity and increasing savings. These fundamental strengths continue to be in place. Nevertheless, the global crisis will dent India's growth trajectory as investments and exports slow. Clearly, there is a period of painful adjustment ahead of us. However, once the global economy begins to recover, India's turn around will be sharper and swifter, backed by our strong fundamentals and the untapped growth potential. Meanwhile, the challenge for the government and the RBI is to manage the adjustment with as little pain as possible.

IMPACT OF GLOBAL ECONOMIC CRISIS ON INDIAN ECONOMY

Introduction

The recent global financial crisis emanated from the subprime crisis (related to real estate market) in the US economy. The US financial crisis has had its reverberations on both developed and developing countries. For countries like India it is not possible to insulate their economy completely. However, the banks in India and other financial institutions have not experienced the kind of disaster as in the case of such institutions in western world. By and large India has been spared such panicky situations. This was achievable by the prudent policies of Indian Government.

Effect of the Crisis

The impact of the global crisis on India can broadly be divided into three different aspects: (1) the immediate direct impact on its financial sector; (2) an indirect impact on economic activities; and (3) potential long-term geopolitical implications. Fortunately, India, like most of the emerging economies, was lucky to avoid the first round of adverse affects because its banks were not overly exposed to subprime lending. Only one of the larger private sector banks, the ICICI, was partly exposed but it managed to counter the crisis through a strong balance sheet and timely government action. The banking sector as whole maintained a healthy balance sheet and, over the third quarter of 2008 –a nightmare for many big financial institutions around the world–, India's banks reported encouraging results and witnessed an impressive jump in their profitability. The immediate aftermath is that many jobs have been lost so far. The deteriorating US, Japan and the Euro Zone Economy is impelling the Indian economy on the downside. The other developing economies are also not immune to this global slowdown.

Dr.R.Meenakshi, Reader in Economics, Department of Economics,
Sri Sarada College for Women, Salem.

Impact on Indian Economy

At the same time, in India, the impact of the crisis has been deeper than what was estimated by our policy makers although it is less severe than in other emerging market economies. The extent of impact has been restricted due to several reasons such as:

- Indian financial sector particularly our banks have no direct exposure to tainted assets and its off-balance sheet activities have been limited. The credit derivatives market is in an embryonic stage and there are restrictions on investments by residents in such products issued abroad.
- India's growth process has been largely domestic demand driven and its reliance on foreign savings has remained around 1.5 per cent in recent period.
- India's comfortable foreign exchange reserves provide confidence in our ability to manage our balance of payments notwithstanding lower export demand and dampened capital flows.
- Headline inflation, as measured by the wholesale price index (WPI), has declined sharply. Consumer price inflation too has begun to moderate.
- Rural demand continues to be robust due to mandated agricultural lending and social safety-net programmes.
- India's merchandise exports are around 15 per cent of GDP, which is relatively modest.

What are the problems, Indian Economy is facing?

- Disparity between Wholesale Price Index (WPI) and Consumer Price Index (CPI)
- Higher Fiscal Deficit
- Balance of Payments Difficulties
- Falling Exports
- Government Borrowings
- Global Economic Challenges
- Inadequate Economic Reform Measures

On November 30, 2009 the Central Statistical Organisation released estimates of GDP for the quarter July – September of the current fiscal as 7.9% which compares very favourably with the 7.7 per cent recorded at the same time last year. During the first quarter, the economy grew by 6.1 per cent and even that appeared respectable considering that practically all advanced economies and most developing countries were at that time still mired in recession and were posting negative growth rates. It is heartening to note that the growth projections for 2009-10 by official as well as non-official forecasters are anticipated to be revised upwards. That would be a significant development, considering that barely three months ago most of them were lowering their projections in the wake of inadequate rainfall during the early phase of the South West monsoon.

The encouraging economic situation is due to the following:

- The second quarter growth has been driven by strong performances of the manufacturing sector, which was up by 9.2 per cent compared to 5.1 per cent last year, and the mining and quarrying sector that registered 9.5 per cent as against 3.7 per cent.
- The growth in the services sector too has been impressive with the Community, Social and Personal services sub-segment posting a 12.7 per cent growth.

Future Outlook for India

A sound and resilient banking sector, well-functioning financial markets, robust liquidity management and payment and settlement infrastructure, buoyancy of foreign exchange reserves have helped Indian economy to remain largely immune from the contagious effect of global meltdown. Indian financial markets are capable of withstanding the global shock, perhaps somewhat bruised but definitely not battered. India, with its strong internal drivers for growth, may escape the worst consequences of the global financial crisis. In other words, the fundamentals of our economy continue to be strong and robust. The global economic environment continues to remain uncertain, although the rate of contraction in economic activities and the extent of pressures on financial systems eased in the first quarter of 2009-10. Yet, it is not possible to clearly see the path of the crisis and its resolution over the coming months. In this sense, India is not unique as almost every country, whether or not directly affected, has to manage the current economic crisis under uncertainty.

INDIA AND THE FINANCIAL CRISIS (2007-2009)

Introduction

Since 1991 following the policy of globalisation, the Indian economy was also opened to foreign capital and foreign trade of goods and services and thereby got integrated with the united states and European and other countries to a greater degree than before. Therefore, when financial crisis gripped United States and European countries, India could not remain isolated. Some important effects of global financial crisis on India are :

Depreciation of Indian Rupee

The capital out flow by FIIs was not confined to drastic fall in share prices but was more deeper and devastating. India had to convert their rupees into dollars to send them abroad. This led to the increase in demand for dollars. Rupee-dollar exchange rate being determined by demand for and supply of currencies, the increase in demand for dollars caused appreciation of US dollar in term of rupees, that is rupee depreciated against US dollar. The Indian rupee whose value had appreciated to Rs. 39.4 for a dollar in Dec. 2007 depreciated to Rs. 49.3 for a dollar in October 2008.

Liquidity crunch in the Banking Sector

To prevent fast depreciation of rupee and maintain relative exchange rate stability, RBI intervened and supplied dollars from its foreign exchange reserves. As a result the quantity of rupees with the banking system declined causing liquidity problem in the Indian banking system which affected the credit flow to the industry for financing of working capital and fixed investment projects. Thus the cause of liquidity and credit crunch that arose in India was the sale of billions of dollars from its reserves by the RBI which withdrew rupees from the banking system in the process. It is estimated that each sale of a billion dollar by RBI which sucks around Rs. 5000 crores from the domestic market. The call rates rose to all time high of 23 percent.

E. Thelma, Assistant Professor in Economics, Bishop Heber College, Tiruchirappalli.

S. Narayanee, Bishop Heber College, Tiruchirappalli.

Indian Economic Growth

In September 2008 IMF gave the assessment of the global economy whose growth rate was expected to be 3 percent in 2008 and near zero in 2009. IMF also predicted lower growth of 7.7 % for India for the year 2008-2009 which was further lowered to 7 percent as against 9 percent in the previous 3 years (2005-2008).

As against the 11th plan target of 9 % annual growth, fall in India's growth to 7 % in 2008-2009 and less than it in 2009-2010 is a matter of concern as it will badly affect the targets of employment generation and poverty reduction. Unlike China India's economic growth depends more on domestic demand rather than external demand and is driven mostly by domestic saving and investment.

Slowdown Manufacturing Sector

According to the survey conducted by Federation of Indian Chambers of Commerce and Industry (FICCI), the manufacturing sector comprising industries like textiles, metals and metal products, leather and leather products, jewellery and automobiles has seen a steep decline in production while others have registered a deep slow down. The textiles, leather and leather products, metals and metal products are expected to register negative growth of 3.9 %, 13 % and 30 percent respectively.

Balance of Payments

As a result of globalisation and adoption of export – oriented strategy of growth in place of import substitution the Indian economy now depends to a greater extent on external market to sell our goods and services.

Our foreign trade balance worsened during 2008-2009. India's foreign trade balance registered a deficit of \$ 60 billion in the first half of 2008-2009 as against \$ 30 billion in the first half of 2007-2008. Our exports in Oct. 2008 were not just down but declined to 12.8 % as compared to the same month of previous year 2007. This trend continued in Nov. 2008 in which exports declined by 10 % as compared to Nov. 2007. As a result, our target of exports of 200 billion US dollar for 2008-2009 will not be achieved. Due to the global financial crisis the growth of our exports are bound to decline as a result of recessionary conditions in the US and the European countries.

Indian Response to the Financial Crisis

The monetary policy for 2009-2010 is set in the context of a deep global economic slump and financial market turmoil. Governments and central banks around the world have responded to the crisis through both conventional and unconventional fiscal and monetary measures.

Monetary Measures

- ❖ RBI took several steps to prevent fast depreciation of Indian rupee due to massive capital outflow by FIIs by selling billions of dollars in the foreign exchange market from its reserves.
- ❖ The problem of global financial crisis was diagnosed as the lack of liquidity in the money market. Therefore to increase the liquidity of the banking system RBI cut Cash Reserve Ratio (CRR) three times in Oct. - Nov. 2008 by 350 basis points (i.e by 3.5 percentage points) from 9 percent to 5.5 percent. With this the RBI infused liquidity of Rs. 1,40,000 crores in the banking system. Besides RBI reduced Statutory Liquidity Ratio (SLR) from 25 % to 24 % which enabled banks to get Rs. 20,000/- crores from RBI.
- ❖ It was decided to reduce the lending rate to lower the cost of borrowing. To achieve this the repo rate was reduced by 1.5 percentage in Oct. 2008 (i.e. from 9 % to 7.5 %). Again in Dec. 2008 it was further lowered to 6.5 %.
- ❖ To boost the industrial growth RBI cut the interest rate.
- ❖ However reports from banks reveal that though liquidity has eased in the system and some banks lowered their lending rates but credit to industries has not picked up to the extent it was expected to happen.

Fiscal Stimulus

At G 20 summit held in Washington DC in October 2008, Prime Minister Manmohan Singh emphasised giving a fiscal stimulus to overcome recession and slow down in economic growth. This fiscal stimulus is in keeping with Keynesian macro economics as Keynes emphasised increase in government expenditure to get rid of depression in 1930s. The Indian government announced a fiscal stimulus package on Dec. 6, 2008 to stimulate growth so as to ensure 7 % growth rate in 2008-2009. This fiscal package involves more than Rs. 30,000 crores both the increase in government expenditure and cuts in taxes and is meant to increase both taxes and is meant to increase both consumption and investment in the economy. The following are the various items of this fiscal stimulus package.

- ❖ Increase in plan expenditure; the fiscal package provides for the increase in plan expenditure by Rs. 20,000 crore during the remaining months of the financial year 2008-2009.
- ❖ Financing infrastructural development : Expenditure on development of infrastructure play an important role in boosting economic growth. The fiscal package provides for allowing Indian Infrastructure Finance Company Limited (IIFCL) to raise Rs. 10,000 crore through issue of tax free bonds.
- ❖ Cut in Central Excise Duty (i.e. CENVAT) : An important measure taken to raise the demand for goods and services is across the board 4 % cut in central excise duty. This uniform cut in excise duty will bring about fall in prices of goods which will raise demand for consumer durables.
- ❖ Housing : RBI has decided to lend Rs. 4000 crore to National Housing Board (NHB) which in turn will lend to housing finance companies. In addition to this the public sector banks would also announce a package for the home loan borrowers. This will lead to greater demand for housing which has also multiplier effect on

the economy through its linkages with cement, steel and the transport sector apart from directly generating employment.

- ❖ **Export promotion :** To counter the slump in exports, fiscal package provides for subsidising interest costs of exporters. It is hoped that lower interest costs of exporters will make the Indian exports more competitive.

Impact of this Crisis on India

Around 40 % of Dubai's population is made up of Indians, but the country's financial exposure is quite small. The Indian banks and real estate companies that operate there have not reported major outstanding debt. The SBI has an exposure of about Rs. 1,700 cr. And the Bank of Baroda has lent Rs. 4000 Cr. The private sector banks have larger exposures but not so much as to cause worry. Likewise, India's large real estate companies are not in any danger of losing their shirts in Dubai. However, what the country does need to worry about is inbound investment from Dubai, especially in ports. Dubai world's subsidiary. DP world is an important player in India, and its \$ 500 m investment plan for the country might be affected. The larger lesson for India relates to the risks of opening up its financial markets with reckless speed and without building in regulatory safeguards.

Feeble Signs of Recovery

The crisis has been a learning experience for all just as the great depression of the 1930s. Over the past few months there have been many who saw an end or atleast the beginning of an end to the recession. But all of them did not spot signs of a robust recovery. The famous green shoots and glimmers of hope pronouncements attributed to the US president and other senior leaders as far back as April this year suggested signs of life in what were then moribund economies. They did not indicate a recovery.

US Federal Reserve Chairman Ben Bernauke declared in mid-September that the recession has ended. The persistent increase in the number of unemployed in the US certainly does not suggest a rebound. All that he mentioned was that the pace of economic contraction in US was slowing.

IMF's forecast

IMF has come out with a categorical assertion that global recovery is under way. In a recent update to its World Economic outlook, it has stated that global economic growth has turned positive and will touch 3.1 % next year. The earlier forecast was for a 2.5 % growth.

This year the WEO says the rate of contraction at minus 1 % is lower than the minus 1.4 % forecast earlier.

Advanced countries will expand at a sluggish pace through 2010. The rebound will come from the emerging and developing economies. The IMF estimates these will grown by 5 % in 2010, up from 1.75 % in 2009.

Conclusion

The financial crisis is the result of failure of capitalism. The capitalistic countries were only hit heavily by the financial meltdown. When the powerful US economy experienced severe financial crisis, the rest of the world could not escape from it. The developing countries may face the same problem in the future. How the developing nations and the so called developed nations are going to avoid this kind of another crisis is a question mark.

THE GLOBAL FINANCIAL CRISIS: IDENTIFYING THE CHRONICALLY POOR IN LOW INCOME COUNTRIES

Introduction:

UN secretary general Ban Ki-moon recently stated 'It is not the chronic poor who are most affected, but the near and working poor whose lives had improved significantly over the past decade'. This can be seen in the rise in unemployment of those working in low-paid industries, the declines in global remittances and the selling of household assets. While this may be the most immediate impact, there is evidence that the effects of the crisis will also affect chronic poverty. One sign of the relationship between the crisis and a potential rise in chronic poverty is the impact on children, young people and women in low-income countries through the effects on human capital and socio-economic development. These effects are translated through reduced household incomes and purchasing power, as well as increased household stresses and pressures on the dynamics of the household itself.

These affect people's general health and development; their labour demands, the time available for care and support and their daily consumption. One of the symptoms of this crisis has been rising prices for commodities, such as food. This could lower household consumption and, therefore, induce poorer health; in Zambia it was predicted that average consumption could decrease by 17% among households as a result of increased maize prices. In times of crisis, many poor and disempowered households resort to coping mechanisms that will have a negative affect on the well-being of their children such as reduced spending on food, taking children out of school, and even reduced protection, nurture and care. The impact is compounded if governments cannot protect core spending on public services.

L.Dhanalakshmi, Teaching Assistant in Economics, A.P.A. College for women, Palani

Proven impacts of previous comparable crises on children include increases in child mortality and morbidity, child labour, child exploitation, violence and other forms of abuse, alongside falling school attendance and in the quality of education, care, nurture and emotional wellbeing. This could jeopardise the future capabilities of children from poor households to rise above the poverty level, contributing to a lifetime of poverty and potentially its inter-generational transmission.

Women are particularly vulnerable to economic shocks, with many already juggling a mass of domestic and work-related responsibilities. Competing priorities, compounded by economic shocks, can intensify their poverty; particularly when a woman is the sole breadwinner and/or the head of the household. As employers tighten their own belts, women's wages (often lower than men's) are often the first to be reduced and they are often the first to lose their jobs; though this is tied closely to the sectors in which women and men work, and the formality or informality of their employment.

Job losses and lower wages can result in women taking on longer working hours for less pay, increasing their ill health and time poverty, with knock-on effects on their households and children. In its labour market predictions for 2009, the ILO has cited an increase of between 24 to 52 million people becoming unemployed, of whom 10 to 22 million will be women. Significantly this figure represents losses only in formal employment, failing to capture gendered dynamics in the informal market that may be more potent. Other ways in which women are affected relate to intra-household dynamics around, for example, food consumption. There is ample evidence of gender disparities in consumption during food shortages, but reduced food intake affects not only general well-being, but maternal and infant health. Other effects include increases in domestic violence, which is known to correspond to household economic stress. Taken together, these factors expose many women to increased vulnerability, pushing them and their households further into poverty.

Youth are likely to suffer from the impact of a crisis; economic strain often results in their withdrawal from school and a rise in their unemployment rates. US President Obama's statement that 'We could lose a generation of potential as more young [people]

are forced to forgo college terms or a chance to train for the jobs of the future' reflects a universal phenomenon. Cohort studies reveal that these experiences can have lifelong implications, and for those thrown into poverty, recovery may take a very long time. It is not surprising that those who are already vulnerable in low income countries may be those worst hit by the crisis, but what is unknown is the depth of chronic poverty into which some people may fall, which needs, therefore, specific attention. It is clearly too soon to measure chronic poverty in the context of the current crisis, but previous research identifies early warning signs and individual factors that can come together to produce 'poverty traps' or conditions which keep people in a position of sustained poverty; identifying and targeting these early will be essential. As the global economy starts to recover, the trickle down effects should begin to be felt at a national level with net poverty levels slowly on the decline.

However these effects are unlikely to benefit those forced into a situation of chronic poverty unless specific action is taken to target such populations. Such actions should include; A commitment to retain a policy focus on the chronic poor and the most vulnerable. This will be particularly important in current crisis responses, such as fiscal stimulus packages. Disaggregated monitoring will be required that not only identifies those suffering from the most acute household poverty in income terms, but also identifies multidimensional poverty indicators, from asset levels to gender and other identity status and the formality of employment. Governments need to ensure that they do not give with one hand and take away with the other by, for example, increasing short-term safety nets while reducing essential core social spending.

Existing protection systems need strengthening, and expenditure must be oriented to services for those in need, to stop them withdrawing from the service (because of the cost) and, in the case of health, neglecting themselves and their children. Complementary practical interventions include greater investment in nutritional supplementation for children to compensate for negative coping strategies; sensitive, protection-related social services to which women and children can turn if there is family violence; and the waiving of education and health service fees or the lessening of their associated costs by using innovative

strategies like providing free public transport to essential services for mothers and children or other vulnerable groups.

These measures will undoubtedly incur costs and securing the political will is always hard. But investments in such areas should be seen as an opportunity to re-orient existing safety nets and services to promote greater equity across the population, and to address the inequities in growth that existed before the crisis. The support and advocacy of key high-level development players, like the UN and World Bank, as well as national NGOs and CSOs, will be vital for a sustained commitment.

Conclusion:

Impacts on the nutrition and health of young children in poor families are of special concern. A number of research findings suggest that poor nutrition in the early years of life retards child growth, cognitive and learning ability, schooling attainments and (in all likelihood) earnings in adulthood. The balance of the evidence suggests that crises have a negative effect on child health (and mortality) in most poor and middle-income countries (Development Research Group, 2008).

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IMPACTS OF GLOBAL FINANCIAL CRISIS IN INDIA

Introduction

The unfolding Global Financial Crisis led to a plenty of interest among intellectuals not only in the countries affected the most but also in countries such as India and China, which have coped better. India's financial sector regulation was praised. Behind every dark cloud there is a silver lining. Today the world is in a financial mess. Everyone is talking about financial crisis all over the world. But nothing lasts for long. Everyday we can't expect our economy to be in boom. The economy tends to move in various phases i.e. from expansion to peak and then peak to recession and along the way of "Phase to recovery" and once again to peak. This is because of two human emotions.

The Indian Approach in Current Scenario

Today India stands erect to face this financial crunch with many advantages and strengths. One of the major strength is its nuclear technology which will aid India to battle out its biggest problem-power. According to the Planning Commission Deputy Chairman, Montek Singh Ahluwalia, the global financial turmoil will not have any significant impact on the country's financial system as India is not exposed to the new and innovative financial instruments that triggered the meltdown. We have not been as exposed to these new and innovative instruments, which have been the source of financial distress internationally. So the direct impact on the Indian financial system is not going to be significant at all.

There will be indirect effect. As regards to India, the country is fortunate to have large foreign exchange reserves and hence it would be able to tide over any short-term disruption in capital inflows. The strengths of the Indian economy are substantial and capital inflows would eventually resume the normal course. As far as economic growth is concerned, the downturn in the world economy is going to have an impact on India

Dr.A.Sangamithra, Assistant Professor & **P.Mangayarkarasi**, M.Phil Research Scholar, Department of Economics, Bharathiar University, Coimbatore.

and unlike the last year, the country would not get 9 per cent growth rate during the current fiscal. Still, the growth rate could fall below 8 per cent at 7.7 per cent, as predicted by the Prime Minister's Economic Advisory Council.

Positive Impact on Indian Economy

The first time during such crisis period when world's big economies like US is struggling to overcome this situation India was able to invest money for launching of Chandrayaan-1. This is the time when world's most powerful economies are suffering more than Indian economy. It affected developed country economies more than developing country's economy. In USA Lehman Brothers has filed for bankruptcy, Merrill Lynch has emerged with Bank of America, Washington Mutual Operations are being apprehended by FDIC and Wachovia is being auctioned by Citigroup. In comparison to such terrific conditions India is in a better place. It is worth underlining that we have a number of companies still reporting successes at this time. Some of the businesses bucking the trend at this stage have diversified into a number of areas and others have exposure to export markets. Whilst overseas markets are increasingly tough, but the businesses have been able to benefit from the weakness of the money value which has allowed exporters additional competitiveness with their international trade. The other such positive factors are

- i. Cost stabilization in real estate market.**
- ii. Rationalization of Salary Structure in IT Industry.**

At the same time the negative impacts are also taken place. The important among them are

- i. depletion of forex reserves**
- ii. drop in exports, especially of handlooms and jewellery.**
- iii. Reduction in tourist inflow.**
- iv. exchange rate depreciation.**

Conclusion

From the above arguments it can be noted down that the 'Financial or Sub prime Crisis' was the sheer consequences of 'greed' and to make 'too much profit' on the part of Wall Street Firms and Investment Banks. This crisis also shows the failure of capitalist market economy. Though the Indian economy would be able to withstand the crisis without any major difficulty, but the crisis is still causing mayhem all over the world. After watching so many positive points we Indians can ourselves that we are quite in a safer place in comparison to many developed countries. To conclude let us hope for a stronger India by rectifying all its economic weaknesses after this so called financial crunch.

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GLOBAL FINANCIAL AND ECONOMIC CRISIS: GROWTH DOWNTURN AND ITS EFFECTS

Introduction

The events started as a US financial crisis in August 2007 and mushroomed into a global crisis through 2008 were probably changed, in several respects, economic structures all over the world. The crisis in financial markets has spread at an alarming rate. The failure of Lehman Brothers was a turning point, transforming the financial turmoil that started a year earlier to the most serious financial crisis over the past century. Though the epicenter of the crisis was the US sub-prime mortgage market, its shockwaves are being felt in financial markets all over the world. As the financial sector is fully integrated with the real economy, the burgeoning crisis in the financial sector poses a threat to the real economy. Macro-economic fundamentals like growth, employment and prices are bound to be affected. The shock has been felt in India's financial market as well since we are far more exposed to international markets after our macro-economic reforms of 1991. Admittedly, the strength of our banks and other financial institutions coupled with conservative and sound regulation by the Reserve Bank of India has made us better equipped to face this challenge; nevertheless as problems spread to the real economy, policy makers will find their task cut out for them. with the original issuer and guarantee a high return for those who bought them. In the end those who created them did not comprehend their risks. The collapse of the housing market was followed by a great squeeze in the credit markets.

Growth Down turn

It has been projected that the output growth may be negative in the following years of the crisis. However, India and China can look for not so not bad growth rates.

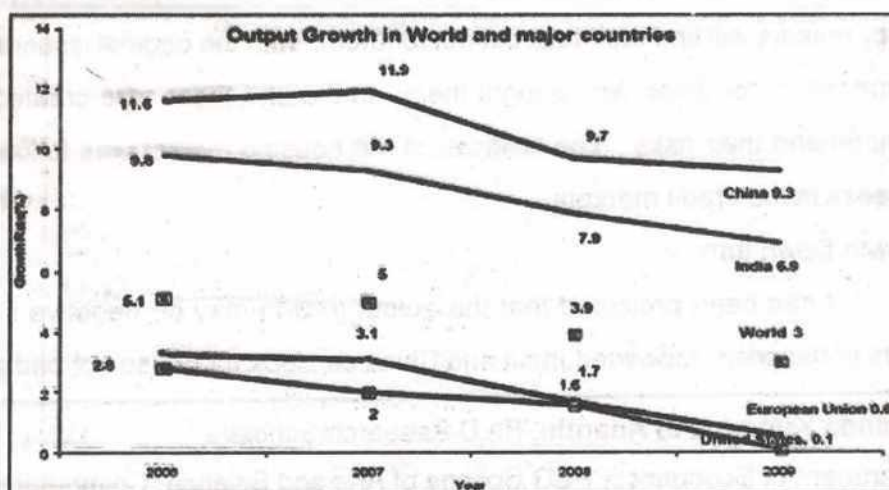
E. Nanda Kumar & S. Ananthi, Ph.D Research Scholars,
Department of Economics, PSG College of Arts and Science, Coimbatore.

Table 1
Growth in World Output (in %)

	2007	2008	2009	2010	2014
World Output	5.2	3.2	-1.3	1.9	4.8
Advanced Economies	2.7	0.9	-3.8	0.0	2.6
United States	2.0	1.1	-2.8	0.0	2.4
Euro Area	2.0	1.1	-4.2	-0.4	2.3
Japan	2.4	-0.6	-6.2	0.5	2.5
Other Advanced Economies	4.0	1.2	-3.9	0.4	3.5
Emerging and Developing Economies	8.3	6.1	1.6	4.0	6.8
Developing Asia	10.6	7.7	4.8	6.1	8.8
China	13.0	9.0	6.5	7.5	
India	9.3	7.3	4.5	5.6	
Middle East	6.3	5.9	2.5	3.5	4.5
Western Hemisphere	5.7	4.2	-1.5	1.6	
European Union	3.1	1.1	-4.0	-0.3	

Source: World Economic Outlook 2009

Chart 1



Trade Channel

The growth of world trade has been to, -11.0 per cent in the year 2009. The both import and export is affected in advanced and developing economies. Mostly, advanced economies are more affected when compared to emerging and developing economies.

Table 2
Growth in World Trade (in %)

	2007	2008	2009	2010
World Trade Volume (Goods & Services)	7.2	3.3	-11.0	0.6
Imports				
Advanced Economies	4.7	0.4	-12.1	0.4
Emerging and Developing Economies	14.0	10.9	-8.8	0.6
Exports				
Advanced Economies	6.1	1.8	-13.5	0.5
Emerging and Developing Economies	9.5	6.0	-6.4	1.2

Source: World Economic Outlook 2009

This channel has received substantial attention in the recent years. Not only have financial markets become more integrated in terms of volumes but also similar in terms of movement of various financial assets. Hence, this channel poses numerous challenges to policymakers. The impact via this channel is unexpected and could have nothing do with macroeconomic fundamentals.

What are the short and long term consequences of the financial meltdown?

- *Depth of slowdown to be more severe,*
- *Governments may not be able to guarantee the stability of the financial system.*
- *Rising unemployment*
- *Large employment losses in some sectors*
- *Reduced world trade volume*
- *Rising income insecurity and disproportionate impact on low-income groups*

Impact of Global Crisis on Indian Economy

The impact of the global crisis has been transmitted to the Indian economy through three distinct channels, viz., the financial sector, exports and exchange rates. The financial sector including the banking sector, equity markets, external commercial borrowings and remittances has not remained unscathed though fortunately, the Indian banking sector was not overly exposed to the sub-prime crisis.

The second transmission of the global downturn to the Indian economy has been through the steep decline in demand for India's exports in its major markets. The first sector to be hit was the gems and jewellery which felt the impact in November, 2008 itself and where more than 300,000 workers have lost their jobs. The negative impact has since covered other export-oriented sectors garments and textiles, leather, handicrafts, and auto components. The 21 percent decline in exports in February 2009 is the steepest fall in exports for the last two decades. It is unlikely that exports will recover within this year. While exports of both goods and services, still account for only about 22 percent of the Indian GDP, their multiplier effect for economic activity is quite large as the import content is not as high as for example in the case of Chinese exports. Therefore, an export slump will bring down GDP growth rate in this year.

The third transmission channel is the exchange rate as the Rupee has come under pressure with the outflow of portfolio investments, higher foreign exchange demand by Indian entrepreneurs seeking to replace external commercial borrowing by domestic financing, and the consequent decline in foreign exchange reserves.

Policy Response

It is more important to focus policy attention on removing some of the many remaining structural bottlenecks on raising the potential GDP growth rate. Essentially, this will imply efforts at improving the investment climate both for domestic and foreign investors; removing the entry barriers for the entry of corporate investment in education and vocational training; improving the delivery of public goods and services and expanding physical infrastructure capacities including a major effort at improving connectivity in the rural regions. These measures will constitute the package of second generation of

structural reforms and will enable the Indian economy to climb out of the downward cyclical phase and then to extend the upward phase for a longer period than was achieved in the last cycle. The problem with economic statistics is that it comes with a lag and in India's case we don't even have adequate sources of statistics that conveys a complete picture of the economic scenario. However, both media and financial markets do indicate that things are likely to get worse. The policy is again going to be a mix of fiscal stimulus and monetary policy. There is substantial scope to ease policy rates and RBI is expected to ease rates going ahead. The quantum and timing of the decision will depend on Central Bank. RBI would also be looking at the level of Rupee to make its decision. The issue is actually not as much with monetary policy (where easing is given) but with the usage of fiscal policy.

Conclusion

The Indian economy has shown considerable resilience in the face of the present global financial crisis. RBI's efforts to ease the downward pressure on the rupee (by selling dollars) have added to the domestic liquidity crunch in a scenario where corporates are increasingly turning to the domestic banking sector to make up for the drying up of external sources of finance and the IPO (initial public offering) market. There does seem to be a consensus that India has not suffered as much as other countries and that the growth downturn is indeed no more than that - falling far short of a recession.

The recovery in India is also certain to be faster. In the years of high growth, there was room to ensure that "fallback cushions" for a possible period of downturn were put in place. That did not quite happen, since there was an implicit complacency that the growth story would continue. However, globalization and integration also means greater exposure to uncertainty and external shocks. Hopefully, the present episode will lead to policy changes that provide necessary insurance cushions, collectively or individually. More broadly, on a host of issues, from capital account convertibility, exchange rate flexibility, financial sector development, and inflation targeting, in India was increasingly characterized

by market fundamentalism and finance fetishism. The crisis has now allowed a long overdue pushback to these developments, a pushback that would otherwise have been derided as Luddite and dirigisme. It is not that finance is unimportant or that markets should be spurned. It is rather that the influential devotees of finance and markets need to heed Talleyrand's wise counsel: "Above all, not too much zeal". According to Kishore Mahbubani (2008), the Chinese translate the western word crisis by combining two Chinese characters, "danger" and "opportunity". When looking at financial sector reform, let us look as much at the "opportunity" part of the current global crisis as to its "danger" part. Let us not forget that reform is all about destabilising the status quo. A crisis often provides an excellent opportunity to do so. The current global crisis provides an opportunity to think hard about financial sector reform. All and any change is not necessarily good, but neither is the status quo. We need to reform, and reform in the right way. Inaction is not the way forward.

THE GLOBAL FINANCIAL CRISIS AND INDIA

Introduction

Banking and financial crises have been a common phenomenon throughout the modern economic history of mankind. Since the great depression of 1929, the world has witnessed hundreds of such crises and the frequency of the crises has increased over time. According to a World Bank study of 2001, there were as many as 112 systemic banking crises from the late 1970s until 2001. Most of them, including the current one, have shared some common features: they each started with a hasty process of financial sector reforms, which not only created a vacuum in terms of regulations but also deteriorated the basic economic fundamentals though massive inflows of foreign capital and finally ended up with a change in investor expectations and a consequent mess in the financial markets. The financial sector crisis that arose in the latter half of 2007 and was precipitated by the collapse of Lehman Brothers on 23 September 2008 shared most –if not all– of these features. However, what makes the current crisis exceptional is that it broke out at the very epicentre of global capitalism and its contagion spread very quickly to the entire globe. India, being an integrated part of the global economic order, was also exposed to the adverse impact of the global economic crisis.

A detailed study undertaken by the RBI in September 2007 on the impact of the sub-prime episode on the Indian banks had revealed that none of the Indian banks or the foreign banks, with whom the discussions had been held, had any direct exposure to the sub-prime markets in the USA or other markets. However, a few Indian banks had invested in the collateralized debt obligations (CDOs) / bonds which had a few underlying entities with sub-prime exposures. Thus, no direct impact on account of direct exposure to the sub-prime market was in evidence. However, a few of these banks did suffer some

N.Kumar & S.Rajkumar, Research scholars, Department of Economics,
Bharathiar University, Coimbatore.

losses on account of the mark-to-market losses caused by the widening of the credit spreads arising from the sub-prime episode on term liquidity in the market, even though the overnight markets remained stable. In the aftermath of the turmoil caused by bankruptcy, the Reserve Bank has announced a series of measures to facilitate orderly operation of financial markets and to ensure financial stability which predominantly includes extension of additional liquidity support to banks.

Conclusion

India's geopolitical location is such that the financial crisis presents it with many challenges as well as opportunities. The extent to which India will be able to tackle the challenges and make the most of the opportunities is impossible to predict at present. At this juncture, India needs to think unconventionally to deal with an unconventional crisis.

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IMPACT OF GLOBAL FINANCIAL CRISIS IN THE BANKING SECTOR

Introduction

The Global Financial Crisis has been called by leading economists as the worst financial crisis since the one related to the great depression of the 1930s. It contributed to the failure of key businesses and declines in consumer wealth estimated in the trillions of US Dollars, substantial financial commitments incurred by governments, and a significant decline in economic activity. Both market-based and regulatory solutions have been implemented or are under consideration, while significant risk remains for the world economy.

The global economic crisis and India

The impact of the global crisis on India can broadly be divided into three different aspects:

- (1) The immediate direct impact on its financial sector;
- (2) An indirect impact on economic activities;
- (3) Potential long term geopolitical implication.

Fortunately, India, like most of the emerging economies, was lucky to avoid the first round of adverse affects because its banks were not overly exposed to subprime lending. Only one of the larger private sector banks, the ICICI, was partly exposed but it managed to counter the crisis through a strong balance sheet and timely government action. The banking sector as whole maintained a healthy balance sheet and, over the third quarter of 2008-a nightmare for many big financial institutions around the world-India's banks reported encouraging results and witnessed an impressive jump in their profitability. The indirect-or second-round- impact of the crisis has not only led to massive outflows of Foreign Institutional Investment (FII) but also compelled Indian banks and companies to shift their credit demand from external source to the domestic banking sector.

Mrs.A.Jenitha, Assistant Professor in Commerce, **Ms.R.Vijayanthi**

Student of St.Joseph's College of Arts & Science (Autonomous), Cuddalore.

India's geopolitical impact

The geopolitical impact, which is likely to be the most significant for India, is still unfolding. With the global financial crisis as a backdrop, there is a growing sense of insecurity in the international system. The likely effect could be that many sectors in developing societies will receive fewer funds, leaving local governments to re-think the allocation of resources between health, education, economic development and other areas. This will inevitably create growing disparities, tensions and unrest, all of which could be aggravated by problems related by corruption and poor governance. The prevailing food crisis could lead to an even more serious effect of the financial crisis. India's geopolitical location is such that the financial crisis presents it with many challenges as well as opportunities. The extent to which India will be able to tackle the challenges and make the most of the opportunities is impossible to predict at present.

Retail credit growth

Loans	Year up to June (in Rs Cr)2007	Year up to June (in Rs Cr) 2008	Year on Year growth (in %)
Housing loans	230700	259000	12.27
Personal loans	161000	193000	19.88
Auto loans	86000	87000	1.16
Credit card receivables	21000	30000	42.86
Consumer durables	6000	4000	-33.33

Conclusion

The global financial crisis does not have a great impact on the Indian banking sector. The mainly affected one is the US economy. Though China has US\$2 trillion in foreign currency reserves at its disposal, the global financial crisis has caused widespread poverty, unemployment and inequality. The other countries which were affected by the financial crisis are Pakistan, Afghanistan, Bangladesh and Nepal. As the banking sector is the backbone of every country, proper measures have been taken to overcome such crisis in the initial stage itself.

CAUSES AND ROLE OF FINANCIAL INNOVATIONS IN THE GLOBAL FINANCIAL CRISIS

Introduction

The **Global Financial Crisis** has been called by leading economists the worst financial crisis since the one related to the Great Depression of the 1930s. It contributed to the failure of key businesses, declines in consumer wealth estimated in the trillions of U.S. dollars, substantial financial commitments incurred by governments, and a significant decline in economic activity. The collapse of a global housing bubble, which peaked in the U.S. in 2006, caused the values of securities tied to housing prices to plummet thereafter, damaging financial institutions globally. Questions regarding bank solvency, declines in credit availability, and damaged investor confidence had an impact on global stock markets, which suffered large losses during 2008. Economies worldwide slowed in late 2008 and early 2009 as credit tightened and international trade declined.

Causes of the crisis

Furthermore, the main causes of earlier crises were macroeconomic in nature, such as runaway budget deficits, chronic current account deficits and excessive government debts including foreign debts, all symptoms of economic mismanagement usually by the governments of developing countries. In contrast, the current crisis was less due to any deliberate macroeconomic mismanagement by the U.S. or other industrialized country governments but more a result of abusive operational behaviors of numerous financial institutions or other private sector entities. In other words, the current crisis was mainly the direct result of inappropriate or abusive microeconomic behavior by many of the most sophisticated and reputable financial institutions in the Western industrialized countries and their investors.

P.Priya and C.Mythili, Ph.D Research Scholars, Department of Economics,
Bharathiar University Coimbatore.

IMF and World Bank

The Consensus was composed of three pillars of fiscal austerity, liberalization and privatization, given the fact that macro-economic mismanagement by the affected developing countries was the main culprit of such crises. Both the IMF and the World Bank have played only a minor role in the current crisis. They have been relegated more or less to the status of bystanders, as they are keenly aware that the current crisis is not so much due to any macroeconomic mismanagement of affected countries as the result of abusive market practices of private financial institutions and investor groups in most industrialized countries, especially the United States. Many causes have been proposed, with varying weight assigned by experts. Both market-based and regulatory solutions have been implemented or are under consideration, while significant risks remain for the world economy.

Implications for Global Financial Markets:

It has been noted that the current global financial crisis is different from other previous crises that have affected international financial system during past several decades. The recent abusive behavior of many financial institutions is not only the results of greed and ignorance but also due to the excess liquidity in the world financial markets and the intense competition to enhance the investment returns. The global financial markets have also created a "shadow banking system" apart from the traditional banking system which binds banks and clients on an ongoing basis, with the banks retaining the client credit risk on their books. In recent decades, however, banks have been turned into loan originators, shoveling the loans out immediately to other loan packagers and securities underwriters.

Conclusion

Economists were claimed during the boom years that social cost of crisis is very small. The current economic crisis is burdening the public sector with debt and causing substantial and perverse redistribution of income. It is important to try and make the system

less susceptible to crisis in the future. The scope and severity of current crisis is signal that the growth of financial markets in recent decades is unsustainable and must be reversed. Governments thus face a big challenge that they must stop the financial collapse at short run. To force financial markets to play a more limited, more productive and less dangerous role in the economy, we need a combination of aggressive financial regulation coordinated across national markets as well as nationalization of financial institutions where appropriate. The design and implementation of the changes needed in financial markets is of course a political as much as an economic challenge.

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GLOBAL FINANCIAL CRISIS AND INDIA

EFFECTS ON INDIAN ECONOMY

The current financial crisis has also started directly affecting Indian industries. For the past few years, the two most preferred method of raising money by the companies were stock markets and external borrowings on low interest rates. Stock markets are bleeding everyday and it is not possible to raise money there.

When the crisis first broke internationally, within India there was much talk of how the Indian economy is less likely to be affected and how the Indian financial sector will be relatively immune to the winds from the international financial implosion. But it is clear that important elements of the balance of payments and the domestic financial sector have been affected. There are significant implications for domestic banking, which are already reflected in the credit crunch that has dramatically affected access to credit especially for small and medium enterprises. There are effects on some important macroeconomic prices-in particular the exchange rate.

❑ Austerity is the targeted path

India's greatest ability and strength is its tolerance and ability to difficult situations. It is now trying to tackle the issue of panic resulted out of depression and then pump massive amount of liquidity and confidence into the system. India's population plays the most crucial role here

P.Periyasamy Ph.D Research Scholars, Department of Economics
Bharathiar University, Coimbatore.

THE IMPACTS OF FINANCIAL CRISIS ON INDIAN ECONOMY

In India the impact of financial crisis along with China, is decoupled from the global system and capable of becoming an autonomous growth pole, based on its recent high growth from a low per capita income base, and a young population leading to falling dependency ratios. The domestic financial sector was also seen to be immune to shocks from the international financial system. It turns out that this presumption was wrong, and even involved a faulty assessment of the previous boom. Recent high economic growth in India was fundamentally dependent upon greater global integration and related to the deregulation of finance combined with fiscal concessions that spurred a consumption boom among the top two deciles of the population, especially in urban areas, even as deflationary fiscal policies, poor employment generation and agrarian crisis kept mass consumption demand low.

The substantial rise in profit shares in the economy and the proliferation of financial activities combined with rising asset values to enable a credit-financed consumption splurge among the rich and the middle classes, which in-turn generated higher rates of investment and output over the upswing. This was, therefore, quite similar to speculative bubble-led expansion in several other countries in the same period. This also made the growth process more vulnerable to internally and externally generated crises.

By the middle of 2008, even before the global crisis really hit India, this process too was reaching its limits. The crisis made matters much worse by causing sharp declines in exports of manufactures and reversal of capital flows such that both current and capital accounts of the balance of payments have worsened. The macro issues have been much commented upon, but the specific impact upon certain groups has been much less widely noted. The crisis has been accompanied by changes in employment and relative prices that have adversely impacted especially upon three sections of the population that were already very vulnerable: cultivators, migrant workers and home based women workers. In addition, it has sharply affected food insecurity which was already a problem in the country

T.Ravisankar, Assistant Professor Department of Economics
A.P.A. College of Arts & Culture, Palani.

GLOBAL FINANCIAL CRISIS AND ITS IMPACT ON DEVELOPING COUNTRIES

INTRODUCTION

Indian economy is experiencing a downturn. Industrial growth is faltering. Inflation remains at double-digit levels, the current account deficit is widening, foreign exchange reserves are depleting and the rupee is depreciating.

The last two features can also be directly related to the current international crisis. The most immediate effect of that crisis on India has been an outflow of foreign institutional investment from the equity market. Foreign institutional investors, who need to retrench assets in order to cover losses in their home countries and are seeking havens of safety in an uncertain environment, have become major sellers in Indian markets.

CONCLUSION

The challenges faced by developing countries earlier this year is compounded by the pressures emanating from the global financial crisis. Major industrial country government have provided assurances to bank depositors and creditors. The current crisis may be the worst financial crisis to hit developed countries in 80 years. But financial crisis affecting developing countries are far from uncommon. In the last ten years, major financial crisis have affected many countries.

R.Selvaraju, Assistant Professor in commerce
Bharathidasan University College, Kurumbalur, Perambalur (D.T)

GLOBAL FINANCIAL CRISIS AND ITS IMPACT ON INDIAN ECONOMY

Introduction

The global financial crisis is into its third year now. Many have termed it the “worst financial crisis of the last century”. The crisis began in the US and Europe and it has since affected the rest of the world, including Asia, in a bigger way than was thought at the beginning. This article explores some facets of the crisis, including its impact on the Indian economy.

Financial crises can have a severe effect on economies. This is well known. What is not so well recognized is that the severity of the impact can vary widely. Somehow, in the popular perception, financial crises are identified with the mother of them all, the Great Depression, that followed the stock market crash of 1929. The general sense is that financial crises are crippling in their impact.

Impact of the Financial Crisis on Indian Economy

The global financial crisis started visibly impacting the Indian Economy from 2008 onwards. Gradually it spread over all the sectors of the economy. Till the third quarter of the current fiscal year, both Reserve Bank of India(RBI) and the Finance Ministry were concerned about the accelerating inflation. It was believed that the impact of Indian economy would be only marginal. However, as the crisis started impacting the GDP growth rate, the stock market, exports and capital inflows India is no exception to the adverse effects of the financial crisis of the U.S., particularly, after the opening up of the economy and financial integration. Foreign institutional investors have free play in Indian stock markets. Secondly, speculative flows and their impact on stock markets, and thirdly, extensive use of derivatives as a legal basis in security exchanges. Derivative trading has increased six times the turnovers in spot trading at the National Stock Exchange.

C.Sundara Pandian, Assistant Professor of Economics,
Arulmigu Palaniandavar College of Arts and Culture, Palani

The adverse effects will also be on the balance sheets of corporate which aspects global

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Agriculture	-0.2	5.3	-7.2	10.0	0.0	5.9	3.8	5.1	2.6
Industry	6.4	2.4	6.8	6.0	8.5	8.0	10.6	7.5	4.2
Service	5.7	6.9	7.5	8.8	9.9	11.0	11.2	11.1	9.2
GDP factor cost	7.3	-	-	8.5	7.5	9.4	9.5	9.0	-
GDP market price	4.0	5.2	3.8	8.4	8.3	9.2	9.7	9.2	7.1

exposures. It may also affect the real sector of the economy like the export sector

Table 2 : Overall Sectoral Growth Rate.

Source: 1. International monetary Fund (2008) World Economic Outlook, April.

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Impact on the Indian Economy and the Policy Response

India, like other emerging markers, has suffered a more severe impact than supposed earlier. The impact has been pronounced from three channels; the trade channel, the financial channel and the confidence channel. For the reasons mentioned above, right upto the Lehman episode, it was assumed that the impact on India would be primarily through the trade channel. Since merchandise exports account for less than 15 percent of gross domestic product (GDP), the trade channel impact was assumed to be bearable – it would set back growth only by more than 1-1.5 percent. Once we factor in the financial channel, the picture changes quite a bit. One measure of financial integration, Subbarao points out, would be the ratio of total external transactions (gross current account flows plus gross capital flows) to GDP. This ratio has more than doubled from 46.8 percent in 1997-98 to 117.4 percent in 2007-08.

In a time of global economic crisis, a higher level of financial integration impacts on the economy in three related ways: reducing Indian companies' access to overseas

finance, lowering domestic liquidity and causing stock prices to fall. Adverse global conditions have limited Indian firms' access to global finance in various forms: fresh international borrowings external commercial borrowings (ECBS) have become difficult and existing ones are not easily being rolled over; long-term finance for international acquisitions made earlier through bridge finance is not available; buyers' credit has become scarce for international transactions; Indian banks' overseas branches and subsidiaries find they are unable to access funds in the wholesale market and have had to be provided with dollar funds by their parents from out of India; and so on.

There is a much broader impact on the Indian economy arising from foreign inflows in forms such as foreign direct investment (FDI) and foreign institutional investment (FII). These inflow has contributed to accretion of foreign exchange reserves. Any accretion to reserves enhances domestic liquidity; any decline in reserves constitutes a reduction in liquidity. The gap between domestic investment and saving or the current account deficit – of around 1.5 percent of GDP – in recent years understates the potential impact on the Indian economy of foreign inflows. As Subbarao (2009) points out, capital inflows in 2007-2008 amounted to 9 percent of GDP, vastly in excess of the current account deficit. In the period 2003-2008, the share of investment in India's GDP rose by 11 percentage points. Of this, roughly half was financed by corporate savings but a significant portion of the balance came from external sources.

Turning now to the policy response, both fiscal and monetary policy have responded to the worsening environment although there is much debate about the adequacy of efforts on the two fronts, especially the monetary front.

The principal monetary responses since October 2008 include

- ∂ Reduction in the repo rate from 9 percent to 5.5 percent and in the reverse repo rate from 6 percent to 4 percent
- ∂ Reduction in the cash reserve ratio from 9 percent to 5 percent ; and
- ∂ Reduction in the statutory liquidity ratio from 25 percent to 24 percent

This was supplemented by a wide variety of measures to support liquidity, including to distressed segments of the financial system such as non-banking financial companies (NAFCs) and mutual funds. The RBI estimates that its initiatives have helped augment

liquidity to the extent of Rs.3,88,000 crore or nearly 75 percent of additional commercial credit growth over the year up to 2 January 2009 (RBI 2009).

Conclusions

The global economic crisis triggered by the US financial crisis, is the result of unregulated market and poses a common challenge which needs adequate supervision and strong determination to deal with it. The Indian banking sector is well placed to weather the storm because it is not directly exposed to the financial crisis. It faces secondary effects arising from the slow down of the economy. If suitable remedial measures are undertaken without much of time lag, depending upon the effectiveness of such measures, the recovery would take place.

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THE IMPACT OF THE GLOBAL FINANCIAL CRISIS ON POVERTY

Introduction:

The poverty impact of the crisis in a given country will depend on how it affects both average consumption and the distribution of consumption relative to the mean. The World Bank has made projections for average consumption at country level, which can be compared to the Bank's pre-crisis projections to assess the expected impact of the crisis.

The crisis is expected to sharply reduce growth in 2009. In December 2007, the Bank forecast a growth rate of consumption per capita of 5.1% for 2009. At the time of writing (mid-April 2009), the expected growth rate in consumption per capita for 2009 is 0.7%. The expected growth is lower in 2010, with a pre-crisis rate of 4.4% versus 2.6% post-crisis. Past experience suggests that relative inequality falls about as often as it rises during aggregate economic contractions, with zero change on average. This is in keeping with one of the stylised facts to emerge from research on growth and distributional change, namely that economic growth tends to be distribution neutral on average. So the most defensible assumption for the present purpose is that the burden of the crisis will be more-or-less proportional to initial income leaving relative inequality unchanged within a given country.

Dr.M.Velusamy, Associate Professor in Department of Economics

Dr.K.Ponramalingam, Head and Associate Professor in Department of Economics

A.P.A. College of Arts & Culture, Palani

THE IMPACT OF GLOBAL FINANCIAL CRISIS: OVER VIEW ON U.S ECONOMY DURING - 2007–2009

Introduction:

The **Global Financial Crisis** has been called by leading economists the worst financial crisis since the one related to the Great Depression of the 1930s. It contributed to the failure of key businesses, declines in consumer wealth estimated in the trillions of US dollars, substantial financial commitments incurred by governments, and a significant decline in economic activity. Many causes have been proposed, with varying weight assigned by experts. Both market-based and regulatory solutions have been implemented or are under consideration, while significant risks remain for the world economy. The collapse of a global housing bubble, which peaked in the U.S. in 2006, caused the values of securities tied to housing prices to plummet thereafter, damaging financial institutions globally. Questions regarding bank solvency, declines in credit availability, and damaged investor confidence had an impact on global stock markets, which suffered large losses during 2008. Economies worldwide slowed in late 2008 and early 2009 as credit tightened and international trade declined. Critics argued that credit rating agencies and investors failed to accurately price the risk involved with mortgage related financial products, and that governments did not adjust their regulatory practices to address 21st century financial markets. Governments and central banks responded with unprecedented fiscal stimulus, monetary policy expansion, and institutional bailouts.

GROWTH OF THE HOUSING BUBBLE:

Between 1997 and 2006, the price of the typical American house increased by 124%. During the two decades ending in 2001, the national median home price ranged from 2.9 to 3.1 times median household income. This ratio rose to 4.0 in 2004 and 4.6 in 2006. This housing bubble resulted in quite a few homeowners refinancing their homes

M.Vadivel, M.Phil, Research Scholar,
Department of Economics, Bharathiar University, Coimbatore.

at lower interest rates, or financing consumer spending by taking out second mortgages secured by the price appreciation. (Ben Steverman and David Bogoslaw. 2008).

By September 2008, average US. housing prices had declined by over 20% from their mid-2006 peak. As prices declined, borrowers with adjustable-rate mortgages could not refinance to avoid the higher payments associated with rising interest rates and began to default. During 2007, lenders began foreclosure proceedings on nearly 1.3 million properties, a 79% increase over 2006. This increased to 2.3 million in 2008, an 81% increase versus 2007. By August 2008, 9.2% of all U.S. mortgages outstanding were either delinquent or in foreclosure. By September 2009, this had risen to 14.4%.

EASY CREDIT CONDITIONS

Lower interest rates encourage borrowing. From 2000 to 2003, the Federal Reserve lowered the federal funds rate target from 6.5% to 1.0%. This was done to soften the effects of the collapse of the dot-com bubble and of the September 2001 terrorist attacks, and to combat the perceived risk of deflation.

U.S. CURRENT ACCOUNT OR TRADE DEFICIT

Additional downward pressure on interest rates was created by the USA's high and rising current account deficit, which peaked along with the housing bubble in 2006. Ben Bernanke explained how trade deficits required the United States to borrow money from abroad, which bid up bond prices and lowered interest rates.

Sub prime mortgages remained below 10% of all mortgage originations until 2004, when they spiked to nearly 20% and remained there through the 2005-2006 peak of the United States housing bubble. A proximate event to this increase was the April 2004 decision by the United States Securities and Exchange Commission to relax the net capital rule, which encouraged the largest five investment banks to dramatically increase their financial leverage and aggressively expand their issuance of mortgage-backed securities. This applied additional competitive pressure to Fannie Mae and Freddie Mac, which further expanded their riskier lending. Sub prime mortgage payment delinquency rates remained in the 10-15% range from 1998 to 2006, then began to increase rapidly, rising to 25% by early 2008.

PREDATORY LENDING

Predatory lending refers to the practice of unscrupulous lenders, to enter into "unsafe" or "unsound" secured loans for inappropriate purposes. A classic bait-and-switch method was used by Countrywide, advertising low interest rates for home refinancing. Such loans were written into extensively detailed contracts, and swapped for more expensive loan products on the day of closing. Whereas the advertisement might state that 1% or 1.5% interest would be charged, the consumer would be put into an Adjustable Rate Mortgage in which the interest charged would be greater than the amount of interest paid. This created negative amortization, which the credit consumer might not notice until long after the loan transaction had been consummated.

Countrywide, sued by California Attorney General Jerry Brown for "Unfair Business Practices" and "False Advertising" was making high cost mortgages "to homeowners with weak credit, Adjustable Rate Mortgages that allowed homeowners to make interest-only payments." When housing prices decreased, homeowners in Adjustable Rate Mortgage's then had little incentive to pay their monthly payments, since their home equity had disappeared. This caused Countrywide's financial condition to deteriorate, ultimately resulting in a decision by the Office of Thrift Supervision to seize the lender.

Countrywide, according to Republican Lawmakers, had involved itself in making low-cost loans to politicians, for purposes of gaining political favors. Former employees from Ameriquest, which was United State's leading wholesale lender, described a system in which they were pushed to falsify mortgage documents and then sell the mortgages to Wall Street banks eager to make fast profits. There is growing evidence that such mortgage frauds may be a cause of the crisis.

DEREGULATION

Critics have argued that the regulatory framework did not keep pace with financial innovation, such as the increasing importance of the shadow banking system, derivatives and off-balance sheet financing. In other cases, laws were changed or enforcement weakened in parts of the financial system..

INCREASED DEBT BURDEN OR OVER-LEVERAGING

U.S. households and financial institutions became increasingly indebted or overleveraged during the years preceding the crisis. This increased their vulnerability to the collapse of the housing bubble and worsened the ensuing economic downturn.

FINANCIAL INNOVATION AND COMPLEXITY

The term financial innovation refers to the ongoing development of financial products designed to achieve particular client objectives, such as offsetting a particular risk exposure (such as the default of a borrower) or to assist with obtaining financing. Examples pertinent to this crisis included: the adjustable-rate mortgage; the bundling of sub prime mortgages into Mortgage-Backed Securities or Collateralized Debt Obligations for sale to investors, a type of securitization; and a form of credit insurance called Credit Default Swaps. The usage of these products expanded dramatically in the years leading up to the crisis. These products vary in complexity and the ease with which they can be valued on the books of financial institutions.

Certain financial innovation may also have the effect of circumventing regulations, such as off-balance sheet financing that affects the leverage or capital cushion reported by major banks. For example, Martin Wolf wrote in June 2009: "an enormous part of what banks did in the early part of this decade – the off-balance-sheet vehicles, the derivatives and the 'shadow banking system' itself – was to find a way round regulation."

INCORRECT PRICING OF RISK

As financial assets became more and more complex, and harder and harder to value, investors were reassured by the fact that both the international bond rating agencies and bank regulators, who came to rely on them, accepted as valid some complex mathematical models which theoretically showed the risks were much smaller than they actually proved to be in practice. George Soros commented that "The super-boom got out of hand when the new products became so complicated that the authorities could no longer calculate the risks and started relying on the risk management methods of the banks themselves. Similarly, the rating agencies relied on the information provided by the originators of synthetic products. It was a shocking abdication of responsibility."

BOOM AND COLLAPSE OF THE SHADOW BANKING SYSTEM

Nobel laureate Paul Krugman described the run on the shadow banking system as the "core of what happened" to cause the crisis. "As the shadow banking system expanded to rival or even surpass conventional banking in importance, politicians and government officials should have realized that they were re-creating the kind of financial vulnerability that made the Great Depression possible and they should have responded by extending regulations and the financial safety net to cover these new institutions. Influential figures should have proclaimed a simple rule: anything that does what a bank does, anything that has to be rescued in crises the way banks are, should be regulated like a bank." He referred to this lack of controls as "malign neglect."

COMMODITY BUBBLE

A commodity price bubble was created following the collapse in the housing bubble. The price of oil nearly tripled from \$50 to \$140 from early 2007 to 2008, before plunging as the financial crisis began to take hold in late 2008. Experts debate the causes, which include the flow of money from housing and other investments into commodities to speculation and monetary policy or the increasing feeling of raw materials scarcity in a fast growing world economy and thus positions taken on those markets, such as Chinese increasing presence in Africa. An increase in oil prices tends to divert a larger share of consumer spending into gasoline, which creates downward pressure on economic growth in oil importing countries, as wealth flows to oil-producing states.

SYSTEMIC CRISIS

Another analysis, different from the mainstream explanation, is that the financial crisis is merely a symptom of another, deeper crisis, which is a systemic crisis of capitalism itself. According to Samir Amin, an Egyptian economist, the constant decrease in GDP growth rates in Western countries since the early 1970s created a growing surplus of capital which did not have sufficient profitable investment outlets in the real economy. The alternative was to place this surplus into the financial market, which became more profitable than productive capital investment, especially with subsequent deregulation. According to Samir Amin, this phenomenon has led to recurrent financial bubbles and is the deep cause of the financial crisis of 2007-2009.

John Bellamy Foster, a political economy analyst and editor of the *Monthly Review*, believes that the decrease in GDP growth rates since the early 1970s is due to increasing market saturation.

John C. Bogle wrote during 2005 that a series of unresolved challenges face capitalism that have contributed to past financial crises and have not been sufficiently addressed: "Corporate America went astray largely because the power of managers went virtually unchecked by our gatekeepers for far too long. They failed to 'keep an eye on these geniuses' to whom they had entrusted the responsibility of the management of America's great corporations." He cites particular issues, including:

- "Manager's capitalism" which he argues has replaced "owner's capitalism," meaning management runs the firm for its benefit rather than for the shareholders, a variation on the principal-agent problem;
- Burgeoning executive compensation;
- Managed earnings, mainly a focus on share price rather than the creation of genuine value; and
- The failure of gatekeepers, including auditors, boards of directors, Wall Street analysts, and career politicians.

ROLE OF ECONOMIC FORECASTING

A cover story in *Business Week Magazine* claims that economists mostly failed to predict the worst international economic crisis since the Great Depression of 1930s. The Wharton School of the University of Pennsylvania online business journal examines why economists failed to predict a major global financial crisis. An article in the *New York Times* informs that economist Nouriel Roubini warned of such crisis as early as September 2006, and the article goes on to state that the profession of economics is bad at predicting recessions. According to *The Guardian*, Roubini was ridiculed for predicting a collapse of the housing market and worldwide recession, while *The New York Times* labelled him "Dr. Doom". However, there are examples of other experts who gave indications of a financial crisis.

CONCLUSION:

We conclude that the global financial crisis was grew in developed countries because it has more economic sequences along with total GDP, income, consumption, investment and employment opportunities. But financial crisis were spread on home loan along with mortgage aspects. The main and strong cause for financial crisis is refinancing that indicates most of the people were want to get repayment of home loans from banks and institutions, because they have critical situation based on low prices of house to sell that. In early stage global financial crisis was affected in U.S.A. later it spreads all over the world. Thus it created more crises on global economy. The changes of US economy created the financial crisis to rest of the countries, because U.S has contribution of GDP 1/3 in world total GDP. The many economists don't say about the various limitations of widely-used financial models also were not properly understood to control the financial crisis. The shadow banking systems were created financial crisis along with growth of housing bubble, easy credit facilities, liberal regulation on banking systems, easy lending system and etc. the shadow banking systems were boom and collapsed based on debt burden, deregulation, unknowing forecasting system for global financial crisis.

SUGGESTIONS:

There is a need to consider policies that will promote a banking system that serves global needs at this stage of development. The banking systems are must authorised and control only by governments. This system helps to avoid the repayment of loans to huge lending amounts to all, malpractices in lending loans. Government must provide the facilities to all to get proper information from banks and must regulate banking system and other related.

THE IMPACT OF GLOBAL FINANCIAL CRISIS IN DEVELOPING COUNTRIES WITH SPECIAL REFERENCE TO INDIA

Introduction:

The global financial crisis is already causing a considerable slowdown in most developed countries. Governments around the world are trying to contain the crisis, but many suggest the worst is not yet over. Stock markets are down more than 40% from their recent highs. Investment banks have collapsed, rescue packages are drawn up involving more than a trillion US dollars, and interest rates have been cut around the world in what looks like a coordinated response. Leading indicators of global economic activity, such as shipping rates, are declining at alarming rates.

The current financial crisis affects developing countries in two possible ways. First, there could be financial contagion and spillovers for stock markets in emerging markets.

Second, the economic downturn in developed countries may also have significant impact on developing countries. The channels of impact on developing countries include:

- **Trade and trade prices.**
- **Remittances.**
- **Foreign Direct Investment (FDI) and equity investment.**
- **Commercial lending.**
- **Aid.**
- **Other official flows.**

Each of these channels needs to be monitored, as changes in these variables have direct consequences for growth and development. Those countries that have done

K.Vinothkumar, M.Phil, Research Scholar, Department Of Economics,
Bharathiar University, Coimbatore.

well by participating in the global economy may also lose out most, depending on policy responses, and this is not the time to reject globalisation but to better understand how to regulate and manage the globalisation processes for the benefit of developing countries. The impact on developing countries will vary. It will depend on the response in developed countries to the financial crisis and the slowdown, and the economic characteristics and policy responses, in developing countries.

The countries affected the most are as follows:-

The list of channels above suggests that the following types of countries are most likely to be at risk (this is a selection of indicators):

- ✧ Countries with significant exports to crisis affected countries such as the USA and EU countries (either directly or indirectly). Mexico is a good example;
- ✧ Countries exporting products whose prices are affected or products with high income elasticities. Zambia would eventually be hit by lower copper prices, and the tourism sector in Caribbean and African countries will be hit;
- ✧ Countries dependent on remittances. With fewer bonuses, Indian workers in the city of London, for example, will have less to remit. There will be fewer migrants coming into the UK and other developed countries, where attitudes might harden and job opportunities become more scarce;
- ✧ Countries heavily dependent on FDI, portfolio and DFI finance to address their current account problems (e.g. South Africa cannot afford to reduce its interest rate, and it has already missed some important FDI deals);
- ✧ Countries with sophisticated stock markets and banking sectors with weakly regulated markets for securities;
- ✧ Countries with a high current account deficit with pressures on exchange rates and inflation rates. South Africa cannot afford to reduce interest rates as it needs to attract investment to address its current account deficit. India has seen a devaluation as well as high inflation. Import values in other countries have already weakened the current account;

- ✧ Countries with high government deficits. For example, India has a weak fiscal position which means that they cannot put schemes in place;
- ✧ Countries dependent on aid. While the effects will vary from country to country, the economic impacts could include:
 - ✧ Weaker export revenues;
 - ✧ Further pressures on current accounts and balance of payment;
 - ✧ Lower investment and growth rates;
 - ✧ Lost employment.

There could also be social effects:

- ✧ Lower growth translating into higher poverty;
- ✧ More crime, weaker health systems and even more difficulties meeting the Millennium Development Goals.

Possible policy responses

The current macro economic and social challenges posed by the global financial crisis require a much better understanding of appropriate policy responses:

- ✧ There needs to be a better understanding of what can provide financial stability, how cross-border cooperation can help to provide the public good of international financial rules and systems, and what the most appropriate rules are with respect to development;
- ✧ There needs to be an understanding of whether and how developing countries can minimize financial contagion;
- ✧ Developing countries need to understand the social outcomes and provide appropriate social protection schemes;

There will also be implications for development policy: There will be limits to financial solutions if the problems lie in the real economy, but development finance institutions may be able to take some risks and support investment flows to developing countries, counteracting reductions in other financial flows. Whether DFIs can take higher risks might be informed by past experience, for example by looking at what happened during the Asian financial crisis of the late 1990s.

GLOBAL ECONOMIC SLOWDOWN AND ITS IMPACT ON THE INDIAN IT INDUSTRY

Introduction:

India's Economy has been fuelled by the growth in the technology sector in the recent past. A large part of this growth is dependent on the outsourcing or off-shoring of key business processes and software development activity and related services by large global corporations and other organizations. Hence, the global slowdown has also affected the business climate within India and the growth rate of the Information Technology (IT) and Information Technology Enabled Services (ITES) sector is also experiencing the tremors of the global recession.

Global IT Economy:

The global software and services industry touched US D 967 billion, recording an above average growth of 6.3% over past years. Worldwide ITES grew by 12%, the highest among all technology related segments. Currently the global IT industry is experiencing a slump with the recession in US and many industrial countries with the level of impact varying by country/ market and industry.

Structure of Indian IT industry:

The IT-ITES industry in India has today become a growth engine for the economy, contributing substantially to increase in the GDP, urban employment and exports, to achieve the vision of a powerful and resilient India. While the Indian economy has been impacted by the global slowdown, the IT, ITES industry has displayed resilience and tenacity in countering the unpredictable conditions and reiterating the viability of India's fundamental value proposition.

Mrs.G.Valarmathi, Assistant Professor in Commerce &

Ms.M.S. Vennila, Student of II B.Com.,

St.Joseph's College of Arts & Science (Autonomous), Cuddalore.

Value Proposition:

The main reasons for the successful establishment of software companies in India and its strong performance can be attributed to the followings:

Cost Advantage:

Given the labour market conditions in India, there exists substantial scope of cost arbitrage for performing services from India. This, along with a large pool of talented and English people labour force, was the genesis of the IT's sector dominance in the world IT service industry.

Breadth of service offering and innovation:

Service offerings have evolved from low-end application development to high-end integrated IT solutions.

Quality / Maturity of process:

Having made its mark as a center of low-cost and wide range of service offerings, the Indian IT / ITES sector has also proved its mettle in the quality of the service offerings.

of Scalability:

The vast and trained labour pool of technically competent, English speaking people has made it easy for the Indian companies to enter and exit this industry. Moreover, the ease with which a company can scale its operations (up or down) has been a great value driver for the success of the Indian IT / ITES service sectors growth strong.

Performance of the Indian IT-ITES Industry:

The continuing contribution of this sector to the Indian economy is evident from the fact that revenue generated from this sector has grown from 1.2% in financial year 1998 to an estimated 5.8% in the financial year 2009. The net value added by this sector to the economy is estimated at 3.5-4.1% for financial year 2009. IT services exports grew substantially on account of increasing traction of the industry in emerging markets. Domestic market continued to gain momentum, growing at 26% in INR terms on account of the overall positive economic climate, increased adoption of technology and outsourcing. Direct Employment reached nearly 2 million-with 1.5 million in the exports segment. The indirect employment multiplier suggested that the industry created between 6-8 million additional jobs.

Impact of the recession on IT

The current global economic slowdown has made it a roller coaster ride for the world economies. The current US-led crisis parallels the India's revenues are from US clients. If we consider the top five Indian players who account for 46% of the IT industry's revenues, the revenue contribution from US clients is approximately 58%. This clearly indicates the adverse effect that the US recession is likely to have on the Indian IT sector. The impact has been more severe in the case of the Banking, Financial services and Insurance (BFSI) which accounts for around 40% of the industry's export revenues and in retail and certain manufacturing sectors. Other vehicles like telecom and automobile are also likely to have a delayed budget process and budget cuts. However, the industry focus is likely to shift to areas such as manufacturing, healthcare, retail and utilities. Healthcare industry is likely to witness increased IT investments due to increased focus on public health. Other industries that will see growth include Telecom, retail and utilities.

MELTDOWN IMPACT

Companies	BFSI Share (%) *	Exposure of BFSI(in US D Million)			Key BFSI Client
		Jan-March 2008	Ap-June 2008	Change	
COGNIZANT	46	292.4	314.2	7.46	American Express, Ati group, Credit Suisse, JP Morgan, MetLife.
INFOSYS	34	387.1	398.5	2.94	ABN Amro,Bank of America, JP Morgan Washington Mutuals,UBS
TCS	42	664.4	648.2	-2.44	AIG American Express, Bank of America,Deutch Bank
WIPRO	25	256.8	271.1	5.57	Credit Suisse, Lehman Brothers, UBS

*As a percentage of total revenue, BFSI contribution sourced from company reports. BFSI clients from equity analysts.

Future Outlook:

The focus and exponential growth in the domestic market and presence of global IT off shores has partially offset this fall, resulting in net overall momentum. The slowdown is expected to persist, as lead indicators of US economic health (the US accounts for 40% of the global IT spend) continue to be extremely negative. That being said, India may be better positioned for a quick recovery and for future growth than many of the other developing economies. There is a sense that the international institutions will be remade to reflect the current balance of power, and that India may be able to turn this crisis into a "permanent place at a new high table".

The belief is that there is a strong correlation between India IT sector revenue growth and US GDP growth, which implies that a revival in revenue growth would coincide with an up tick in US economic growth. The possible indicators in this sector to track are:

- Working Hours
- Jobless claims
- New orders for consumer goods
- Vendor performance
- New orders for capital goods
- Building permits
- Money supply
- Consumer Expectations.

Conclusion:

Despite the forbidding financial crisis, the opportunities are massive. Making the growth Vs profitability trade-off early on during the slowdown is just one of them. Profitability levers are still available if growth is sacrificed where required and managed well.

GLOBAL FINANCIAL CRISIS – A SNAPSHOT

The Global Financial Crisis is rapidly turning into a human and development concern. It has to relate as worst next to the Great Depression of the 1930s. It contributed to the failure of key businesses, declines in consumer wealth estimated in the trillions of U.S. dollars, substantial financial commitments incurred by governments, and a significant decline in economic activity. Both market-based and regulatory solutions have been implemented or are under consideration, while significant risks remain for the world economy.

It originates from the Developed world but quickly spread across the developing world sparing no country.

This paper discusses, impacts of the crisis and various remedies.

Impacts

Private capital Inflows to the Developing Countries will turn negative in 2009 by over \$700 billion drop from the peak of 2007-Global Monitoring Report 2009, World Bank. This will result in decline in world trade and GDP has already declined in 2009 for the first time since World War II.

Developing Countries has projected a fall in GDP to 1.6 percent in 2009 from an average of 8.1 percent in 2006-07. Sub Saharan economies is at 1.7 percent from 6.7 percent in 2006-07 breaking the momentum of region's growth.

Sharp decline in the per capita income in more than 50 developing countries. The low income countries will be affected through reduction in Export volumes, remittances, tourism and Foreign Direct Investment. This will affect public revenues resulting in food & fuel crisis.

Reports project 200000-400000 more children get affected by malnutrition on average between 2009-2015. Poor households respond to decrease in income by further

V.Anuradha, Assistant professor, Department of Commerce,
S.Karthika, P.G Student, Seethalakshmi Ramasami College, Tiruchirappalli.

cutting the quality and quantity of food consumption. This will raise the malnutrition and decline of health status among 44million children across the globe.

Primary school enrollments especially GIRLS , tend to reduce and the education outcomes tend to decline. Ability of domestic financing to businesses will be hit.

Food price increase between 2005-2008 has pushed 200 million people to extreme poverty. International Labor Organization has reported 30 million are unemployed across the globe

Remedies recommended

Regulations to deal with the flaws of Financial sector and establish a sound foundation for the stability of global financial markets. Stabilize financial markets in developed countries and counter recession.

Scale up aid to poor and vulnerable countries hit hard by crisis.

Encouragement to the roles of private sector participation.

Unfreeze the flow of credit and to counter falling demand.

Poor countries should commit to avert large human costs and strive towards strong growth rate.

Implementation of Agenda declared in G20 summit, London 2009. Millennium Development Goals to be achieved.

Maintain an open trade and finance system- Doha Round action

Conclusion

There are no magic formulas, no shortcuts, no miracles, and no proven models as far as development is concerned.

Economic growth and development is a long proposition that requires consistent policies, persistence in moving in a certain direction, and

Adaptability to economic shocks and the appropriate correction of policy mistakes will help us control financial crisis

GLOBAL CRISIS AND THE INDIAN ECONOMY

INTRODUCTION

It took some time for policymakers and analysts in India to recognize both the speed and the intensity of the effects of the global crisis on India. Indeed, there were arguments that India, along with China, is "decoupled" from the global system and capable of becoming an autonomous growth pole, based on its recent high growth from a low per capita income base, and a young population leading to falling dependency ratios. In addition, the "strong" domestic financial sector was also seen to be immune to shocks from the international financial system.

However, it turns out that this presumption was wrong, and even involved a faulty assessment of the previous boom. Recent high economic growth in India was fundamentally dependent upon greater global integration and related to the deregulation of finance combined with fiscal concessions that spurred a consumption boom among the top two deciles of the population, especially in urban areas, even as deflationary fiscal policies, poor employment generation and agrarian crisis kept mass consumption demand low. The substantial rise in profit shares in the economy and the proliferation of financial activities combined with rising asset values to enable a credit-financed consumption splurge among the rich and the middle classes, which in-turn generated higher rates of investment and output over the upswing. This was, therefore, quite similar to speculative bubble-led expansion in several other countries in the same period.

This also made the growth process more vulnerable to internally and externally generated crises. By the middle of 2008, even before the global crisis really hit India, this process too was reaching its limits. The crisis made matters much worse by causing sharp declines in exports of manufactures and reversal of capital flows such that both current and capital accounts of the balance of payments have worsened. The macro issues have been much commented upon, but the specific impact upon certain groups has been much less widely noted. The crisis has been accompanied by changes in employment and relative prices that have adversely impacted especially upon three sections of the population that were already very vulnerable: cultivators, migrant workers

Ms.K.Vanitha, Assistant Professor Department of Economics,
Theivanai Ammal College for Women, Villupuram.

and homebased women workers. In addition, it has sharply affected food insecurity which was already a problem in the country.

CULTIVATORS

Public policies from the early 1990s onwards, that systematically reduced the protection afforded to farmers and exposed them to import competition and market volatility; allowed private profiteering in agricultural input supply and crop purchases without adequate regulation; reduced critical forms of public expenditure; tried to cut subsidies by increasing the prices of important inputs like fertilizer and water and electricity rates, ran down or destroyed important public institutions that have direct relevance for farming, including public extension services and marketing arrangements; and did not adequately generate other non-agricultural economic activities.

At the same time that various forms of public protection for cultivation were being reduced, trade liberalization meant that Indian farmers had to operate in a highly uncertain and volatile international environment.

Such exposure to global price volatility was associated with a growing reliance on private debt, because of the lack of extension of institutional credit, coupled with growing inability to meet debt service payments because of the combined volatility of crops and prices. Farmers already had inadequate access to institutional credit, but things got much worse after 1993. Financial liberalization measures caused a significant slowdown in the growth of bank credit, particularly from commercial banks to rural areas, and a relative fall in proportion of bank credit flowing to the priority sectors, especially agriculture. The impact of the slowdown in rural banking fell disproportionately on poor and small borrowers.

Meanwhile, crop price volatility has become much worse in the past year, dramatically increasing the difficulties of cash crop producers. Globally, primary commodity prices zoomed upwards in 2007 and the first half of 2008, and then collapsed very rapidly, thereafter. So all the price gains of the period January 2007 to mid-2008 were wiped out by the later fall in prices. Farmers did not benefit from such a short-lived price boom, especially if they produced cash crops. Instead, they now face lower prices of their output even as food prices have continued to increase. This is particularly true for cultivators of cotton and oilseeds, prices of which have crashed compared to a year ago. Cultivators who opted to sow these crops when their prices were at their peak now face a completely different environment with very different configurations of costs and prices that could easily make the cultivation process financially completely unviable.

Migrant Workers

Official sources suggest that there has already been a sharp fall in employment in the export-oriented sectors like textiles and garments and gems and jewellery, and even in industries catering more to the domestic market like metal products, automobiles and construction. Many newly unemployed are migrant workers, often short-term migrants with casual contracts whose very existence tends to be ignored by our official statistics. The economic boom of the past decade relied heavily on such workers: Not just in the sectors mentioned above but in labour-intensive services, such as cleaning, maintenance, private security, driving and related services. These were not simply informal activities, many of them catered to the requirements of the expanding corporate sector, and in effect subsidized it by providing a cheap and flexible external labour force. Such workers are now forced either to stay in precarious conditions in the urban areas, or go back to their places of origin – villages or smaller towns.

They consequently change from becoming providers of remittance incomes to their households, to becoming dependents of these households, even as these households face more fragile material circumstances than before. Many of these migrant workers, for obvious reasons, come from the most depressed and backward regions of the country, where there is currently little potential for productive income generation. These are often also the regions of dry land agriculture, where remittance incomes play a vital role in sheer survival. Unsurprisingly, they are also the regions in which extremist Maoist activity is widely prevalent, because of the anger bred by persistent backwardness and rising inequalities.

HOME-BASED WORKERS

There are estimated to be more than 15 million women workers in the unorganised sector, and more than half of them are women involved in homebased work for different types of industry, dominantly on a piece-rate basis. This includes *zari*, *charkha* or other handloom work; *bindi*, labels, stitching; food processing; and also potentially hazardous work involving acids and chemicals.

Surveys show that most of them are very poorly paid piecerate workers providing specific products or intermediate goods for manufacturing industries such as textiles and garments, engineering and chemical industries, leather and miscellaneous production such as imitation jewellery and petty cosmetic items.

Very recent evidence suggests that as export-based industries such as garments face heightened competitive pressure, they pass this pressure on to home-based women workers by reducing the effective rates for piece-rate work. Thus, even nominal piece rate wages have fallen in many such activities, even as prices of necessities such as food have continued to increase. Food security and the price of essentials

Much has been made of the slowdown in inflation rates to almost zero, and there are those who have pointed out that this reflects the declining rate of economic growth and could even lead to a deflation that is damaging for growth. But what is often not noted is that even within this overall stagnation in prices, food prices have continued to increase. Foodgrain prices have gone up the most, by more than 10 percent in the year April 2008 to March 2009. This, obviously, affects household budgets, especially among the poor for whom food still accounts for more than half of total household expenditure. Meanwhile, non-food primary product prices have hardly changed.

Another major item of essential consumption has also increased in price – that of drugs and medicines, up by 4.5 percent. This obviously impacts upon the entire population, but especially the bottom half of the population who may find it extremely difficult if not impossible to meet such expenditures in times of stringency.

WHAT IS TO BE DONE?

Clearly, much more creative and imaginative policy responses are required, in terms of changing directions of investment and consumption in the home market to emphasize wage-led growth, diversifying exports and generally making moves designed to turn economic adversity to advantage. What is immediately required is significantly increased public expenditure, directed towards particular areas– expansion of the employment guarantee scheme within rural areas and extension to urban areas, creative use of NREGS, especially in urban areas, to enable productive use of the tremendous wealth of labour resources available, especially women workers; more resources provided to state governments to enable them to meet basic development and social expenditures; and a package for agriculturalists to protect them from volatile crop prices and to deal with the burden of debt.

In the medium term, the government needs to encourage moves towards more sustainable patterns of consumption and production, both through newer technologies and by re-orienting demands. If this can be done, the current crisis might even be worth the pain that it is now delivering to so many millions.

**GLOBAL FINANCIAL AND ECONOMIC CRISIS: IMPACT
ON INDIA AND POLICY RESPONSE**

The Indian economy looked to be relatively insulated from the global financial crisis that started in August 2007 when the 'sub-prime mortgage' crisis first surfaced in the US. In fact the RBI was raising interest rates until July 2008 with the view to cooling the growth rate and contain inflationary pressures. But as the financial meltdown, morphed in to a global economic downturn with the collapse of Lehman Brothers on 23 September 2008, the impact on the Indian economy was almost immediate. Credit flows suddenly dried-up and, overnight, money market interest rate spiked to above 20 percent and remained high for the next month. It is, perhaps, judicious to assume that the impacts of the global economic downturn, the first in the center of global capitalism since the Great Depression, on the Indian economy are still unfolding.

The severity and suddenness of the crisis can be judged from the IMF's forecast for the global economy. For the first time in 60 years, the IMF is now forecasting a global recession with negative growth for world GDP in 2009-10. The IMF has revised its forecasts downwards thrice since July 2008, and it is not yet certain that this will be the last revision. The WTO has predicted that world trade, which has virtually collapsed in the second half of 2008 is likely to decline by as much as nine percent in 2009-10. We have already seen exports from world's major exporters, like Germany, Japan and China, plummeting by more than 35 percent in the last quarter of 2008. The sharp decline in economic activity is despite the large stimulus, estimated at more than USD3 trillion, that OECD economies have put in place. Yet the bad news does not stop.

The worst downside scenario could be for the US economy being trapped in a Japan like "L" shaped recovery for the next few years. This will imply a further decline in world exports and softening of global commodity prices. In turn, it will result in sharp slowdown in world exports and result in widespread unemployment and social stress in

Dr.B.Mohamed Rafeeqe, & Mr.A.Khan Mohamed, Assistant Professor,
Department of Economics Jamal Mohamed College, Tiruchirappalli.

major exporting economies. This could well generate irresistible protectionist sentiments and if governments do succumb to these, it will unleash the dreaded downward cycle which could see the global economy plunging over the precipice into a prolonged recession. It is, therefore, prudent not to underestimate the severity of the present crisis.

IMPACT GLOBAL CRISIS ON INDIAN ECONOMY

The impact of the global crisis has been transmitted to the Indian economy through three distinct channels, viz., the financial sector, exports and exchange rates.

Overall, it would be fair to say that the timing of the external shock from the global economic downturn has been rather unfortunate. Coming right on the heels of a policy-induced contraction in economic activity, its initial impact, as reflected in the third quarter GDP growth falling to 5.3 percent and the steep decline in exports, has been perhaps exaggerated. This negative impact has been, to an extent, ameliorated by the quick policy response both by the RBI and the Central government. The RBI has infused about USD80 billion, as additional liquidity by cutting the CRR, lowering the SLR and unwinding the MSS. The RBI has also signaled its expansionary preference by cutting its repo rate, at which it lends funds to commercial banks from nine to five percent in less than six months. The reverse-repo rate has also been brought down to 3.5 percent to discourage banks from parking overnight funds with the RBI.

Three fiscal stimuli have been announced between November 2008 to February 2009. These amount to about 1.3 percent of the GDP. However, to these stimulus packages we should also add the fiscal outlay of measures announced in the 2008-09 Budget in February 2008. These included some measures that implied a hefty transfer of purchasing power to the farmers and to the rural sector in general. These included, farm loan waivers, funds allocated to the National Rural Employment Guarantee Scheme (NREGS), Bharat Nirman (targeted for improving rural infrastructure), Prime Minister's Rural Road Programme, and a large increase in subsidies on account of fertilizers and electricity supplied to the farmers. All these measures, taken more out of political considerations and not in response to the global crisis, have, nevertheless, helped to shore up rural demand for both consumer durables and non-durables.

The GDP growth is likely to further decline to between 4.8 to 5.5 percent in 2009-10. Other agencies like the IMF, the World Bank and the ADB have also estimated Indian

GDP growth in 2009-10 at similar levels in their latest forecasts released in March 2009. Thus, Indian economy will come down from the nine percent trend that it had achieved in the last four years. The growth targets for the 11th Five-Year Plan will also have to be surely lowered.

POLICY RESPONSE

There is not much room for further fiscal policy action as the consolidated fiscal deficit of the central and state governments in 2008-09 is already about 11 percent of the GDP. This is likely to rise further as further necessary public expenditures are announced in the next budget and economic activity slows down. Any further increase in fiscal deficit to GDP ratio could invite a sharp downgrading of India's credit rating and a loss of business confidence. With inflation down at less than one percent and likely to remain below five percent in the coming months, there is room for bringing down the repo rate further. However, the more important issue is to try and induce commercial banks to bring down their lending rates as these currently remain at around 10 percent even for their prime borrowers. This is largely a result of the 'crowding out effect' of the large government borrowing programme.

To address it, the government may have to consider monetizing its borrowing requirement so that liquidity is not squeezed out of the system. This poses the danger of stoking inflation in the medium-term but perhaps more importantly the breakdown of macro-prudential discipline that has been achieved after considerable effort. It would seem, therefore, that government's options for taking counter cyclical and reflationary measures in the short term are rather limited.

It is more important to focus policy attention on removing some of the many remaining structural bottlenecks on raising the potential GDP growth rate. Essentially, this will imply efforts at improving the investment climate both for domestic and foreign investors; removing the entry barriers for the entry of corporate investment in education and vocational training; improving the delivery of public goods and services and expanding physical infrastructure capacities including a major effort at improving connectivity in the rural regions. These measures will constitute the package of second generation of structural reforms and will enable the Indian economy to climb out of the downward cyclical phase and then to extend the upward phase for a longer period than was achieved in the last cycle.

GLOBAL FINANCIAL CRISIS

IMPLEMENTING CHANGE IN THE ECONOMIC POLICIES

The recent challenges posed by the global financial crisis require a deeper understanding of economic policies. By implementing new or change in the economic policies may help the countries to overcome such financial crisis.

- ❖ There is a need to understand of what and how will provide financial stability, how can help to assist the public good with international financial rules and systems, and what the most appropriate rules are offering developmental activities.
- ❖ There is a need to understand of whether and how developing countries can minimize their financial corruption. By following strict trade policies, the corruptions may be packed enough which stimulate the nation's development.
- ❖ Developing countries will also need to manage the implications of new economic policies and measure to rectify the slowdown, which has promoted interest in structural factors of growth, international economic management will now move up the policy agenda.
- ❖ Developing countries need to understand the social outcomes and provide appropriate social protection schemes. By implementing such schemes, the people of those countries feel happy and face any financial problems without hesitation.
- ❖ There should be effective implementation of developmental policies framed with the help of economists and entrepreneurs.
- ❖ There will be limits to financial solutions if the problems lie in the real economy, but development of finance institutions may be able to take some risks and support investment flows to developing countries.
- ❖ The developing countries should welcome Direct Foreign Investments with attractive offerings. With the help of these investments, the developing countries may create

Dr. S. Sarasudevi, Assistant Professor Department of Economics,
Government Arts College for Women, Nilakottai.

basic infrastructural facilities. When the developing countries are fully equipped with the necessary facilities, they can easily stand up in the economic race.

CONCLUSION

By enacting the above listed policies and procedures either in their constitution or in their bye-laws, they can withstand their place in the trade race found all over the world. Moreover, the remedial measures to overcome the lack of funds and insufficiency of things should be taken by the individuals or the public concerned. On the whole, the individual should change their life style, which is the only way to save their life from such financial crisis and ultimately it leads the nation to become self-sacrificed.

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GLOBAL FINANCIAL CRISIS AND INDIA'S DEVELOPMENT PERSPECTIVES

Introduction

The global financial crisis has been called by leading economists the worst financial crisis since the one related to the Great Depression of the 1930s. It contributed to the failure of key businesses, declines in consumer wealth estimated in the trillions of U.S. dollars, substantial financial commitments incurred by governments, and a significant decline in economic activity. Many causes have been proposed, with varying weight assigned by experts. Both market-based and regulatory solutions have been implemented or are under consideration, while significant risks remain for the world economy.

What is happening on the Global Financial Markets?

- Rapid growth of speculative lending and deregulation of financial market over the past couple of decades.
- Increase in global liquidity and risk appetite e.g. subprimes lending and mortgage-backed securities.
- Comprehensive and global crisis, encompassing the banking sector, securities and currency markets, and institutional and individual investors in most parts of the world.
- Impact of the crisis on growth in the United States and its global spillovers to other parts of the world through international trade and financial system.

Transmission Mechanisms to Asian Economies

- Asian economies do not have large direct exposure to securitized assets linked to high-risk lending.

A. Shan Pareeth, Assistant Professor, Department of Economics,
Lakshmi Narayanan Vishalakshi College of Arts and Science, CBE.

D. Chinnusamy, Ph.D Research Scholar,
Dr. Ambedkar Centre for Economic Studies, University of Madras, Chennai.

- Nevertheless, the slowdown in the global economy and key channels for transmission of the crisis from developed to developing countries has been:
 - ❑ Massive reversal of private capital flows, which has been more severe in emerging markets than lower income countries.
 - ❑ Declining trade volume i.e. decreasing demand in industrialized economies for Asian exports and lowered industrial output.
 - ❑ Remittances at risk, depending on remittance share of GDP: Nepal (17%), Philippines (11.7%), Bangladesh (9.7%), Sri Lanka (8.3%).
 - ❑ Pressure on domestic investment.

What does it means for Developing Countries?

Degree and nature of impact depend on the following factors:

- ❑ Degree of financial markets integration in the global market e.g. Brazil, China, India are likely to experience immediate impact Particular sectors e.g. tourism and mining, as well as informal sector.
- ❑ Whether economies depend on remittances
- ❑ Level of dependency on food and fuel imports
- ❑ Pressure on government budget expenditure due to falling revenue as a result of the economic slow down.
- ❑ Vulnerabilities of particular social groups and/or populations

Impact on India's Economy.

Growth declined to 7.3% in 2008, down from 9.3% in 2007.

- Current Government estimates are for approx 6.5% to 7.5% growth in 2009, but the IMF forecast is growth to fall to 5.1%.

As Economic Growth Context

- Demand for labour has fallen
 - ❑ Large-scale job losses in some sectors
 - ❑ Rising unemployment & underemployment

- ☐ Downward pressure on wages
 - ☐ SMEs have been hit hard
 - ☐ Informal economy has expanded
 - ☐ Reverse migration has increased
 - ☐ Global financial crisis affects credit and confidence of the banking and financial markets.
 - ☐ Service sector, particular
- Companies in the IT and financial sectors continue to downsize and cut costs and will not likely hire more people.
 - Although the main transmission channels have primarily affected urban labour markets, the consequent effect on the rural economy, employment and household income cannot be underestimated.
 - ☐ Job losses in export manufacturing often affect the rural-to-urban migrants and their income support to their rural families.
 - ☐ Workers who are not able to find new urban employments, whether informal or informal sector seek rural work opportunities
 - ☐ Process of reverse migration has already begun in India
 - ☐ This shift will often coincide with reduced wages and household income.

India's Policy Response to the Crisis:

- Rapidly deteriorating economic situation shifted the policy focus to fiscal measures. By December 2008, India had already rolled out bold policies to increase aggregate demand. Within less than a month, it announced a second fiscal stimulus package.
- India's two fiscal packages together accounted for USD 8.1 billion represent 0.7% share of the country's GDP in 2008.
- Fiscal measures place greater emphasis on
- Supporting particular industries, including labour-intensive and export oriented businesses.

- ☐ Ensuring liquidity in the financial system
- ☐ Encouraging investment in infrastructure

Key Policy Recommendations:

- Employment and incomes should be a central focus of the government's fiscal stimulus packages
- ☐ Give priority to public spending programmes that have high multiplier effect on employment
- ☐ Spread public spending and job creation broadly (including education, health, pension systems)
- ☐ Target credit-constrained businesses (including SMEs) and consumers (the poor and low-income households)
- Protect the poor and the vulnerable:
 - ☐ Social transfers serve dual purpose of stimulating domestic spending while also protecting the poor
 - ☐ Building effective social safety net programmes
 - ☐ Supporting poor families to keep their children in education
 - ☐ Increasing the scope and responsiveness of unemployment benefit system

Role of Civil Society : What Can We Do?

- Studying the core issues and the impact of the global financial crisis on India's development
- Identifying and enhancing the voice of the most vulnerable social groups, particularly women and youth
- Enabling sound policy responses from the government:
 - ☐ Involving social partners in policy design
 - ☐ Promoting governance and accountability through social audit of government's social programmes
- Strengthening policy dialogue between government and civil society
- Campaign and advocacy to for programmes that protect the poor and vulnerable groups

GLOBAL FINANCIAL CRISIS - IMPACT ON BANKING AND IT SECTOR

BANKING SECTOR

The financial crash of 2007-2008 was the result of the interaction of several different factors, some of which had been building for many years. While market corrections and crashes are nothing new, indeed they are an inherent part of the capitalist system, it behoves governments, regulators and market participants to take the appropriate steps in response to ensure that the impact of the next correction is minimised. It is not universally agreed that one result of the financial crisis has been to generate a paradigm shift in the way the banking business model is structured. However there is no doubt that banks will need to modify their strategies and structures in response to the events of 2007-2008.

The final issue concerns the "too big to fail" bank. A bank that is relying on the LoLR cannot be allowed to effectively hold a country hostage to its own fortune. To prevent any significant future impact, governments should seek to limit the size of banks whose balance sheet value begins to approach the GDP of its home country. A bank that is bigger than its own country is too much of a risk to society, which is why, if a bank becomes too big to fail, a government should make it smaller.

IT SECTOR

While there are growth-related challenges in the short-to-medium term, there seem to be some opportunities for managing the bottom-line for the rest of the year. The macroeconomic environment is depressing and has impacted the overall confidence in the sector from a market perspective. A US recession has not started but if it does, in all probability, it will last through 2009 and more, making this period a challenging one for growth. All in all, the environment looks weakest in a long while, and yet there remain pockets of opportunity. These areas, if tapped intelligently, would enable the IT firms to ease the blow of this financial crisis and help them tide through the tough times. The crisis has now spread globally, and further reduces room to maneuver.

Miss.R.Thamarai Selvi, & Miss. K.S.Priya, Lecturer, Department of Commerce,
Seethalakshmi Ramaswami College, Tiruchirappalli

BANKING SECTOR REFORMS AND GLOBAL FINANCIAL CRIESES

There has been a considerable widening and deepening of the Indian financial system in the past few years. A range of structural and economic stabilization reforms emerged with the aim to promote efficient, competitive and diversified financial system (Kaujalgi, 1999). Banks play an important role in the development of Countries economy by financing the requirements of trade, industry and agriculture with high degree of contribution and responsibility. The recognition of banking system's potential to promote larger economic objectives, led to the nationalization of banks in 1969. (Bisht, Mishra & Belwal, 2002). It was considered a landmark decision as banks were made a tool in the growth and development of the economy.

Latter 1991, the banking sector in India witnessed rapid changes with the initiation of reforms. The Narasimham committee in the years 1991 and 1998 recommended many reforms on the aspects, like structure, organization, functions and supervisory arrangements of the financial system. The main objective of reforms was to increase the efficiency of financial sector and the range of financial services available within the economy.

The process of reforms necessitated the up gradation of operating standards and financial soundness of the banks to make them competitive in the international market. Thus, the first phase of reforms laid the basis for sound banking system (Uppal & Kaur, 2006-07) The RBI also made it clear that Indian banking has no option but to match international standards on income recognition, non-performing as sets and structural regulations. Therefore, the public sector banks have to evolve strategies to successfully compete and improve their profitability.

The reforms in the banking sector and financial sector as a whole are a continuous process that needs to be in tune with the emerging macro-economic realities.

M. Dhanraj, Findlay Higher Secondary School, Mannargudi.

Dr. M. Perumal, Department of Economics.

Urumu Dhanalakshmi College, Kattur, Tiruchirappalli.

The first phase of reforms consisted of the curative measures which included rationalization of the interest rate structure, progressive reduction of reserve requirements of both SLR and CRR maintained by the banks, strengthening prudential regulations, introduction of international settlement standards as regards capital adequacy in phased manner, lifting of entry barriers etc. The second phase aimed to strengthen the banking sector through rigorous operational, prudential and accounting norms, improvement in credit delivery system and gradually narrowing down the divergences in regulatory framework of different institutions.

Introduction of prudential norms to meet international standards.

Deregulation of Entry Barriers and Branching Restrictions

Restructuring of Public Sector banks

Diversification in Banking Operations

Impact of Reforms

These reforms have made an impressive impact on the overall efficiency and stability of the banking system in India. The present capital adequacy of India banks is comparable to those at international level. Capital adequacy has recorded a marked improvement and stood at 12.8 percent at the end of March 2005, comparable to 13.0 percent for US during the same period. The non-performing loans (NPLs) to total loans of commercial banks which were at a high of 15.7 percent on March 1997, declined to 5.2 percent on March 2005. These figures are broadly comparable to those prevailing in several leading European economies.

The financial liberalization has led to the emergence of some big banks diversifying their activities into merchant banking, leasing, hire-purchase, factoring, insurance etc. which has made them financial conglomerates (FC). Therefore, the financial entities now, have become increasingly conscious about risk management and thus have constituted risk management models based on product profile, business philosophy and customer orientation.

Conclusion

Thus, the banking system as at present is the outcome of the process of expansion, reorganization and consolidation which will have to go on for many more years.

**IMPACT OF GLOBAL FINANCIAL CRISIS ON THE SPICES
EXPORT AND PRICES IN INDIA**

The published data collected and analyzed for a period of five years (2003-04 to 2007-08) regarding the export of pepper, cardaman, chillis, ginger, turmeric and garlic revealed that there was a continuous increase in both volume and value of export of pepper and chillies. The other items have shown fluctuations. Similarly, the prices of spices during the period have also shown variations between markets in the states of Kerala, TamilNadu, and Karnataka.

Spices exports from India suffered in the second half of the financial year 2008-09 due to recessionary conditions in importing countries and higher prices. According to sources, the impact will be more severe in the coming months, especially in the first half of 2009-10.

The present global turmoil has badly affected the Indian spices export sector especially to Europe and USA. Traditional importers of Indian spices like Canada have considerably reduced their offtake, while there had been an improvement in exports to non-traditional countries like Japan, Korea and Taiwan. The much higher prices of Indian items is also a major reason for the setback in quantitative terms.

Exports of most spices have shown a rising trend both in terms of quantity and value compared to the same period of previous fiscal. However, the export of pepper has declined in both volume and value terms while chilli, ginger and mint products had a poor show in quantitatively.

Pepper export from India suffered the most severe set back due to the recession as the offtake by Europe and USA had dipped. India's higher price tag compared to Vietnam, Indonesia and Brazil was a major hurdle to cross over the recessionary pressure.

Dr.M.Soundarapandian , Professor and Head & **A.Rajalakshmi**, Research Scholar,
Department of Rural Industries and Management, Gandhigram Rural Rural Institute –
Deemed University, Gandhigram.

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Dr.M.Soundarapandian , Professor and Head & **A.Rajalakshmi**, Research Scholar,
Department of Rural Industries and Management, Gandhigram Rural Institute –
Deemed University, Gandhigram.

would profit by collecting fees managing the SIV. From the late 1980s when the first SIV was launched by Citigroup, a number of SIVs have been created by banking giants such as Citigroup and HSBC as well as by some less well-known banks such as Germany's 1KB and SachsenLB that were mentioned earlier, and their combined total assets stood at \$400 billion as of summer 2007, when they peaked. Of this amount, almost one quarter of SIV assets belonged to those affiliated with Citigroup. There were even some SrV-lites that specialized in a high degree of leverage by borrowing up to 40 to 70 times their equity and then investing the funds in highly lucrative but risky subprime CDOs.

Until the summer of 2007, both conduits and SIVs relied heavily on the ABCP market, whose outstanding volume peaked at \$1.2 trillion. However, as the U.S. subprime sector started to crumble, investors shied away from ABCP, thus triggering funding scares among conduits and SIVs. If they could not renew their maturing ABCP, they would be forced to dump their assets composed mostly of CDOs and other highrisk securities whose secondary market was disappearing fast. With the blessing of the U.S. Treasury, therefore, large banks led by Citigroup, Bank of America and JP Morgan Chase tried to set up a Super SIV in late 2007 in order to purchase assets from distressed SIVs and conduits for the purpose of preventing massive dumping of assets by SIVs in the secondary market. But other banks were reluctant to join in the desperate rescue efforts and the Super SIV idea was finally abandoned. Instead, many sponsoring banks have started to bail out their affiliate SIVs by directly taking over their assets onto their own balance sheets or by extending full credit backing to them, thus effectively forcing the sponsor banks to move these assets on the book instead of hiding them off the book. Such market-based solution was the right though painful way to go, since the sponsor banks had to own up to their moral and reputational obligation to their affiliate conduits and SIVs.

GLOBAL FINANCIAL CRISIS

The global financial crisis, brewing for a while, really started to show its effects in the middle of 2007 and into 2008. Around the world stock markets have fallen, large financial institutions have collapsed or been bought out, and governments in even the wealthiest nations have had to come up with rescue packages to bail out their financial systems. On the one hand many people are concerned that those responsible for the financial problems are the ones being bailed out, while on the other hand, a global financial meltdown will affect the livelihoods of almost everyone in an increasingly inter-connected world.

India's economy grew by 7.9 percent in the three months through September - its fastest pace since last year's global financial crisis. India, along with several other Asian economies, is recovering from the global slowdown.

The key question confronting Indian e economy now is the backwash effect of the American (or global) financial crisis. Central banks in several countries, including India , have moved quickly to improve liquidity, and the finance minister has warned that there could be some impact on credit availability. That implies more expensive credit (even public sector banks are said to be raising money at 11.5 per cent, so that lending rates have to head for 16 per cent and higher — which, when one thinks about it, is not unreasonable when inflation is running at 12 per cent). For those looking to raise capital, the alternative of funding through fresh equity is not cheap either, since stock valuations have suffered in the wake of the FII pull-out. In short, capital has suddenly become more expensive than a few months ago and, in many cases, it may not be available at all.

B.Hemalatha, Research Scholar,
Seethalakshmi Ramaswami College, Tiruchirappalli.

GLOBAL FINANCIAL CRISIS AND THE MILLENNIUM DEVELOPMENT GOALS OF INDIA

.Introduction

The Global Financial Crisis is a watershed event. It contributed to the failure of banking and financial businesses leading to a significant decline in the international economic activity. The immediate cause of the crisis was the collapse of the housing bubble in the US. The high default rates on sub prime and adjustable rate mortgages (ARM) triggered the crisis. As part of the housing and credit booms, the amount of financial agreements called mortgage-backed securities (MBS) and collateralized debt obligations (CDO), greatly increased. These financial innovations enabled institutions and investors around the world to invest in the U.S. housing market. As housing prices declined, major global financial institutions that had borrowed and invested heavily in sub prime MBS reported significant losses. Falling prices also resulted in a continuous drain of wealth from consumers and affected the financial strength of banking institutions. Defaults and loss increased significantly as the crisis expanded from the housing market to other parts of the economy.

Millennium development Goals

In order to achieve poverty reduction and enhance development the world leaders agreed on the Millennium Declaration at the September 2000 UN Millennium Summit. The development agenda was further elaborated in 2001 into the Millennium Development Goals (MDGs). The MDGs are now at the heart of the global development agenda. The eight goals are: to eradicate extreme poverty and hunger, to achieve universal primary education, to promote gender equality and empower women, to reduce child mortality, to improve maternal health, to combat HIV/AIDS, malaria and other diseases, to ensure environmental sustainability and to develop a global partnership for development

Dr.B. Geetha Bai. Associate Professor in Economics
Providence College for Women, Coonoor.

This reduction in global poverty is largely due to rapid recent growth in the large Asian countries: China, India, Indonesia, and Vietnam. The world is still off track on a number of targets, especially relating to child mortality, maternal mortality and water. Progress on achieving the MDGs is shaped by the global economic environment, domestic policies, and for the poorest countries, how much and how well aid is delivered and used. The challenges remain formidable. The financial crisis and economic slowdown make this a precarious time for development. The crisis is projected to increase the financing needs of low-income countries by US\$ 25 billion in 2009 (IMF2009). Decreasing remittances, reduced foreign investment, and falling demand for goods and services are all expected to adversely affect developing economies and emerging markets, as well as compounding the development challenges faced by many countries. The effects of the financial crisis and economic slowdown may even put at risk the gains to date in relation to the Millennium Development Goals.

The economic recession following the financial crisis is leading to lower growth rates in developing countries like India (6.8% in 2008-09 against 8.8% in 2007-08 in India), thus putting an end to the robust growth recorded by many from 2002-2007. This significant deceleration in economic growth in turn diminishes the prospects of achieving the MDGs. Slower growth rates in India is expected to seriously endanger the achievement of the MDGs and trap more people into poverty. The World Bank estimates that a one percent drop in growth in developing countries could trap another 20 million people into poverty. Recent estimates compiled by the World Bank show that slower growth will push 46 million more people below the poverty line of US\$1.25 a day while an extra 53 million people will stay trapped on less than US\$2 a day. This is added to the 130-155 million people who were already pushed into poverty in 2008 as a result of soaring food and fuel prices.(Prabhu 2009) As the crisis turns into an unemployment crisis, the International Labour Organisation (ILO) for its part has warned that world unemployment in 2009 could increase by between 18 to 30million people in comparison to 2007, and by more than 50 million if the situation continues to deteriorate as a result of the current crisis. In the worst case scenario, 200 million workers mostly in developing economies, could be pushed into extreme poverty. Furthermore the ILO expects the

crisis to be more detrimental for women than men in most regions of the world and projects a female unemployment rate ranging from 6.5 to 7.4 percent, such that the number of unemployed women will rise between 10 and 22 million. ILO 2009). As labour markets weaken in rich countries, remittance flows to developing countries are expected to decline. Forecasts of falling employment in the developed world, especially in sectors with many migrant workers (such as construction, retail and catering) suggest that migration flows from developing countries may slow down. Remittances are projected to stagnate in the second half of 2008, and shrink in 2009. An immediate consequence of the global economic slowdown is the contraction of world trade volumes, as the crisis has led to recession in high-income countries and a sharp slowdown across the developing world. This will lead to a sharp fall in export revenues (exports fell by 30% in Jan- Mar 2009 in India).

Can India achieve MDGs?

For Goal I, reducing the proportion of people below poverty by half by 2015, the country is generally considered to be well on track. With 1990 as the baseline, the MDG goal is to reduce the proportion of poor people to 19 percent by 2015. But if the World Bank's estimates of proportion of population below the newly defined extreme poverty line of USD1.25 per day is considered, the proportion of population in extreme poverty in India in 2008 was 39.26 percent. UNDP India estimates using the trend rate of reduction in poverty indicates that population in extreme poverty is likely to decline to 34.31 percent by 2015 which is higher than the target rate of 25.65 percent in 2015. This means that India will not be on track to meet the MDG goal on poverty reduction.

India's Prospects for Achieving MDG II AND III

With respect to Goal II, the objective of achieving universal primary enrollment is widely recognized as being attainable with some effort. Recent independent reports corroborate the government's claim that enrollment has been rising.

Challenges in Meeting Health and Environment Related Goals

With respect to health related Goals dealing with reduction in infant mortality rates and maternal mortality rates, respectively, health is regarded as a sector that bears the

brunt of the impact of any economic crisis. The collapse in public expenditure along with a decline in private incomes combine to lead to a deterioration in health outcomes which increases infant mortality rates. For example, the economic crisis in Asia, the financial crisis of 1997 had devastating impacts on health outcomes in Indonesia according to World Health Organisation. (WHO) reports. Indian situation is very peculiar in that the health outcomes of women and children have deteriorated even during the period of rapid economic progress. Regarding Environmental Goals, India is a complex, stunningly diverse country with a population over 1.1 billion-Currently, India ranks 101 out of 146 countries on the 2005 Environmental Sustainability Index (ESI), which ranks countries based on such measures as health, governance, technology, and international cooperation and evaluates "the likelihood that a country will be able to preserve valuable environmental resources effectively over the period of several decades". India, with its soaring population, faces increasing stresses to its air and water; its future energy and resource use is uncertain, and its agricultural productivity is at risk.

Government Policy Initiatives

At the macro-level, the Government of India has initiated several schemes in the last couple of years that could cushion to some extent the extent of distress for poorer households in rural areas. The NREGS is the foremost among such measures that could offer succor. In 2007-08, the scheme provided employment to 33.9 million households generating an employment of 1,435 million person days in 330 districts. There are also several success stories such as NREGS implementation in Andhra Pradesh where extensive use of ICT technologies and social audits has minimized leakages. The commitment of the government to ensuring adequate funding for promoting rural employment and related human development programmes is evident in the enhanced allocations including for the NREGS in the interim budget of 2009. National Food Security Act to be brought to ensure entitlement of 25 kgs of rice or wheat to every below poverty line(BPL) family .

This belies any fears of fiscal stringency limiting resources for social safety net schemes. If, at all, the bottle neck is at the implementation stage where allocations are not being spent to the extent required. However, each of these flagship schemes addresses specific components of human development. The recent bill to provide social security for unorganized sector workers is yet to take off and would take time for implementation. The financial crisis offers scope and the opportunity to revamp the social sector programmes in the country. Innovative design and implementation of mutually complementary schemes within an integrated policy framework would go a long way in achieving the Millennium Development Goals. India's HDI rank was 134 out of 182 countries in 2009, highlighting the fact that improvement in human development outcomes and achievement of national and international goals would need accelerated efforts.

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GLOBAL FINANCIAL CRISIS - IMPACT ON FINANCIAL SECTOR

Introduction

The purpose of this paper is to briefly review the ongoing financial and economic crisis. Many causes have been proposed with varying weight assigned by experts. Both market – based and regulatory solutions have been implemented or are under consideration. While significant risks remain for the world economy.

Global economic crisis refers to an economic scenario where the economies of countries all over the world have taken a beating. The GDP's of countries are going down or in negative zone. There is severe liquidity crunch and countries & governments around the world are frantically taking steps to combat this issue.

Initially the companies affected were those directly involved in home construction and mortgage lending. Several major institutions failed were either acquired under duress, or were subject to government takeover.

The crisis hits its most critical stage. There was the equivalent of a bank run on the money market mutual fund, which frequently invest in commercial paper issued corporations to fund their operations and payrolls. The financial crisis is likely to yield the biggest banking shake – out since the savings and loan meltdown.

The global economic crisis has been transmitted to the world economy through three distinct channels. They are:

Financial sector: On the financial front the banking sector was not overly exposed to the sub – prime crisis.

Exports: In relate to exports the multiplier effect for economic activity is quite large as important is not as high.

Miss.T.Thilagavathi, Lecturer, Department of Commerce (S.F.)
Seethalakshmi Ramaswami College, Tiruchirappalli.

Exchange Rate: The third transmission channel is exchange rate has come under pressure.

The impact of the crisis on financial Services

Not surprisingly, given that the sector has been at the epicenter of the financial and economic crisis, jobs in financial services around the world have been strongly affected. They are also unlikely to include layoffs from independent mortgage brokers, other independent contractors who provide subcontracting services to financial institutions, or the multitude of small financial firms who would not have had the resources to weather the crisis and may have gone out of business entirely. The major banks began to offer their top rates only to customers who approached them directly, restricting the number and type of mortgages on sale through brokers. Brokers have long served as an important loan source, typically offering a wider range of mortgage products from a variety of lending institutions.

Challenges also lie ahead for those employees that continue to work in the financial services industry. Apart from major restructuring efforts, existing banks and financial institutions need to concentrate on their core business. This will require incentives to move towards less risky activities and avoid excessive risk taking. This calls for changing corporate governance of the banking sector, including a fresh look at remuneration packages of executive and trading staff. In particular, compensation packages and earnings growth of these employees could better reflect their ability to fulfill the lending role of the institutions that employ them.

The existing remuneration model leads to misallocation of risk and places burdens on those least capable of taking on large gambles. Excessive risk-taking does not necessarily lead to profit maximization; it may rather lead to total destruction of shareholder value.

Revisiting corporate governance:

Multi-stakeholder coordination in financial institutions may be improved to ensure better coordination and implementation of agreed international corporate governance standards. Remuneration and incentive systems are supposed to align the interests of corporate officials with the long-term interest of the enterprise and shareholders. Developments in corporate governance mechanisms have led to an increasing use of performance-related pay systems for executive managers and directors, but empirical studies show that such systems have little effect, if any, on the performance of financial institutions.

Conclusion

The finance sector is currently undergoing a deep and thorough restructuring, and the crisis has hit the sector unevenly, which may result in labor movement among financial sub-sectors. This will reinforce the impetus towards structural changes similar to those experienced until now. This restructuring of the finance sector cannot take place without substantial consequences for both employment and income of current employees in this industry.

FINANCIAL CRISIS AND INDAN ECONOMY

Introduction

The financial crisis created a recessionary economic environment in which global trade, stock market indices, and commodity prices, such as copper and cobalt, declined significantly. The global financial and economic crises thus negatively impacted on economies around the world by adversely affecting trade and investment flows and the price of key export commodities.

An attempt is made to analyze the financial crisis and Indian economy. The specific objective of the paper is to study the impact of the global economic crisis on India.

The economic crisis has resulted in corporate bankruptcies, while forcing others to consolidate. Central banks across the globe have taken unprecedented measures to ease the liquidity crunch while Governments across continents have unveiled stimulus packages. While the impact of these measures is yet to be seen, what has been painfully evident is the steady stream of news about economies entering recessionary periods, and people losing their jobs.

The crisis has a vicious cycle. As people lose jobs and draw down savings, their ability to service debts, including home mortgages and credit cards, is eroding. As the default rates rise, the underlying asset values depreciate, resulting in depressed aggregate demand.

While a fuller debate on the causes of the crisis would perhaps require more time, it is evident that weak regulatory controls leading to astounding leveraging ratios and inadequate corporate governance structures are at the heart of the present predicament.

M.Uma Maheswari, Head Department of Management,
Amman Atrs and Science College Dindigul.

Impact of the global economic crisis on India

The current global financial crisis, with the subsequent global economic recession, has adversely affected India, like most global economies, mainly through: reduced revenue earnings from mineral resources; job losses, particularly in the extractive industry; lower foreign capital inflow (both foreign portfolio investment (FPI) and foreign direct investment (FDI)); rising domestic inflation driven by pass-through effects of the depreciation in the exchange rate against major currencies; and declining number of foreign tourists.

Foreign capital inflow

The global financial crisis has led to the decline in the foreign portfolio investment inflows as investors reduced their exposure to emerging market instruments. The risk aversion towards emerging markets has led to a reduction in foreign portfolio inflows and holdings in India's Government securities. This has resulted in a net outflow of foreign portfolio investment since funds that mature are not being rolled over and funds coming in have been scaled down.

Exchange rate volatility and domestic inflation

The global financial meltdown has caused a contagion effect to our foreign exchange market and has led to volatility in the exchange rate of the Kwacha against major currencies. This unfavourable development is partly a consequence of reduced earnings from copper exports arising from the fall in copper prices as reflected in the lower supply of foreign exchange on the market by mining companies.

Tourism

Apart from mining and related companies that are affected by the effects of the global recession, tourism has also been negatively impacted. The number of foreign tourists is anticipated to decline owing to financial problems and credit crunch in their countries of origin.

IMPACT OF GLOBAL FINANCIAL CRISIS

Introduction

The global financial crisis has been called by leading economists the worst financial crisis since the one related to the Great Depression of 1930s. It contributed to the failure of key businesses, declines in consumer wealth estimated in the trillions of U.S. dollars, substantial financial commitments incurred by governments and a significant decline in economic activity. Many causes have been proposed, with varying weight assigned by experts.

Global effects

A number of commentators have suggested that if the liquidity crisis continues, there could be an extended recession or worse. The continuing development of the crisis prompted fears of a global economic collapse. The financial crisis is likely to yield the biggest banking shakeout since the savings-and-loan meltdown. Investment bank UBS stated on October 6 that 2008 would see a clear global recession, with recovery unlikely for at least two years.

At the end of October UBS revised its outlook downwards: the forthcoming recession would be the worst since the Reagan recession of 1981 and 1982 with negative 2009 growth for the U.S., Eurozone, UK and Canada; very limited recovery in 2010 but not as bad as the Great Depression.

The Brookings Institution reported in June 2009 that U.S. consumption accounted for more than a third of the growth in global consumption between 2000 and 2007. The U.S. economy has been spending too much and borrowing too much for years and the rest of the world depended on the U.S. consumer as a source of global demand. For the first quarter of 2009, the annualized rate of decline in GDP was 14.4% in Germany, 15.2% in Japan, 7.4% in the UK, 18% in Latvia, 9.8% in the Euro area and 21.5% for Mexico.

Mrs. M. Gunavathi, Head, Department of Commerce &

Mrs. S. Neelavanam, M.Phil Scholar, Seethalakshmi Ramaswamy College Tiruchirappalli

By March 2009, the Arab world had lost \$3 trillion due to the crisis. In April 2009, unemployment in the Arab world is said to be a 'time bomb'. In May 2009, the United reported a drop in foreign investment in Middle-Eastern economies due to slower rise in demand for oil. In June 2009, the World Bank predicted a tough year for Arab states. In September 2009, Arab banks reported losses of nearly \$4 billion since the global financial crisis onset.

U.S. Economic Effects

Real gross domestic product – the output of goods and services produced by labor and property located in the United States – decreased at an annual rate of approximately 6 percent in the fourth quarter of 2008 and first quarter of 2009, versus activity in the year-ago periods. The U.S. unemployment rate increased to 10.2% by October 2009, the highest rate since 1983 and roughly twice the pre-crisis rate. The average hours per work week declined to 33 the lowest level since the government began collecting the data in 1964.

Conclusion

It has been noted that the current financial crisis is different from other previous crisis that have affected the international financial system during past several decades. In a world of low yield due to the excess liquidity in global search of higher returns, investment managers have been subject to intense pressure to obtain higher yields just to stay competitive. In such an environment, a difference of dozen basis points (one hundredth of one percent) in investment returns can make a world of difference for the investment managers.

The global financial markets have also created a "Shadow banking system" apart from the traditional banking system which binds banks and clients on an ongoing basis with the banks retaining the client credit risk on their books. In the recent decades however banks have been turned into loan originators, shoveling the loans out immediately to other loan packagers and securities underwriters. Traditional relationship banking between banks and clients is replaced by transactional banking where banks are eager to generate as many transactions as possible so that they can off load them to securitization packagers and underwriters.

THE FALL OF LEHMAN: REASONS AND MEASURES TO RECOVER

Introduction

The sign of the current Global financial crisis first emerged publicly in the summer of 2007, when two German banks, IKB and Sachsent LB, that had invested heavily in sub prime mortgage-related securities via their off-balance sheet vehicles, had to be bailed out by the government in August 2007. The crisis has affected not just giant banking and financial institutions in the West. Even small towns such as Narvik in Arctic Norway and some obscure municipalities in Australia lost their precious savings and had to come up with emergency funding to keep their towns in operations. The international financial crisis and the resulting credit squeeze has also reached Asian countries such as Korea, where in November, after almost four months from the outbreak of the crisis in the summer, the drastically tightened credit market forced the Bank of Korea to inject emergency funding into the market and many Korea Banks found themselves desperate to obtain necessary funds.

The unprecedented global financial crisis has then eventually pushed the global economy into the most severe crisis since the Great Depression of the 1930s. Total global losses in the current financial crisis are estimated at \$40 trillion. However the financial crisis became talk of the households everywhere only when Lehman Brothers, one of the most prestigious players on Wall Street, filed for bankruptcy. It is the biggest victim so far of the credit crunch and sub-prime crisis. The collapse of Lehman – one of the biggest financial shocks in years have puts tens of thousands of jobs around the world at risk. It also sent shockwaves around the banking world, with commentators predicting that the damage could be felt across the industry and could help to push the UK into recession. Howard Archer, chief UK and European economist at Global Insight, warned that Lehman's fate will make the surviving banks even more reluctant to lend to each other. "This increased the risk that the credit crunch will deepen and last for some

V.Parameswari, Research scholar, Department of Commerce,
Seethalakshmi Ramaswamy college, Tiruchirappalli.

considerable time to come, which in turn increases the already serious downside risks to growth in the UK and the Eurozone, and heightens the danger of recession," Archer warned.

Causes

As with any large event in any field of human endeavour, it is never about just one thing. There were many causes of the financial crisis, some recent and some longstanding. I would like to focus on three of those causes today: the misperception and mismanagement of risk; the level of interest rates; and the regulation of the financial system. Perhaps the most basic underlying driver of the crisis was the inherent cycle of human psychology around risk perceptions. When times are good, perceptions of risk diminish. People start to convince themselves that the good times will go on forever. Then, when the cycle turns, risk aversion increases again, often far beyond normal levels, let alone those seen during the boom.

Recently investors have become more risk-averse, and the 'search for yield' turned into a 'flight to safety'. Despite these considerable efforts, confidence in the financial system remains fragile. Many observers were concerned about the way the low level of interest rates made higher leverages so attractive.

A lack of appropriate financial regulation in some countries is widely regarded as one of the important causes of the crisis. Many shortcomings have been identified in this area viz. the capital requirements on complex financial products such as collateralized debt obligations (CDOs); the use of ratings provided by the private agencies.

Lehman had been an important player in many of the securities and derivative markets that were freezing up. It even had a sub-prime mortgage subsidiary, which it shut down in August 2007. Lehman had already incurred substantial losses in the quarters prior to its failure. And once people start to become concerned about a bank's solvency, it becomes very hard to prevent the loss of counterparty confidence that can bring that insolvency on.

When Lehman failed, it triggered a further increase in risk aversion. There was a flight to the safety of government bonds, and away from emerging market and other assets. Yield spreads on traditionally risky assets widened further, as well as those on

newer kinds of derivatives and securities such as credit default swaps or collateralized debt obligations

In US some private-sector estimates suggest that more than 10 per cent of mortgage borrowers are already in negative equity, perhaps as many as one in six. Thus, a much greater proportion of US home owners risk defaulting if they get into repayment difficulty, because they cannot easily sell or refinance if the mortgage is worth more than the home.

Counter measures

At this stage, policy makers around the World are focusing on solving the immediate problems in the banking system. Governments can buy the assets out right and place them in an entity separate to the bank; they can insure assets remaining on bank's balance sheets against losses or they can invest in joint investment funds that buy the assets. Each of these approaches has been good in at least one country in the recent crisis. Restoring the global banking system to health is a precondition for a recovery in credit supply and economic activity. As such, it has to take priority over long term reforms. At this stage it is hard to say if there is one right way to deal with these issues. The important thing is that they are dealt with.

**EFFECT OF GLOBAL FINANCIAL CRISIS ON INDIAN
ECONOMY: DOES IT ENGULFED?**

Introduction

The meltdown in the US financial markets, beginning with the sub-prime crisis and rapidly accelerating to affect an ever-wider circle of major institutions, began with the bankruptcy of Lehman Brothers, the below-par sale of Merrill Lynch and a US government bailout of American International Group (AIG), the world's biggest insurer. Two other giant investment bankers – Morgan Stanley and Goldman Sachs- had to be allowed to change their status to bank holding companies so as to bring them under supervision of the banking regulatory bodies.

Causes for Global Financial Crisis

The main reasons for the present financial crisis are as follows:

- (a) Boom and burst in the housing market .
- (b) Speculation.
- (c) High risk mortgage loans lending / borrowing practices.
- (d) Securitization practices.
- (e) Inaccurate credit rating.
- (f) Government policies.
- (g) Policies of Central Bank.
- (h) Credit default swaps.
- (i) Financial institutions debt level and incentives.

Dr. A. Marimuthu & Mr. K. Meenatchisundaram*

Asst. Professor, PG Department of Economics, Raja Doraisingam Govt Arts College, Sivagangai. M.Phil., Scholar in Department of Economics, Bharathiar University, Coimbatore.

Global Financial Crisis and India

Even as the first signs of Economic collapse started showing in America, Our Prime Minister Dr.Manmohan Singh, previous minister Chidambaram, Planning Commission Deputy Chairman Montek Singh Ahluwalia have consistently assured Indians that 'The fundamentals of Indian Economy are quiet strong and there is absolutely no reason for panic'! It is unlikely they did not know the simple truth that in the globalised world most national economies will collapse with America's down fall. True to the proverb 'when it thunders the thief becomes honest', they have finally accepted that 'India is in recession and the situation will become grave in the coming days'.

Indian economy has been hurt by the global financial crisis like;

- i) Reduction in capital flow
- ii) Slowdown in the sectoral growth
- iii) Drying up of liquidity
- iv) Adverse effect on our export of goods and services
- v) Decline in the internal accruals of the corporate.

The intensity of recession in India is felt every passing hour with ever increasing incidents of job losses, closing down of industries, salary cuts etc. The share market has collapsed by 30 lakh crores since November 2007. Share market 'sensex' that once rose to 21,000 points has today nose-dived to 8,500 points. First 10 top giant industries incurred a loss of Rs.30,000 crores in a week's span between November 17-23, 2008. Around Rs.45,000 crores has been withdrawn in 2008 alone by the Foreign Institutional Investors causing scarcity of dollars, which in turn has devalued Rupee, the result Indian Rupee has an exchange value of Rs.50/-or more against a dollar!

Exposure of Industries

The commodity market is stagnant, and production is on a downfall in spite of these measures industry after industry is laying off workers. ASSOCHAM- All India Association of Industry and Commerce has estimated that job losses will be 25%to 30% in Iron, Cement, Construction, Real Estate, aviation, IT, BPO and Finance sectors across India. Export based industries are paralysed. 60% of the IT, BPO sector dependent on

America is in danger. Wipro, Satyam and other IT companies are sending home thousand of employees. Around 35% jobs are likely to be cut in BPO companies. The Garment Industry has terminated 7 lakh employees. Sale of trucks has gone down by 35%. 10 lakh jobs and 3,500 units have vanished in textile sector. One of the biggest non-banking finance corporations Bajaj Capital is at its wits end because there are no customers to take loans since two weeks. The Mining Industry particularly that of Bellary is rusting. Around 20 mines have stalled work. The rest of them are working at half their capacities. While China that was importing 88% of the country's iron ore has fallen by 54% in India. Harbours have become of tons of iron ore in Haldia and Mamagao, sea food in Cochin, industrial goods in Kandla and Mundra, and vehicle spare parts in Chennai are rotting. The manufacturing units of Ludhiana (Ready made garments) and Tirupur (manufacture of hosiery) are gathering dust. In the next three months 10 lakh people in construction, 10 lakh in mining industry, 5 lakh more in textile industry, and 4.5 lakh in hotel industry are likely to lose jobs. 83% of the job aspirants who will enter the job market next year will not find placements. Job cuts by 51% are likely in electricity sector. The statistics of percentage of youngsters who are appointed and who will not be employed in various sectors are as follows- 78% in retail market, 78% in transport sector, 66% in drugs and chemicals, 51% in machine manufacture sector. Tourism industry is already preparing for a 10% slump. 'Unpaid Holiday' (No job and No Pay for some period of time) is becoming a popular jargon for implementation in many important industries. 11 Public Banks and 14 commercial banks do not have the adequate Capital Adequacy Ratio-CAR (The average amount stipulated by RBI to be kept with the banks to pay back the depositors amount)!

Economic Impact due to Global Financial Crisis:

Peenya industrial Estate (Asia's biggest industrial area) in Bangalore, with around 5000 small scale industrial units are closing down one after another due to lack of work orders since 3 months. The dark clouds of unemployment are hovering over 5 lakh workers depending on these industries. Credit card applications of Aviation, Finance and real estate employees are ruthlessly rejected by the Banks. The Banks now claim that these employees do not have loan repayment capacity. Karnataka State Government's exchequer also affected by recession. Collection of taxes (Commercial tax, stamp duty, transport tax) this year has fallen by 7%. It amounts to a loss of Rs.5000 crores to the exchequer. The already scanty social welfare measures will be further affected.

Mr. K. V. Kamath, Chief of Confederation of Indian Industries-CII- the chief representative of Indian Industries has accepted that 6.3 lakh crores of mutual fund and non-banking finances are in peril. When the government owned UTI mutual fund was in crisis during 2001, the government pumped thousands of crores of Rupees to save it. Now, if transactions of such huge dimensions involving 80 mutual funds are in danger, one can surely guess the gravity of the scary situation.

A whopping 1 lakh crore is invested into real estate in India by banks and mutual funds. But, lakhs of flats, apartments and houses in various cities including Bangalore have no takers. The result-Banks are worried about the impending danger of default by the developers. Meanwhile, a big developer has already defaulted on a loan of Rs.200 crores! Hence, banks have taken initiative in impressing the builders to reduce the costs of houses. Still the flats have no takers because of pauperized pocket of the people. Every other sector is pauperized be it agriculture, cement, steel, petroleum, power and coal.

Wisdom lately dawned on the Prime Minister Manmohan Singh, previous Finance Minister Chidambaram and Commerce Minister Kamal Nath who are crying hoarse 'reduce the prices, create the demand'. These cries are unfortunately falling on the deaf ears of the capitalists. Answer is simple. As is reflected in the main article, the capitalist system stands on the foundation of maximum profit. The capitalists will never produce to meet the needs of the society. Is it not a rather futile expectation that the capitalists should reduce costs, because they survive on the principle of maximization of profits. They will willingly destroy the produce but they will never part with it for the deserving, poor and needy. If 10 crore tons of coffee was destroyed in Brazil, a mountain load of wheat was thrown into the sea in America.

Conclusion

Thus, economic recession due to fall in production and inflation due to price rise have thoroughly drained people. The capitalist system at present is tottering on its last legs. The reasons for the present crisis are substantiated by the above facts. According to a report in Times of India, not even 25% of the total agricultural produce reaches the common man because of administrative corruption. In states like Maharashtra and West Bengal the direct links between black market and government is thoroughly exposed. Today it is impossible for any political party serving either the oppressive national or international capitalists to remain pro-people. As a correct alternative a strong united people's movement should grow.

GLOBAL FINANCIAL CRISIS: CAUSES, IMPACT, POLICY RESPONSES

Introduction

The world is presently facing unprecedented due to which economies world over are considered to be entering in to prolonged slowdown in economy activities. The intensity of present economic crisis is so high that it is being compared with same of the worst known global economic recessions which stored in 1873, great depression of 1930s and Japanese and East Asian crises of 1990s. The major culprits of current economic slowdown are considered to be sub prime mortgage crises in financial sector of us and enormous rise in price of commodities, particularly prices of crude oil.

The current global financial crisis is rooted in sub prime crisis which surfaced over a year ago in the United States of America. Due to globalization in the Indian economy cannot be insulated from the present financial crisis in the developed economies. The development in the U.S financial sector has affected not only America but also European Union, U.K and Asia. The Indian economy too has felt the impact of the crisis though not to the same extent. It is premature to try to quantify the consequences of the crisis on the Indian economy. However the impact will be multi-fold.

The impact of the financial crisis is felt the developing economies as well. Growth is slowing down in all these countries. India's growth rate in 2008-09 was 6.7 per cent as compared to 9 per cent in the previous year. Prospects for 2009-10 do not appear to be better. While in 2008-09 the first half escaped the impact of global recession, in the current year the impact will be felt throughout the year. Globalization spreads both prosperity and distress. Outsourcing of services industry, which has emerged as one of the most dynamic sectors of international trade today and in which has emerged as one of the leading participants, is presumed to have been adversely affected by the global economic slowdown. This paper attempts to understand the possible impact of current environment on this vibrant sector which has contributed to in great measure to India being considered as one of the fastest growing economies.

Mrs. Gisha P. Mathai, Ph.D Research Scholar in Economics,
Urumu Dhanalakshmi College, Tiruchirappalli

Impact of the Crisis on India

While the overall policy approach has been able to mitigate the potential impact of the turmoil on domestic financial markets and the economy, with the increasing integration of the Indian economy and its financial markets with rest of the world, there is recognition that the country does face some downside risks from these international developments. The risks arise mainly from the potential reversal of capital flows on a sustained medium-term basis from the projected slow down of the global economy, particularly in advanced economies, and from some elements of potential financial contagion. In India, the adverse effects have so far been mainly in the equity markets because of reversal of portfolio equity flows, and the concomitant effects on the domestic forex market and liquidity conditions. The macro effects have so far been muted due to the overall strength of domestic demand, the healthy balance sheets of the Indian corporate sector, and the predominant domestic financing of investment.

As might be expected, the main impact of the global financial turmoil in India has emanated from the significant change experienced in the capital account in 2008-09 so far, relative to the previous year (Table 1). Total net capital flows fell from US\$17.3 billion in April-June 2007 to US\$13.2 billion in April-June 2008. Nonetheless, capital flows are expected to be more than sufficient to cover the current account deficit this year as well. While Foreign Direct Investment (FDI) inflows have continued to exhibit accelerated growth (US\$ 16.7 billion during April-August 2008 as compared with US\$ 8.5 billion in the corresponding period of 2007), portfolio investments by foreign institutional investors (FIIs) witnessed a net outflow of about US\$ 6.4 billion in April- September 2008 as compared with a net inflow of US\$ 15.5 billion in the corresponding period last year.

Similarly, external commercial borrowings of the corporate sector declined from US\$ 7.0 billion in April-June 2007 to US\$ 1.6 billion in April-June 2008, partially in response to policy measures in the face of excess flows in 2007-08, but also due to the current turmoil in advanced economies. With the existence of a merchandise trade deficit of 7.7 per cent of GDP in 2007-08, and a current account deficit of 1.5 per cent, and change in perceptions with respect to capital flows, there has been significant pressure on the Indian exchange rate in recent months. Whereas the real exchange rate appreciated from an index of 104.9 (base 1993-94=100) (US\$1 = Rs. 46.12) in September 2006 to

115.0 (US\$ 1 = Rs. 40.34) in September 2007, it has now depreciated to a level of 101.5 (US \$ 1 = Rs. 48.74) as on October 8, 2008.

Table : Trends in Capital Flows

		(US \$ million)	
Component	Period	2007-08	2008-09
Foreign Direct Investment to India	April-August	8,536	16,733
FII's (net)@	April – Sept 26	15,508	-6,421
External Commercial Borrowings (net)	April- June	6,990	1,559
Short-term Trade Credits (net)	April- June	1,804	2,173
Memo:			
ECB Approvals	April-August	13,375	8,127
Foreign Exchange Reserves (variation)	April-September 26	48,583	-17,904
Foreign Exchange Reserves (end- period)	September 26, 2008	247,762	291,819
Note: Data on FIIs presented in this table represent inflows into the country and, thus, may differ from data relating to net investment in stock exchanges by FIIs.			

Conclusion

While the developed world, including the U.S, the Euro Zone and Japan, have plunged into recession, the Indian Economy is being affected by the spill-over effects of the global financial crisis (Chidambaram 2008). Great savings habit among people, strong fundamentals, strong conservative and regulatory regime have saved Indian economy from going out of gear, though significant parts of the economy have slowed down and there is a wide variance of opinion about how long it will continue. It is expected that growth will be moderate in India. The most important lesson that we must learn from the crisis is that we must be self-reliant. Though World Trade Organization (WTO) propagates free trade, we must adopt protectionist measures in certain sectors of the economy so that recession in any part of the globe does not affect our country.

**A STUDY ON GLOBAL FINANCIAL CRISIS - ITS IMPACT
ON INDIAN ECONOMY SINCE 2007**

Introduction

The origin at current financial crisis traced back to mid 2007 when three things became clear. One, low income or Sup Prime US households that had borrowed heavily from banks and finance companies to buy homes were defaulting heavily on their debt obligations. Two, the size at this Sub – Prime housing loan market was huge at about \$ 1.4 trillion. Three, wall street's financial engineers had packaged these loans o rely complicated financial Instruments called CDO's (Collateralized debt Obligations) America and European banks had invested heavily in these products. However, no amount of financial engineering could protect investors from one simple and irrefutable principle – if these housing loan turned 'bad' the instruments that were based on these loans would lost value CDO prices started plummeting as defaults on US home loan rose. Falling prices dented banks investment portfolios and these losses destroyed banks capital. Default mortgage loans are the primary reason for the financial crisis sweeping the world".

As the housing loan crisis intensified, banks grew increasingly suspicious about each other's solvency and ability to honour commitments. The inter banks market shrank as a result and this began to hurt the flow of funds he the real economy. To cut a long story short today's financial crisis is the culmination of these problems in the global banking systems. Inter bank markets across the world have frozen over. Central banks across the globe had began to revive financial institutions, hit by what former Federal Reserve Governor Alan Greenspan has described as the crisis of the century.

Objectives

This study was carried out with following major objectives.

1. To examine the causes of Financial crisis at Global level.
2. To analyse the consequences of Financial crisis on various sectors of the economy.

R. Pichumani Asst. Professor in Economics,
A.A. Govt. Arts College, Musiri .

3. To find out the steps taken by Reserve Bank of India to face the crisis.
4. To assess the RBI's prescriptions on Retail credit Growth.
5. To study the effects of international financial crisis on India Economy since 2008.

INDIA AND GLOBAL FINANCIAL CRISIS:

When the financial crisis erupted in a comprehensive manner on Wall Street, there was some premature traumatism among Indian policy makers and media persons. It was argued that India would be relatively immune to this crisis, because at the "Strong fundamentals" of the economy and the Supposedly well regulated banking system. India is bound to be affected by the global crisis since now foreign trade and service export accounts for over 40% of the GDP.

After a long spell at growth, the Indian economy is experiencing a downturn, Industrial growth is faltering, inflation remain to double digit levels, the current accounts deficit is widening, raising money for new investments through public issues is no hold. Foreign exchange reserves are depleting and the rupee is depreciating, the rupee plunged to 50.18 against dollar on November 21, 2008.

Rbi's Prescriptions Over Global Financial Crisis:

RBI was committed to provide all possible support and assistance to Indian industry and trade to ensure that the Indian economy is least affected by this crisis. Buffeted by an extraordinary global financial shock and many advanced countries close to moving into recession, India's policy makers are grappling with options to deep growth intact while containing prices and infusion liquidity.

Rbi's Action Against Financial Crisis

The RBI intensified efforts to improve liquidity condition in the Indian money market. RBI swung in to action and announced one percentage cut in CRR. On October 11, 2008 RBI cut CRR at 1.5 percentage and infused Rs. 60,000 crores in the banking system. RBI also decided to defer the auction of govt. bond's at Rs. 10,000 under its annual borrowing plan to avoid sucking out liquidity from the system. RBI has also released around Rs. 8000 crores through unwinding at market stabilization scheme (MSS). As a part of its hectic and continuing to ease the liquidity situation, the RBI on Oct 20, 2008 cut the repo rate by one percentage. The cost at which banks borrow from RBI will come down so they can lend at lower rates.

Table – 1
RBI Policy Initiatives

Announcement at RBI	Action
October 6, 2008	50 bps CRR Cut
October 10, 2008	150 bps CRR Cut
October 15, 2008	100 bps CRR Cut
October 20, 2008	100 bps repo rate Cut
November 1, 2008	100 bps CRR Cut
November 1, 2008	50 bps repo rate Cut
November 1, 2008	100 bps SLR Cut

On Nov.1 the RBI, 2008 slashed three key rates to free up cash in banking system and ease the credit crunch. The cuts are expected to infuse Rs. 85,000 crores in the banking system. The CRR was cut by one percent to 5.5 percent. The repo rate was cut to 0.5 percent to 7.5 percent. This should help to ease interest rate by reducing the cost at funds for banks. The statutory liquidity ratio was cut by one percent to 24 percent. The cuts coned help to meet industry's credit demands.

Conclusion

The sub prime crisis and the consequent drying up of global liquidity has lad to the current financial crisis. RBI has taken several monetary measures to ease liquidity situation and facilitate the lending exercise. Rupee liquidity at around Rs. 2, 25, 000 crores has been injected in to the banking system through reduction in the proportion of deposits banks are require to hold as cash reserves, a cut in the amount of deposits banks. Further a cut in CRR as well as some reduction in the repo rate will be in order not only to infuse more liquidity but also to lower interest rates to ensure that the growth as the economy is not hampered.

THE GREAT CRASH, 2008

The financial and economic crash of 2008, the worst in over 75 years, is a major geopolitical set back for the United States and Europe. Over the medium term, Washington and European governments will have neither the resources nor the economic credibility to play the role in global affairs that they otherwise would have played. These weaknesses will eventually be repaired, but in the interim, they will accelerate trends that are shifting the world's center of gravity away from the United States.

In the years leading up to the start of the crisis in 2007, significant amounts of foreign money flowed into the U.S. from fast-growing economies in Asia and oil-producing countries. This inflow of funds made it easier for the Federal Reserve to keep interest rates in the United States too low (by the Taylor rule) from 2002–2006 which contributed to easy credit conditions, leading to the United States housing bubble.

While the housing and credit bubbles built, a series of factors caused the financial system to both expand and become increasingly fragile. Policymakers did not recognize the increasingly important role played by financial institutions such as investment banks and hedge funds, also known as the shadow banking system. Some experts believe these institutions had become as important as commercial (depository) banks in providing credit to the U.S. economy, but they were not subject to the same regulations. These institutions as well as certain regulated banks had also assumed significant debt burdens while providing the loans described above and did not have a financial cushion sufficient to absorb large loan defaults or MBS losses. These losses impacted the ability of financial institutions to lend, slowing economic activity. Concerns regarding the stability of key financial institutions drove central banks to provide funds to encourage lending and restore faith in the commercial paper markets, which are integral to funding business operations. Governments also bailed out key financial institutions and implemented economic stimulus programs, assuming significant additional financial commitments.

Dr. S. Lakahmanan, Head, Post Graduate & Research Department of Economics,
Gobi Arts and Science College (Autonomous), Gobichettipalayam

Growth of the housing bubble

Between 1997 and 2006, the price of the typical American house increased by 124%. During the two decades ending in 2001, the national median home price ranged from 2.9 to 3.1 times median household income. This ratio rose to 4.0 in 2004, and 4.6 in 2006. This housing bubble resulted in quite a few homeowners refinancing their homes at lower interest rates, or financing consumer spending by taking out second mortgages secured by the price appreciation.

By September 2008, average U.S. housing prices had declined by over 20% from their mid-2006 peak. As prices declined, borrowers with adjustable-rate mortgages could not refinance to avoid the higher payments associated with rising interest rates and began to default. During 2007, lenders began foreclosure proceedings on nearly 1.3 million properties, a 79% increase over 2006. This increased to 2.3 million in 2008, an 81% increase vs. 2007. As of August 2008, 9.2% of all mortgages outstanding were either delinquent or in foreclosure.

Easy credit conditions

Lower interest rates encourage borrowing. From 2000 to 2003, the Federal Reserve lowered the federal funds rate target from 6.5% to 1.0%. This was done to soften the effects of the collapse of the dot-com bubble and of the September 2001 terrorist attacks, and to combat the perceived risk of deflation.

U.S. Current Account or Trade Deficit

Additional downward pressure on interest rates was created by the USA's high and rising current account (trade) deficit, which peaked along with the housing bubble in 2006.

Deregulation

Critics have argued that the regulatory framework did not keep pace with financial innovation, such as the increasing importance of the shadow banking system, derivatives and off-balance sheet financing. In other cases, laws were changed or enforcement weakened in parts of the financial system.

Increased debt burden or over-leveraging

U.S. households and financial institutions became increasingly indebted or overleveraged during the years preceding the crisis. This increased their vulnerability to the collapse of the housing bubble and worsened the ensuing economic downturn.

Financial innovation and complexity

The term financial innovation refers to the ongoing development of financial products designed to achieve particular client objectives, such as offsetting a particular risk exposure (such as the default of a borrower) or to assist with obtaining financing. Examples pertinent to this crisis included: The usage of products like the adjustable-rate mortgage; the bundling of subprime mortgages into mortgage-backed securities (MBS) or collateralized debt obligations (CDO) for sale to investors, a type of securitization; and a form of credit insurance called credit default swaps (CDS). products expanded dramatically in the years leading up to the crisis. These products vary in complexity and the ease with which they can be valued on the books of financial institutions. Certain financial innovation may also have the effect of circumventing regulations, such as off-balance sheet financing that affects the leverage or capital cushion reported by major banks.

Global effects

A number of commentators have suggested that if the liquidity crisis continues, there could be an extended recession or worse. The continuing development of the crisis prompted fears of a global economic collapse. The financial crisis is likely to yield the biggest banking shakeout since the savings-and-loan meltdown. Investment bank UBS stated on October 6 that 2008 would see a clear global recession, with recovery unlikely for at least two years. Three days later UBS economists announced that the "beginning of the end" of the crisis had begun, with the world starting to make the necessary actions to fix the crisis: capital injection by governments; injection made systemically; interest rate cuts to help borrowers. The United Kingdom had started systemic injection, and the world's central banks were now cutting interest rates. UBS emphasized the United States

needed to implement systemic injection. UBS further emphasized that this fixes only the financial crisis, but that in economic terms "the worst is still to come". UBS quantified their expected recession durations on October 16: the Eurozone's would last two quarters, the United States' would last three quarters, and the United Kingdom's would last four quarters. The economic crisis in Iceland involved all three of the country's major banks. Relative to the size of its economy, Iceland's banking collapse is the largest suffered by any country in economic history.

U.S. economic effects

Real gross domestic product — the output of goods and services produced by labor and property located in the United States — decreased at an annual rate of approximately 6 percent in the fourth quarter of 2008 and first quarter of 2009.

Regulatory proposals and long-term responses

American President Barack Obama and key advisers introduced a series of regulatory proposals in June 2009. The proposals address consumer protection, executive pay, bank financial cushions or capital requirements, expanded regulation of the shadow banking system and derivatives, and enhanced authority for the Federal Reserve to safely wind-down systemically important institutions, among others. A variety of regulatory changes have been proposed by economists, politicians, journalists, and business leaders to minimize the impact of the current crisis and prevent recurrence. However, as of November 2009, many of the proposed solutions have not yet been implemented.

The financial and economic crash of 2008, the worst in over 75 years, is a major geopolitical set back for the United States and Europe. Over the medium term, Washington and European governments will have neither the resources nor the economic credibility to play the role in global affairs that they otherwise would have played. These weaknesses will eventually be repaired, but in the interim, they will accelerate trends that are shifting the world's center of gravity away from the United States.

A brutal recession is unfolding in the United States, Europe, and probably Japan a recession likely to be more harmful than the slump of 1981-82. The current financial crisis has deeply frightened consumers and businesses, and in response they have sharply retrenched. In addition, the usual recovery tools used by governments – monetary and fiscal stimuli – will be relatively ineffective under the circumstances. This damage has put the American model of free-market capitalism under a cloud. The financial system is seen as having collapsed; and the regulatory framework, as having spectacularly failed to curb widespread abuses and corruption. Now, searching for stability, the U.S. government and some European governments have nationalized their financial sectors to a degree that contradicts the tenets of modern capitalism. Much of the world is turning a historic corner and heading into a period in which the role of the state will be larger and that of the private sector will be smaller. As it does, the United States' global power, as well as the appeal of U.S. style democracy, is eroding. Although the United States is fortunate that this crisis coincides with the promise inherent in the election of Barack Obama as President, historical forces – and the crash of 2008 – will carry the world away from a unipolar system regardless.

GLOBAL FINANCIAL CRISIS AND INDIAN ECONOMY: A VISION

Introduction

Today's financial links between nations are "like a spider web". The doctrine of capitalist globalization that World imperialism – capitalist embarked upon after dismantling of the mighty socialist camp caused by worst revisionist conspiracy aided and abetted by imperialist machination, strongly pitched for, among other things, an integration of global capitalist market and free flow of finance capital across the border.

India and the Global Financial Crisis

When the financial crisis erupted in a comprehensive manner on Wall Street, there was some premature triumphalism among Indian policy makers and media persons. It was argued that India would be relatively immune to this crisis, because of the "Strong Fundamentals" of the economy and the supposed well-regulated banking system.

This argument was emphasized by the Finance Minister and others even when the developing countries in Asia clearly experienced significant negative impact through transmission of stock market turbulence and domestic credit stringency. These effects have been most marked among these developing countries where the foreign ownership of banks is already well advanced and when US – style financial sectors with the merging of banks and investment functions have been created.

Economic Down-turn and Indian Economy

The global economic crunch which started gaining ground in the second half of 2008 made its adverse impact felt on India's economy from December 2008. In the wake of international economic meltdown and fall in Indian exports, various assumptions began to pour in about India's economic growth rate. India recorded 5.3 per cent of growth rate in quarter ending December 2008, lowest in 5 years down from 7.6 per cent in quarter ending August 2008. Sectors like manufacturing, communications, trade, agriculture and construction, main drivers of the economy in the past are witnessing a decrease in growth.

Dr. D. Bose, Reader and Head & **Dr. S. Ganesan**, Assistant Professor of Economics, Ayya Nadar Janaki Ammal College (Autonomous), Sivakasi

Many analysts are sanguine about Indian economy vibrating again by the end of 2009 and this optimism is based on the fact the India is still the second fastest growing economy in the world and a trillion dollar economy. Besides high savings rate of over 35 per cent - \$200 billion a year being saved – is also a saving grace. However, the delayed monsoon, the rising government debt as a percentage of GDP expected to reach to over 11 per cent in 2010 decline in overseas remittances and declining trends in the FDI are causes of concern. Economic crunch affects social sector the most and ambitious defence plans also entail the possibility of being deferred or delayed for want of economic resources.

In 2007-2008, net Foreign Institutional Investors' (FII) inflows into India amounted to \$20.3 billion. As compared with this, they pulled out \$ 11.1 billion during the first nine and a half months of calendar year 2008 of which \$ 8.3 billion occurred over the first six and a half months of financial year 2008-2009. It is due to the effects of stock market and currency market. In addition, this withdrawal by the FIIs led to a sharp depreciation of the rupee. It could be argued that the \$ 275 billion the RBI has in its kitty is adequate to stall and reverse any further depreciation if needed. But given the sudden exit by the FIIs, the RBI is clearly not keen to deplete its reserves too fast and risk a foreign exchange crisis.

The result has been the observed sharp depreciation of the rupee. While this depreciation may be good for India's exports that are adversely affected by the slowdown in global markets, it is not so good for those who have accumulated foreign exchange payment commitments. Nor does it assist the government's effort to rein in inflation.

Impact of the Crisis on the Indian Economy

The effects of the Global Financial Crisis have been more severe than initial forecast.

Impact on the Banking System

The causes of the crisis in India are quite different from that elsewhere. In the advanced economies, the banking system suffered huge losses, this led to a collapse in

the flow of credit and in confidence and dragged down the real economy. In India, it is the real economy that has been affected through various channels and banks are feeling the effects of a slowing down of the economy.

Volume of Credit

Commercial credit had grown by 24 per cent year on year up to January 2000. Last year, it grew by 22 per cent. This year's credit growth has happened in the face of a declaration in economic growth during the year 2008-2009. Industry contends that bank credit growth has not been adequate in light of the drying up of credit from variety of sources. The RBI has put out data on total flow of funds to the commercial sector which is lower than last year by Rs.15000 crore or by about 3 per cent. The trends in forex reserves are also a puzzle. In just one month, October 2008, forex reserves fell by \$ 33 billion or nearly 12 per cent of the total.

Impact on Employment

The ILO – global employment report pointed out that an increase in World unemployment ranging from 18 million (optimistic scenario) to 51 million (worst case scenario) over the years end 2007 to end of 2009. Eventhough separate figures are not presented for India, on the basis of the relative distribution of the workforce in South Asia, one could estimate job losses in India to be between 1.3 million and 6 million over this period.

The Indian Government's official survey of the unemployment impact of the global was conducted by the Labour Bureau, with a focus on eight industries. The survey estimated that a total job loss of 50000 over the period of 2008. The estimated job losses would be about 1.5 million over the entire recessionary phase (September 2008 to December 2009).

Impact on Trade

Among the sectors worst affected are gems and jewellery, textiles, leather and leather products, cotton and manmade yarn, tea, oil meals, marine products, carpets

and handicrafts. All these industries are highly labour intensive. The impact on employment is bound to be substantial. About 1.5 million jobs have already been lost in these sectors.

Conclusion

The global financial crisis must open the eyes of the Indian Government which earlier uncritically supported financial sector liberalization. It is time put an end to financial liberalization and to take steps to strengthen the financial sector in a manner which safeguard the country's economy and contributes to sustained development.

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GLOBAL CRISIS AND INDIA –FISCAL DIMENSION

Introduction

The global financial crisis which began with the bursting of the housing bubble in the United States and aggravated by the collapse of several international financial institutions beginning with Lehman Brothers swiftly has an impact on the real sectors and has caused a recessionary environment in the US, Japan and European countries.

Although, initially, the emerging market economics including India felt that they could decouple themselves from the global financial melt down, it was soon recognized that this was simply not possible. Thus, the adverse impact of the recession in the countries of the Organization for Economic Co-operation and Development (OECD) on India was much more than that was initially envisaged. Reviving the economy required strong stimuli from both fiscal and monetary policy instruments, but it was soon realized that the headroom for providing fiscal stimulus side was very limited.

Fiscal stimulus in India

The central government put forward three fiscal stimulus packages in 2008-09 but the fiscal contents of these packages were not very significant mainly because there was hardly any headroom. Of course, there were tax cuts of 6 percentage points in union excise duties and 4 percentage points in service tax. Another important component of the package was allowing an additional half a percentage of the gross state domestic product (GSDP) borrowing to the states.

In this situation, there will be considerable pressure on the new government to provide additional stimulus packages to revive the economy, but the packages of measures will be constrained by the lack of fiscal space and limited policy manoeuvrability.

In order to understand how much additional fiscal stimulus can be given, it is important to understand the nature of the fiscal imbalance in the country. This will help in

Dr.V.Nachimuthu, Assistant Professor, Department of Economics,
Sri Vasavi College, Erode.

identifying the policy measures to be implemented in the short and medium term to nurse the fiscal situation back to health. Some of the reforms could actually help to release larger resources for providing the stimulus and some reform measures could help to create a better environment for the revival of private sector sentiment.

Table 1: TRENDS IN CENTRAL GOVERNMENT REVENUES (Rs. in Crore)

Years	Tax Revenue	Direct Tax	Indirect Tax	Non-Tax Revenue	Revenue Receipts
1990-91	42978 (78.20)	6903 (16.06)	36075 (83.94)	11976 (21.80)	54954 (100)
1991-92	50069 (75.82)	10103 (20.18)	39966 (79.82)	15961 (24.17)	66030 (100)
1992-93	54044 (72.91)	12075 (22.18)	41969 (77.66)	20084 (27.09)	74128 (100)
1993-94	53449 (70.83)	12522 (23.34)	40927 (76.57)	22004 (29.17)	75453 (100)
1994-95	67454 (74.06)	18409 (19.88)	49045 (80.12)	23629 (25.94)	91083 (100)
1995-96	81939 (74.40)	22287 (27.19)	59652 (72.81)	28191 (25.60)	110130 (100)
1996-97	93701 (74.20)	25374 (27.08)	68327 (72.92)	32578 (25.80)	126279 (100)
1997-98	95672 (71.46)	27172 (28.40)	68500 (71.60)	38229 (28.54)	133886 (100)
1998-99	104652 (70.00)	32115 (30.68)	72537 (69.32)	44833 (30.00)	149485 (100)
1999-00	128271 (70.88)	41437 (32.30)	86834 (67.70)	53211 (29.32)	181482 (100)
2000-01	136658 (70.95)	48919 (35.79)	87997 (64.21)	55947 (29.05)	192605 (100)
2001-02	133662 (66.35)	48423 (36.23)	85239 (63.77)	67787 (34.65)	201449 (100)
2002-03	164177 (69.29)	60952 (37.12)	103224 (62.88)	72759 (29.71)	236936 (100)
2003-04	184169 (72.53)	69958 (37.98)	114211 (62.88)	69766 (27.47)	253935 (100)

Source: Budget Documents of the Government of India.

The Table 1 reveals that the performance of government receipts during 1990-91 to 2003-04. Among the total revenue receipts the tax revenue has collected averagely 70 percent than the Non-Tax revenue, which is accounted between 20 percent and 30 percent during the study period. Of the Tax revenue, Indirect Tax has recorded the range between 62 percent and 84 percent, which is accounted more than the direct taxes, which is noticed as from 16 percent to 38 percent during the study period. Though the total revenue receipts has increased from Rs.54954 crore to Rs.253935 crore i.e., 78.35 percent of annual average growth rate. From the table, one can point out that the total revenue receipts has increased in over all performance, but if the individual revenue source has to be increased, which can be given good performance in fiscal activities of the country. The percentage of Tax revenue has declined from 78.20 percent to 72.53 percent during the study period. It should be improved. The reason for this trend may be due to the change of political parties in the central government. And it may be suffered the country's economy by the global activities, however most of the people is interested to migrate to abroad from our own country for getting and remunerate high level income. Therefore the global economy has been affected most of the people on high prices of goods with high inflation rate. It should be monitor and control the foreign policy to the fiscal activities.

Table 2: TRENDS IN CENTRAL GOVERNMENT EXPENDITURE (Rs. in Crore)

Years	Revenue Expenditure	Defense	Indirect Payment	Subsidies	Others
1990-91	73516 (100)	10874 (14.79)	21498 (29.24)	12158 (16.54)	28986 (39.43)
1991-92	82292 (100)	11442 (13.90)	26596 (32.32)	12253 (14.89)	32007 (38.89)
1992-93	92702 (100)	12109 (13.06)	31075 (33.52)	10824 (11.67)	38694 (41.74)
1993-94	108169 (100)	14978 (13.85)	36741 (33.97)	11605 (10.73)	44845 (41.46)
1994-95	122112 (100)	6426 (13.45)	44060 (36.08)	11854 (9.71)	49772 (40.76)

1995-96	139861	18841	50045	12666	58309
	(100)	(13.47)	(35.78)	(9.06)	(41.69)
1996-97	158933	20997	59478	15499	62959
	(100)	(13.21)	(37.42)	(9.75)	(39.61)
1997-98	180335	26174	65637	18540	69984
	(100)	(14.51)	(36.39)	(10.28)	(38.81)
1998-99	216461	29861	77882	23593	85125
	(100)	(13.79)	(35.98)	(10.89)	(39.32)
1999-00	249078	35216	90249	24487	99126
	(100)	(14.13)	(36.23)	(9.83)	(39.79)
2000-01	277839	37238	99314	26838	74449
	(100)	(13.40)	(35.74)	(9.66)	(41.19)
2001-02	301611	38059	107460	31207	124885
	(100)	(12.61)	(35.62)	(10.35)	(41.48)
2002-03	341648	41088	115663	44618	40279
	(100)	(12.03)	(33.85)	(13.06)	(41.06)
2003-04	366227	44347	133223	49907	148750
	(100)	(12.10)	(33.65)	(13.63)	(40.61)

Source: Budget Documents of the Government of India.

The Table 2 explains the pattern of expenditure of central government during the period of 1990-91 to 2003-04. It is observed that the revenue expenditure is higher than that of revenue receipts. Before the globalization, the central government showed the same trend of deficit budget, which can be rectified after implementation of globalization, but during the study period, every year, there was continuing deficit budget. And among the revenue expenditure, the interest payment has showed approximately 30 percent and it followed by defense, which is accounted from 13 percent to 15 percent but the last three year it has declined to 12 percent.

The government has signed on many agreements between world countries, still the defense expenses has showed the same level if we compare to the period of before globalization. The government decided to spend more on defense, and then only we become and capture the "Super Power" with arms to protect the people without the food securities for the people. Due to the globalization, the subsidy amount has reduced from 16.54 percent in the year 1990-91 to 13.63 percent in 2003-04. Under the World Trade Organization (WTO) agreement, the government accepted to cut the subsidy to agriculture, on the other hand, the government decided to increase the expenses for interest payments, defense and capital stock markets, these are earn more revenues than the agricultural sector. That is why; the government has invested more amounts on other expenses like financial sector. This policy should also be changed; all expenditure should be made on the people welfare. Then only the countries economy will improve. Unless otherwise, our economy has boomed like as balloon. One day morning, it will disappear and disappointed the country's economy.

Table 3: TRENDS IN CENTRAL GOVERNMENT CAPITAL RECEIPTS
AND ITS EXPENDITURE (Rs. in Crore)

Years	Capital Receipts	Capital Expenditure	Loans and Advances	Capital Outlay	Of which Defense Expenditure
1990-91	38997	31782	19652 (61.83)	12130 (38.16)	4552 (37.53)
1991-92	38528	29122	17723 (60.85)	11399 (39.15)	4905 (43.03)
1992-93	36178	29916	16297 (54.48)	13619 (45.52)	5473 (40.10)
1993-94	55440	33684	20454 (60.72)	13230 (39.28)	6867 (51.90)
1994-95	68695	38627	23736 (61.45)	14891 (38.55)	6819 (45.79)
1995-96	58338	38414	24316 (63.29)	14099 (36.71)	8015 (20.86)

1996-97	61544	42074	27878	14196	8508
			(66.26)	(33.74)	(59.93)
1997-98	99077	51718	34193	17526	9104
			(66.11)	(33.89)	(51.95)
1998-99	130064	62879	44037	18841	10036
			(70.08)	(33.00)	(53.26)
1999-00	115707	48975	24938	24037	11855
			(50.92)	(49.08)	(49.32)
2000-01	134184	47753	23008	24745	12384
			(48.18)	(51.82)	(50.05)
2001-02	161004	60842	34284	26558	16207
			(56.35)	(43.65)	(61.03)
2002-03	167077	62365	32020	30345	14612
			(51.34)	(48.66)	(48.15)
2003-04	184860	72568	30285	42283	20953
			(41.73)	(58.27)	(49.55)

Source: Budget Documents of the Government of India.

The Table 3 represents the capital receipts and its expenditure of the central government during the study period. Where, the capital revenue is collected than the capital expenditure. From the revenue, 80 percent amount has spent on capital expenditure of the country. In spite of the surplus revenue in capital account, one third of the amount is allocated to Loans and Advances up to 1998-99, aftermath the full implementation of globalization in all sectors, the financial reforms taken by the government, the loans and advance amount suddenly declined to 50.92 percent, Which further decreased to 41.73 percent in 2003-04, Whereas the plan expenditure has increased from 38.10 percent to 58.27 percent during the study period. In this type of expenses, more amounts spent on defense, which is showed an increasing trend of expenses from 37.53 percent to 49.55 percent from the capital outlay. If we noticed this defense expenses

out of total capital expenditure, it has increased 14.32 percent to 28.87 percent during the study period. Due to globalization, India is concentrating on defense and weapons production. The policy maker thinks that is we are proud only getting on super power (in 2020) through global trade of weapons production. It may also be due to global agreement between countries

Conclusion

It is clear that the problem is largely structural. Much of the problem has arisen from the failure to correct the structural problems of proliferating subsidies and transfers. The tax declined by 1.5 percentage points due to the economic slowdown as well as tax cuts announced as a part of the fiscal stimulus packages. The government is faced with the formidable challenge of containing the worrisome fiscal deficit while continuing to provide a necessary fiscal stimulus to revive the economy.

IMPACT OF THE GLOBAL FINANCIAL CRISIS ON INDIAN ECONOMY

- ❖ SEBI has made it easier for promotions with over 55% state in companies to increase their holdings through creeping ,acquisition.
- ❖ In a move to encourage foreign depositors, the government announced doubling the ceiling on Foreign Institutional Investor (FII) investment in corporate bonds to \$ 6 billion, opening up a new avenue to strengthen resources to sustain growth and investment in the economy.
- ❖ Indian banks which have been scrambling for \$ to keep their overseas offices afloat, will get a respite. RBI on Friday, November 7, 2008 announced that it would provide foreign exchange liquidity to overseas branches and sub-sidiaries. of local banks through forex swaps. Under this, the bank in need of dollars will do a buy/sell swap with the RBI.
- ❖ The RBI which has been holding back applications of several foreign venture capital funds (VCFs) for a few years is opening the doors to these in-vestors, a decision which could be part-ly driven by the dollar shortage following the FII outflows.
- ❖ As many as 30 proposals involving foreign investment of over Rs. 6,000 crores through holding companies have been cleared by the foreign investment promotion board (FIPB). With FII pulling out, officials feel FDI is the only route for boosting capital flows; hence ap-provals are being put on fast track.

S.Selvaraj, & P M Venkatesan, M.A., Economics Students,
National College, Tiruchirappalli.

GLOBAL ECONOMIC CRISIS AND ITS IMPLICATIONS ON INDIA'S TRADE

Introduction

Global economic crisis and its impact has become the focal point of discussion and debate all over the world. The present crisis is considered to be unique in its nature in spite of sharing the common features of earlier global crisis. Having traveled through the policies of classical, neo-classical, and Keynes, the global economy has entered a new policy regime where capitalism with free market economy co-exists with huge governmental interventions in terms of financial bailouts and regulations. It is not that once called as mixed economic system as in India. The policy is unique because it is now followed and justified in the centre place of capitalism that is USA where there is no public sector. Latest financial crisis and the global economic downturn started with the failure of Lehman Brothers, a biggest financial institution in USA has caused this change in policy. The world countries are forged their trade relations very closer than ever before since 1990.

It may spread the impact of the crisis across the borders of the countries very faster and quicker. Every country is very keen to know and understand how it is exposed to the recent crises and the extent of its impact. Countries with strong and weak macro-economic fundamentals have differently exposed to the recent crisis. Moreover, it is very much important to know whether the economy is already insulated against this type of crises or else what self-defensive mechanisms could be evolved to ensure the steady and uninterrupted growth.

Policy measures are required to insulate the economy from both internal and external contagion like the recent crisis and ensure the trade as only the 'growth driver' and not a 'crisis transmitter.' Hence, the present paper makes a modest attempt to bring out the background of recent global economic crisis and how Indian economy in general and India's trade in particular is exposed to the recent global economic crisis.

Dr.A.Gopalakrishnan, Reader and Head, Department of Economics,
& **A.Shanmugam**, Asst. Professor, Department of Economics,
H.H.The Rajah's College, Pudukkottai.

Review of Literature

Rakesh Mohan (2008), in his paper traced the impact of global financial crisis on India and Asia exposed the key risk areas to be concentrated on to avert the potential menaces that could be caused by the recent crisis. In his opinion, Indian market is driven by domestic demand and hence spared the global financial contagion. **Madhuri Malhotra(2009)**, has evaluated the cascading effects of financial crisis on Indian financial market using BSE sensex index. **Prasad.A et.al.,(2009)** have expressed that it is difficult to gauge accurately the effect of the crisis on Indian Economy. Despite the difficulty they traced certain spill-over effects on Indian Economy. **Wayne Morrison et.al., (2009)**, in their country report for US Congress, explained the Indo- US Economic relations in terms of trade interactions. **Nirubam Bajpai (1988)**, has analyzed the genesis of India's 1991 economic crisis and the policy responses extensively using the public finance statistics. According to **Rajive kumar (2009)**, the global crisis has been transmitted to Indian economy through three distinct channels such as financial sector, exports and exchange rate. **Bibek Debroy (2009)** and **Jayati Ghosh (2009)** have also verified the impact of crisis on Indian economy. **Arunabha Ghosh (2006)** has examined India's experience with earlier economic crisis. Impact of recent crisis on non-farm sector workers is examined by **Vijaya Mahajan (2009)**.

From the review of the earlier studies on recent crisis and its impact on Indian economy, it is understood that the attempts to examine the impact of crisis on India's trade is not only scanty but also contradictory in their conclusions. Findings of some of the earlier studies revealed that the Indian economy is not much exposed to the recent crisis and hence it has no serious implications on both financial and real sectors. In contrast to this, some other studies have expressed the potential menaces of crisis and India is not out of its reach. These paradoxical findings necessitate further studies with more data. Moreover, the earlier attempts to empirically verify as to how Indian economy is insulated against crisis and the reasons for how the trade in general and export in particular remain resilient in India during the course of crisis is still insufficiently examined and explained with the help of India's trade data. **Objective**

To examine and empirically verify the components of trade in India that combat and offset the negative spill-over generated from global crisis and ensure the optimistic growth prospects.

Sources of data

The data were collected from the World Economic Outlook published by IMF and RBI Handbook of Statistical on Indian Economy.

Method of Data Analysis.

The collected data were analysed by using percentage and annual growth rage (AGR).

India and Economic Crisis.

The recent crisis is not an event that India never had before. There are several such crises in the past. The recent crisis is termed as 'imported' because its genesis is traced to a foreign country and to be specific USA. India has already proved its potential to face the crisis successfully twice in 1991 and in mid1990's. During the early 1990, India suffered a setback in its economy due to emerging oil crisis and the resultant BOP crisis. The forex cover for import was not enough for more than two weeks. It forced the government to mortgage its gold reserve abroad. There was a near debt-trap situation by that time. But India proved efficient in overcoming this crisis. Structural Adjustment Programme (SAP) and its components such as liberalization, de-licensing, expansion of OGL, convertibility in the current account, brave departure from 'import substituting' policy to 'export promoting' policy, devaluation, gradual opening of external sector, liberalization of investment regime have helped India to be successful in combating the crisis and to emerge as a prospective economy in the globe with strong economic fundamentals. Again in the mid1990's (1996-97) there was an external shock erupted from the financial crisis of South East Asian Nations. India survived this crisis also successfully. With these experiences India has become reluctant to make the capital account fully convertible.

Impact of Recent Crisis on India's Trade

The common feature of the economic crises faced earlier by the global economy is that they had started with hasty financial activities which in turn caused downturn in real economy and ultimately end up in mess-up in financial market. This impact can be stronger

or weaker depending upon the country specific factors. Several indicators such as macro economic aggregates, trade components are used to assess the impact of crisis. The present paper examines the impact of recent crisis on India's trade in terms of;

- GDP growth rate
- Trade openness measured as a ratio of export plus import to GDP
- Trade in goods and finance and foreign exchange reserve.
- Diversification of exports and imports in terms of their destinations
- Trends in principal commodity-wise export to USA ,and
- Balance of payments indicators.

Growth Rate of GDP

India's growth rate was around 5 to 6 percent before 1990 and reached the lowest in 1991-92 at 1.4 percent. Thereafter the new economic policy of India put the growth rate on rise and reached 9.0 percent mark in 2004-05. It was also expected to touch the double digit growth. But the recent crisis emanated from USA made it to remain unrealized. When the USA economy struggles with recession, India has moved steadily up in the growth scale. But the sub-prime crisis with the fall of Lehman Brothers began to impact Indian economy through escalating changes in the financial market. Bulls and Bears gamble with unstable expectations caused huge fall of sensex and investor's moral. It began to reflect in the growth rate during 2007-08 and 2008-09. Growth rate reached the peak in 2006-07 and thereafter, it begun to decline and reached around 6.0 percent in 2008-09. A comparative picture of growth of various countries is given table 1

TABLE-1 State of the World Economy Scenario
(Actual Forecast GDP Growth Rates: 2005 to 2009)

GDP Growth Rates by Country/Region	2005	2006	2007	2008	2009
United States of America	2.5	2.8	2.0	1.4	-1.6
Europe Part (Germany, France, Italy & Spain)	1.5	2.8	2.6	1.2	-2.0
Japan	1.9	2.4	2.1	0.5	-2.6
Russia	6.4	7.4	8.1	6.6	- 0.7
CIS	6.6	8.2	8.6	6.9	- 0.4
China	10.4	11.6	11.9	9.7	6.7
ASEAN + 4 (Indonesia, Malaysia, the Philippines & Thailand)	5.1	5.7	6.3	5.4	2.7
India	9.0	9.8	9.3	7.8	5.1

Source: World Economic Outlook – IMF, January 28, 2009

From table-1, it can be understood that the GDP growth rates of global economy has been on the decline during 2005-2009. India's growth rate has gone up to 9.0 percent in 2005 and fell into 5.1 percent in 2009. It clearly tells that the impact of recent crisis is felt in India in the second round. But the comparative data given in the table 1 reveals that the growth rates in India are much better than that of the so called developed economies. It shows that India is insulated against the crisis. It is because of India's early reform measures.

Trade Openness

Data given in table 2 reveals the positive association between the growth rate of GDP and Trade openness in India. Except in the year 2002-03 and 2008-09, growth rate of GDP moved up with increasing openness of trade in India. It can be inferred that the

trade openness has the potential to transmit the positive and negative spill-over effects both inward and outward across the nations. However, it could not measure the extent or intensity of impact through trade in absolute and relative terms. Hence, it is required to assess and compare other aspects of trade in India.

TABLE 2 Trade Openness and GDP

YEAR	TRADE OPENNESS	Gr.Rate of GDP	Gr.Rate of PERCAPITA NNP
1991-92	14.07	1.4	-1.1
1995-96	19.28	7.3	5.2
2001-02	19.99	5.8	3.7
2002-03	22.42	3.8	2.0
2003-04	23.64	8.5	7.0
2004-05	29.96	7.5	5.6
2005-06	31.14	9.5	8.0
2006-07	34.20	9.7	8.2
2007-08	35.32	9.0	7.6
2008-09	38.94	6.7	4.9

Source: RBI Hand Book of Statistics on Indian Economy 2008-09

Trade and Forex Reserves

The trade in goods and investment and the forex reserves in India since 1991-92, The South East Asian financial crisis erupted in 1996 is reflected immediately in the net inflow of portfolio investment in India. The net inflow of portfolio investment in 1995-96 has registered a negative growth by 28.1 percent and hence the forex reserve also fell by 13.9 percent during that period. Indian export remained resilient with positive double digit growth (20.8%). The impact of recent global economic crisis is also reflected in the net inflow of portfolio investment at first instant. It fell by 150 per cent over the previous year in 2008-09 while the responsive fall in forex reserve is only 18.8 per cent. At the same time the

growth of total export remained positive with 3.4 per cent over the year 2007-08. However, the fall in the growth rate of export is considerable during 2007-08 to 2008-09. It is to infer from the analysis that the financial market in India, especially foreign institutional investment is highly responsive to the crisis emanated from outside the country. The trade in goods remains insulated to the external shocks. Hence, the real sector is exposed comparatively less than the financial sector to the global crisis.

TABLE 3 Trade and Forex Reserves

(In US \$ Million)

AR	FDI		FII		FOREX		EXPORTS		IMPORTS	
	Amt.		Amt.		Amt.		Amt.		Amt.	
-92	129	-	4	-	9220	-	17865.53	-	19410.5	-
-96	2144	63.2	2748	-28.1	21687	-13.9	31794.9	20.8	36675.3	27.1
-02	6130	52.2	2021	-26.8	54106	27.1	43826.7	-1.7	51413.3	1.7
-03	5035	-17.9	979	-51.6	76100	40.7	52719.4	20.3	61412.1	19.5
-04	4322	-14.2	11377	1062	112959	48.4	63842.6	21.1	78149.1	27.3
-05	6051	40.0	9315	-18.1	141514	25.3	83535.9	30.9	111517.4	42.7
-06	8961	48.1	12492	34.1	151622	7.1	103090.5	23.4	149165.7	33.8
-07	22826	154.8	7003	-43.9	199174	31.4	126414.1	22.6	185735.2	24.5
-08	34262	50.1	27271	289.4	309723	55.5	163132.1	29.1	251654.0	35.5
-09	35168	2.6	-13855	-150	251985	-18.6	168704.2	3.4	287759.4	14.4

Source: RBI Hand Book of Statistics on Indian Economy 2008-09

Direction of India's Trade – Exports

OECD countries were the destination for India's export with huge share in total export to the extent of 57.86 percent in 1991-92. After the implementation of economic reforms in India the share of exports for OECD including USA has come down from 57.86 to 38.40 during the period 1991-92 to 2007-08. The same trend is prevailed in the India's export to Eastern Europe. Its share in India's export has come down from 10.93 percent to 2.07 percent during the same period. But the export to other developing nations has increased impressively from 22.47 percent in 1991-92 to 43.18 percent in 2007-08. Export to the OPEC countries too registered a growth from 8.74 percent in 1991-92 to 16.35

percent in 2007-08. It can be inferred that India has diversified its export in favour of the developing nations after the economic crisis of 1991. The export to USA in relative terms is diversified in favour of other developing nations of the world. This diversification of export has helped India to de-couple its economy from the ill-effects of crisis emanated from the developed economies like USA. Hence, the trade diversification has helped India to insulate its real sector against the recent crisis.

**TABLE 4 Direction of India's Export
(1991-92 TO 2007-08)**

(In percent to total)

REGION YEAR	OECD	USA [@]	OPEC	EASTERN EUROPE	OTHER DEVELOPING NATIONS	Gr. Of TOTAL EXPORT
1991-92	57.86	16.35	08.74	10.93	22.47	-01.54
1995-96	55.69	17.36	09.68	04.21	30.42	20.8
2001-02	49.34	19.42	11.92	02.86	35.88	-01.65
2002-03	50.04	20.67	13.06	02.37	34.53	20.29
2003-04	46.41	17.80	14.95	02.44	36.2	21.10
2004-05	43.69	16.48	15.81	02.13	38.37	30.85
2005-06	44.46	16.83	14.79	01.92	38.83	23.41
2006-07	41.20	14.92	16.38	01.98	40.44	22.62
2007-08	38.40	12.70	16.35	02.07	43.18	29.05
2008-09	NA	NA	NA	NA	NA	03.42

Source: RBI Hand Book of Statistics on Indian Economy 2008-09

[@] USA is one of the OECD countries.

NA- Not Available

Direction of India's Trade – Imports

The direction of India's import has also diversified in favour of other developed countries. During 1991-02 to 2007-08, the share of OECD, USA, Eastern Europe in India's export has gone down whereas the share of OPEC and other developing nations has gone up from 19.69 percent and 21.0 percent to 30.23 and 32.93 respectively. However, imports from other developing nations remained high until 2005-06 with 55.24 percent share. Hence, increasing trade interaction between India and other developing nations after 1991 helped India to diversify its trade relationship as to make its trade self defensive and insulated against the crisis emanated either from domestic or foreign destination.

Table-5 Direction of India's Import

(1991-92 to 2007-08)

(In percent to total)

REGION YEAR	OECD	USA [@]	OPEC	EASTERN EUROPE	OTHER DEVELOPING NATIONS	Gr. Of TOTAL IMPORT
1991-92	54.20	10.28	19.69	05.11	21.00	-19.37
1995-96	52.38	10.53	20.84	04.56	22.22	27.99
2001-02	40.15	06.13	05.77	01.84	52.24	01.73
2002-03	37.93	07.24	05.67	01.86	54.54	19.45
2003-04	37.84	06.44	07.18	02.08	52.90	27.25
2004-05	35.86	06.28	08.99	02.25	52.90	42.70
2005-06	34.73	06.34	07.49	02.54	55.24	33.76
2006-07	34.48	06.32	30.19	02.70	32.63	24.52
2007-08	34.75	08.35	30.23	02.09	32.93	35.49
2008-09	NA	NA	NA	NA	NA	14.40

Source: RBI Hand Book of Statistics on Indian Economy 2008-09

[@] USA is one of the OECD countries.

NA- Not Available

Commodity-wise Exports to USA

Despite the decline of export with USA in relative terms the absolute value of exports of India to USA has increased during the period between 2001-02 and 2007-08. USA still continues to be the single largest trade partner with India both in terms of export and import. However, the increasing trade interaction of India with other developing countries makes Indian trade more 'Growth Driven' than 'Crisis Transmitter'.

Table 6 Commodity-Wise Export To USA

(In US \$ million)

Sl.no.	Principal commodities	Exports		Growth rate
		2001-02	2007-08	
1	Tea	23.4	38.0	62.39
2	Coffee	10.6	10.0	-05.66
3	Rice	21.7	52.7	142.86
4	Tobacco	16.3	18.2	11.66
5	Spices	72.4	206.2	184.81
6	Cashews	186.6	198.3	06.27
7	Marine products	271.3	220.1	-18.87
8	Leather Manufactures	284.8	304.2	06.81
9	Gems and jewelry	2628.7	4969.7	89.06
10	Chemicals and allied products	563.4	2033.2	260.88
11	Engineering goods	1132.0	5006.3	342.25
12	Cotton, Yarn and Fabrics	491.1	886.9	80.59
13	Readymade Garments	1459.6	2778.3	90.35
14	Jute and Manufactures	24.7	69.5	181.38
15	Carpets	227.7	366.6	61.0

Source: RBI Hand Book of Statistics on Indian Economy 2008-09

Balance of Payments

The overall balance in India's BOP is negative only in 1995-96 and in 2008-09. It was South East Asian financial crisis in 1995-96 and in 2008 -2009 it was crisis emanated from USA. The deficit in BOP account is found mainly because of the decline in capital account balance caused by the huge withdrawals of foreign institutional investors propelled by speculation of International business community. Despite the negative balance in the current account, the overall balance, except in the year 1995-96 and 2008-09, remained positive due to capital account balance. It proves that any deterioration in India's BOP is mainly because of adverse impact of the external shocks on the capital account.

**Table 7 India's BOP Indicators
(1995-96 to 2008-09)**

(In US \$ million)

Year Item	95-96	02-03	03-04	05-06	07-08	08-09
Trade Balance	-11359	-11574	-13718	-51904	-91626	-119403
Net Invisibles	5447	14974	27801	42002	74592	89586
Balance Cur a/c	-5912	3400	14083	-9902	-17034	-29817
Balance Cap a/c	4690	8357	17338	24954	109198	9737
Overall Balance	-1222	11757	31421	15052	92164	-20080

Economy 2008-09

Conclusion

The recent global economic crisis has begun to signal its negative spill-over effects on Indian economy since mid-2008. However the trade in India remains insulated to foreign crisis to a considerable extent through its diversification of destination of both exports and imports. So India is required to adopt a pragmatic policy approach to ensure viability of its economy to get rid off potential threat and challenges and exploit the possibilities from the recent crisis. Hope Indian trade remains a "Growth Driver" and less "Crisis Transmitter".

GLOBAL FINANCIAL CRISIS AND INDIAN FINANCIAL MARKET

Introduction

Global financial crisis and its impact on financial market has become the focal point of debate in Economic and political dais recently invariably in all countries of the world. Global economy had come across several crises since the great depression in 1929. Of all these crises, every nation has had the opportunities to test their potential to combat the crisis and learn experiences to deal such events in the future. India, being one of the emerging economies with vast potential for prospective growth, had several such experiences. Having closely tied its relationship with the global countries, India is exposed much to the externally generated business fluctuations. Therefore, the recent global financial crisis is termed as "imported crisis" in India. However, the recent crisis is not new to the global as well as Indian economy. India has already successfully come out of such crisis in the past. Economic crisis of 1991, South East Asian crisis emerged in 1996-97, and the recent crisis erupted in USA are some of the notable events. As every crisis is begun in the financial sector at first instance and ultimately exerts impact on real sector, the financial sector is required to be insulated against the crisis. Hence, the present paper makes a modest attempt to trace the impact of recent crisis on Indian financial sector and provides suggestions for building financial market with in-built protective mechanism as to avoid and combat the crisis generated either from foreign country or from domestic market.

Impact on Indian Financial Market

Indian Stock Market:

An eventful week of great turbulence has begun in the global financial scenario as stock prices dipped across much of the globe on news that investment bankers, Lehman

Dr.K. Soundrapandi, Reader in Economics, Department of Economics,
Sethupathy Govt. Arts College, Ramanathapuram.

Brothers Holdings filed for bankruptcy and Merrill Lynch & Co's forced sale to Bank of America. The investments in Indian firms by these U.S. investment bankers are a major worry for Indian investors. Indian stock market has seen its worst time with the global financial crises. Mostly all the industrial sectors experienced a consistent low in their stock prices. The IT sector has been badly hit. Nearly half of the IT sector firms' revenues come from banking and financial institutions. The IT companies have these investment banks as their clients. With the effect of financial crisis, Indian IT companies were not able to enhance their business with these investment banks, and, in turn, started retrenching their employees. Due to the financial crisis job security has become the biggest fear among people.

Indian Banking Sector

The ongoing crisis has an adverse but not a serious impact on Indian banks. The large investment banks originally from the US, had invested substantially in the stocks of Indian banks. The banks, in turn, have invested in derivatives, which might have exposure to these investment bankers. Public sector banks, which have exposure towards derivatives, were hit by the crisis. However, the expose of India's Banking sector to the foreign liabilities is very much limited and measured at only 0.03 percent of its total liabilities. Public sector image and management regulations, control and regulations by the RBI, tuning the banking activities in line with the monetary policy, limited foreign liabilities were some of reasons for feeble impact of financial crisis on Indian Banking sector.

FII Inflow and Currency Value

Rupee value against the US dollar has weakened dramatically. One reason might be the foreign fund inflow into India that was so prominent in the last couple of years, has turned negative. Financial institutional investors have decelerated globally. Part of the reason has been the crunch they have faced in home markets, and part of it has been the flight to safety of US treasury paper. This net FII flow has been the single most important reason for the Rupee's fall. The net inflow of FII in India during 2008-2009 stood negative to the tune of 43338crores. The Dollar has also strengthened against most

currencies globally, not due to any strength of the US economy, but due to a 'flight to safety' of global capital. The US Dollar has been the world's reserve currency for several decades now. However the Rupee's fall against other major currencies has been only less pronounced.

India's Response

In the opinion of the Indian government, Indian banking system is not directly exposed to the sub-prime mortgage assets. Their exposure to other problem assets is also minimal. Banks both in the public sector and in the private sector are financially sound, well capitalized and well regulated. Moreover, banks are providing credit in line with anticipated credit targets; the global turmoil has led to a contraction in other forms of commercial credit. External commercial borrowings, which are used by the corporate sector have dried up.. This has led to a reduction in overall credit availability in the economy even though credit from commercial banks has expanded satisfactorily. This contraction produced a liquidity crisis in the system. A number of steps have been taken to address this problem:

- ☐ Reducing the Cash Reserve Ratio by a total of 250 basis points.
- ☐ The SLR requirements were relaxed by one percent point and subsequently by 0.5 percent to enable banks to draw funds to provide liquidity.

The liquidity position in the financial system has improved considerably due the initial efforts taken in terms of those monetary measures. Government also provided a sum of Rs.250 billion to the banking system under the Debt Waiver and Debt Relief Scheme. The limit of investment by Foreign Institutional Investors in corporate bonds was also increased. RBI announced a 100 basis points cut in the repo rate, which is the rate at which banks can borrow against surplus SLR securities. It expected to have a beneficial effect on the interest rate structure.

In combination with the other steps to increase liquidity, it will help to support economic activity and investment. It is also broadly consistent with the objective to control

inflation. To maintain the adequate liquidity level, suitable advisories have also been issued by the RBI and the Ministry of Finance to the banks to ensure that borrowers are provided adequate credit, including export credit and working capital. The government is seen conscious of the fact that it is not enough to infuse liquidity. The liquidity must translate into expanded flow of credit to industry, trade and business.

Actions Necessary

India needs to address these problems with some more policy measures as to insulate both the financial and real sector from the crisis generated internally and externally. The are;

- 1) Enhancing the state intervention and increasing annual plan expenditure.
- 2) Adopting specific relief packages for crisis-affected sectors aimed at the small and medium enterprises; preventing job and pay cuts for employees.
- 3) Increasing both public and private investment in agriculture and irrigation;
- 4) Providing protection against price crashes of crops through price support.
- 5) Controlling the price rise especially, the food prices.
- 6) Expanding the employment guarantee to cover all adults
- 7) Crackdown on black money.
- 8) Strongly regulating the financial sector and strictly monitoring the outflow and inflow of speculative finance.

Conclusion

India is now facing a challenge. It is not a new phenomenon as India had already faced challenges in the past and had overcome them. For that reason India can not rest on the faith that it has strength to overcome the current challenges. It is very essential that Indian public rise to the occasion and convert the challenge into an opportunity to establish new highs. This is the time for unity of purpose and resolute action.

GLOBAL FINANCIAL CRISIS AND THE INDIAN ECONOMY.

Introduction

The most inevitable and compelling issue which occupies the minds of the people the world over today is the global financial crisis. Although thousands of theories have already been written in this context, it still attracts the attention of the world community due to its sheer impact on the entire world economy. Monetary reserve which is the crux of an economy and the most important limb of development has become all the more scarce due to this financial crisis and has pushed hundreds of countries into a state of negative development.

The global financial crisis that we are facing today is not entirely unexpected. Many leading thinkers and economists of repute across the world had a hunch of the impending economic disaster called the 'Economic melt down' even years before in 1987, when the European and Western stock markets collapsed due to their unethical and fraudulent stock exchange operations.

Many of them voiced their concerns in the leading economic journals and papers. Hence the economists of the west today need not be shocked about the present crisis. On the contrary, they have been preaching to the rest of the developing world that the economies of the developed countries are free market economies and that the state should not intervene in the private sector so as to make their economy competitive and for achieving a continuous growth. They never stopped to praise their system and declared that the *laissez faire* had no alternative for an economic success. However, they ignored the aspect of economic inequality among all the players of the economy.

The result is today in the developed countries, there is a beeline of multinational corporations, major banks and other financial houses waiting in a queue for a bailout from their governments for their survival. The pity is that most of them are shown the door and some of them are left to die a natural death by their own governments. Obviously, the reason for the pathetic conditions of these one time economic giants is that they had

Ms.S.Ranjani, Asst. Professor in Economics
K.N Govt. Arts College for Women (A), Thanjavur

never worked for the welfare of the people or for any high human principle but worked for their own selfish ends by committing huge speculative frauds. The best example is the case of The General Motors and two other automobile establishments in the USA which had the temerity to declare that their own image is the image of the USA. The scene of the General Motors standing with a begging bowl is evident enough to declare the state of financial crisis in the USA.

If at all capitalism had achieved anything, it did so, only in a few individual cases and that too at the detriment of the majority of the population. The success of the capitalist model, is no doubt tainted with oppressions, holocaust, racism, colonization, slavery, warfare and exploitation of all kinds, most particularly, the poverty in many parts of the world. The irony is that such an exploitative western capitalist model has so far been marketed as the ideal economic model for all the developing countries to adopt for removing poverty and achieving all round prosperity. The USA and other developed countries had no compunctions to use coercive tactics on many developing countries to open up their economies and become a part of a global world order in the the lure of 'sharing the gains of free market global trading' and India is no exception to this well prepared trap by the western world which entrapped India with a naive stroke of globalization in the 1990's.

The modern economics we teach in our universities is more than 200 years old and it started with the publication of 'Wealth of Nations' by Adam Smith in 1776. Since Independence, the Indian economic planners wanted to ensure a social system based on the concept of Adam Smith and other western thinkers and by practicing the economic theory and policy practiced by the modern capitalist world. Unfortunately, we never ensured an ideal socio economic order for our own country even theoretically. The most interesting aspect of our entire theoretical development in economics was to accredit and support the development stages of the western capitalist economies. The historical context in which the major schools of thought in economics like mercantilism, classical economics, Keynesianism, monetarism, and supply side economics and its other policy directions were mainly based on the development experiences of the western capitalist economies and their crisis in capitalism.

Dennis Robertson during his Cambridge lectures, delivered between 1945-46 to 1956-57, warned about the controversial nature of the Keynes's General Theory and to

supplement its reading by critical writing on the same. Laws of economics are relative and valid only for particular situations in the economic history of a nation. To the British economist, the economic forces generated by the industrial revolution in their country was universal, and their economic laws were accordingly formulated, but in actual experience, what was good for Britain was not good for the entire world.

Great personalities like Arnold Toynbee argued the need for a region specific model of development but his dreams never materialized because of his premature death and lack of followers. Trying to universalize the economic laws has been one of the greatest disservices to the science of economy. The attempt by many third world countries to formulate their development plans on the basis of these universal laws have created serious imbalances in their economies and has kept them perpetually indebted to the developed countries leading to an erosion of their economic independence.

Review of Literature

Madavi states that the sub- prime crisis and the consequent drying up of global liquidity have led to the current financial mess. The most immediate effect of this crisis on India has been an outflow of foreign institutional investment from the equity market.

Desai describes that the outsourcing of services industry in India which has emerged as one of the most dynamic sectors of international trade today and in which India has emerged as one of the leading participants is presumed to have been adversely affected by the global economic slow down. In a period of economic slow down and when large scale destruction in consumption demand in the developed countries is taking place, the outsourcing of services industry from countries like India, which caters to the business needs in these developed countries cannot remain unaffected.

Anup Shah states that the rise in food prices as well as the kick off effects due to the financial instability and uncertainty in the industrialized nations are having a compounding effect on the developing countries. He further states that the high fuel costs, soaring commodity prices along with the fear of continued global recession are worrying many analysts in the developing world.

Objective

To study the impact of today's global crisis on the Indian economy after the advent of globalization into our country.

Sector – wise Impact

Agriculture

Never before have the global problems of agriculture, is so acute now, especially after the world economic crisis. The Indian agriculture today is already battered on the one side by the vagaries of weather and the depleting eco systems, is further strangled on the other side with a huge financial crisis. This is the reason for today's negative agricultural growth which is -2.2% for the quarter ending December 2008 against 6.9% in December 2007.

Industry

The year 2008-09 stands out in the world industrial history pushing the whole gamut of industrial activity into a groaning slow down. It is particularly important to note that the index of industrial production (IIP) has never slumped to so low as 0.5% before. The Indian position in the face of the world melt down can be very much understood by the study of its GDP growth rate. The sector wise GDP growth {percentage wise} for two years is given hereunder:

Services

The growth rate of services slightly declined from 10.9 % in 2007-08 to 9.6 % in 2008-09. Similar trends were observed in the case of construction sector and electricity, gas and water. Due to this the over all GDP growth rate has declined from 9% in 2007-08 to 7.1 % in 2008-09

SECTOR WISE GROWTH RATE

(%)

S.NO	SECTOR	2007-08	2008-09
1	Agriculture	4.9	2.6
2	Industry	8.1	4.8
3	Services	10.9	9.6
4	Construction	10.1	6.5
5	Electricity, gas and water	5.3	4.3
6	GDP	9.0	7.1

Employment

Hundreds of MNCs in the west and a host of BPO's in India have closed down their operations due to their economic crunch. This has rendered thousands of workers unemployed and has added to the employment problems in India, which is already fighting huge unemployment crisis with about 26% of our population living below poverty line.

Retail Trade

Disrupted consumer sentiments, a tumbling growth, falling standards and a sliding demand have shattered the plans of our Indian retailers. Retail trade is one of the victims of this economic slow down. According to a recent study by KPMG falling standard and a poor financial conversion rates have led to a decline in the Indian sales growth to 11% in 2008 as compared to 34% in December 2009. Till now the functioning of the Indian retail trade has been smooth due to factors like the rise in purchasing power among the public, advent of technology, demand for luxury goods and new opportunities. Retailing in India is considered as one of the most profitable industry by its contribution towards GDP and its success in employment creation.

But in spite of its prospective position, the industry has turned into rough weather. Most of the big players in the industry like the Pantaloons, Vishal Mega mart, Koutons, RPG Spencer's etc have witnessed a bad time in the past few months. According to Retailer's Association of India, the organized retail sector is expected to grow only by 15% in 2008-09 as compared to the existing 30% growth.

Conclusion

Given the world financial experience in the light of global melt down, there are certainly a few lessons to be learnt by India. Uncontrollable greed, over leveraging and encouraging debt is not good for the economy. The policy of holding profit as the only motivating factor over and above the basic human values of virtues and morality is certainly not a good idea. Hence, India today needs to make a rethink beyond the western powers in setting its national economic agenda. One can hope, given the slew of measures by the government of India and with the help of a far sighted leadership and a concerted co-operation of our industries and services, India has the potential to become an engine of the future world economic growth.

**THE GLOBAL ECONOMIC CRISIS AND ITS IMPACT:
EVIDENCE FROM SOUTH ASIA AND INDIA**

The global financial crisis hit South Asia at a time when it had barely recovered from severe terms of trade shock resulting from the global food and fuel price crisis. The food and fuel price shocks had badly affected South Asia, with cumulative income loss ranging from 34 percent of 2002 GDP for Maldives to 8 percent for Bangladesh. Current account and fiscal balances worsened sharply and inflation surged to unprecedented levels.

Pakistan, Sri Lanka, and Maldives were particularly vulnerable because difficult political and social environments prevented adequate policy measures to adjust to the terms of trade shock. Additionally, their reliance on foreign funding has been relatively large. The global financial crisis worsened their macroeconomic difficulties as sources of funding contracted. Although India was well advanced in responding to the food and fuel price crisis and has generally maintained prudent macroeconomic management, the magnitude of the financial crisis has hit India very hard because of the strong connectivity to global financial markets.

Bangladesh, Nepal, and Bhutan have been mostly insulated from the first round effects of the financial crisis owing partly to sound macroeconomic management, but also because of the underdeveloped nature of the financial markets that are not well connected to international markets. They are however vulnerable to the second round effects of a global economic slowdown working through export earnings, tourism receipts, remittances and external financing for infrastructure. Issues in Afghanistan are much more complex and relate more to security and the political environment rather than the impact of global financial crisis. The recent slide in food and fuel prices has provided South Asia with a welcome relief. But overall, the evidence suggests that growth, investment, exports and employment have been hurt. The outlook for 2009 is bleak as the

Dr. A. Abdul Raheem* Assistant Professor (SS), &

Dr. M. Abdul Jamal Assistant Professor, Dept of Economics, The New College, Chennai

global downturn deepens further. Growth in South Asia decelerated in 2008, falling from 8 percent in 2007 to 6 percent. It is projected to decline to 5 percent in 2009, before recovering to 6 percent in 2010.

India, South Asia's largest economy, has been facing major challenges owing to the global financial crisis. The immediate effects were plummeting stock prices, a net outflow of foreign capital, a large reduction in foreign reserves and a sharp tightening of domestic liquidity. These caused a rapid depreciation of the exchange rate and a surge in short-term interest rates. The second round effects emerged from a slowdown in domestic demand and exports. Demand effects have been particularly severe in housing, construction, consumer durables and the IT sector. As a result, manufacturing production has taken a hit and activities in the organized services sector (housing, construction, IT) are down sharply. Exports declined for two consecutive months in October and November 2008. A recent government study estimates job losses to the tune of five hundred thousand between October and December 2008. GDP growth rate is now estimated at around 7 percent for 2008, down from 9 percent in 2007, and is projected to decline to around 5 percent in 2009. The government of India has been highly proactive in managing this ongoing crisis with a slew of

monetary and fiscal measures to stabilize the financial sector, ensure adequate liquidity, and stimulate domestic demand. The monetary policy measures have succeeded in stabilizing interest rates and the availability of domestic liquidity. The exchange rate has also stabilized and capital outflows have been contained, with foreign exchange reserves maintained at around \$250 billion level. The pressure on the financial sector has been eased, although there is some evidence of an increase in non-performing loans. However, the financial sector has become more risk-averse. The decline in global fuel and other commodity prices has helped the balance of payments and lowered inflation, which has fallen sharply from a peak of 12.8 percent in July 2008 to below 6 percent in December 2008. This has created the space for monetary easing as well as providing better scope for the fiscal stimulus. The monetary and fiscal stimulus package is expected to contain the downward slide in demand in 2009 while providing a good basis for recovery in 2010.

IMPACT OF GLOBAL FINANCIAL CRISIS ON INDIAN ECONOMY

Introduction

The Indian economy looked to be relatively insulated from the global financial crisis that started in August 2007 when the sub-prime mortgage crisis first surfaced in the United States (US). In fact, the Reserve Bank of India (RBI) was raising interest rates until August 2008 with the explicit objective of cooling the economy and bringing down the gross domestic product (GDP) growth rate, which visibly had moved above the rate of potential output growth and was contributing to the buildup of inflationary pressures in the economy. But when the collapse of Lehman Brothers on 23 September 2008 morphed the US financial meltdown into a global economic downturn, the impact on the Indian economy was almost immediate. External credit flows suddenly dried up and the overnight money market interest rate spiked to above 20% and remained high for the next month. It is perhaps judicious to assume that the impacts of the global economic downturn on the Indian economy are still unfolding. Against this backdrop, this paper attempts an analysis on the crisis on the Indian economy.

Impact on Indian Economy

India, South Asia's largest economy, has been facing major challenges owing to the global financial crisis. The immediate effects were plummeting stock prices, a net outflow of foreign capital, a large reduction in foreign reserves and a sharp tightening of domestic liquidity. These caused a rapid depreciation of the exchange rate and a surge in short-term interest rates. The second round effects emerged from a slowdown in domestic demand and exports. Demand effects have been particularly severe in housing, construction, consumer durables and the IT sector. As a result, manufacturing production has taken a hit and activities in the organized services sector (housing, construction, IT)

S.Shantha Sheela, Asst.Professor in Economics,
M.D.T Hindu College, Tirunelveli

E.Jesmine Melba, Asst.Professor in Economics,
T.D.M.N.S College, T.Kallikulam

are down sharply. Exports declined for two consecutive months in October and November 2008. A recent government study estimates job losses to the tune of five hundred thousand between October and December 2008. GDP growth rate is now estimated at around 7 percent for 2008, down from 9 percent in 2007, and is projected to decline to around 5 percent in 2009.

The government of India has been highly proactive in managing this ongoing crisis with a slew of monetary and fiscal measures to stabilize the financial sector, ensure adequate liquidity, and stimulate domestic demand. The monetary policy measures have succeeded in stabilizing interest rates and the availability of domestic liquidity. The exchange rate has also stabilized and capital outflows have been contained, with foreign exchange reserves maintained at around \$250 billion level. The pressure on the financial sector has been eased, although there is some evidence of an increase in non-performing loans. However, the financial sector has become more risk-averse. The decline in global fuel and other commodity prices has helped the balance of payments and lowered inflation, which has fallen sharply from a peak of 12.8 percent in July 2008 to below 6 percent in December 2008. This has created the space for monetary easing as well as providing better scope for the fiscal stimulus. The monetary and fiscal stimulus package is expected to contain the downward slide in demand in 2009 while providing a good basis for recovery in 2010.

Conclusion

India has by-and-large been spared of global financial contagion due to the subprime turmoil for a variety of reasons. India's growth process has been largely domestic demand driven and its reliance on foreign savings has remained around 1.5 per cent in recent period. It also has a very comfortable level of forex reserves. The credit derivatives market is in an embryonic stage; the originate-to-distribute model in India is not comparable to the ones prevailing in advanced markets; there are restrictions on investments by residents in such products issued abroad; and regulatory guidelines on securitization do not permit immediate profit recognition. Financial stability in India has been achieved through perseverance of prudential policies which prevent institutions from excessive risk taking, and financial markets from becoming extremely volatile and turbulent.

IMPACT OF GLOBAL FINANCIAL CRISIS IN MICRO FINANCING IN INDIA

1. Introduction

Microfinance covers the delivery of banking and other financial services at affordable costs to the vast sections of disadvantaged and low-income groups. Easy access to public goods and services is essential for an open, inclusive and efficient society.

Microfinance, in India, presently provides mainly savings and credit facilities under different models, viz (a) the banks providing "no-frills" deposit facilities, remittances, insurance and small loans; (b) the self-help group (SHG)-bank linkage model; (c) the microfinance institutions (MFI) model; (d) the post offices, one of the most widespread organisations in the country, with 1,38,000 rural offices have also been providing small savings, remittance facilities and postal life insurance facilities.

The National Bank for Agriculture and Rural Development (NABARD) has been the main facilitator of the SHG-bank linkage approach in which small informal groups called "self-help groups" have been provided with financial support in the form of grants to develop themselves as institutions capable of accessing credit from the formal banking structure in the country.

The MFI approach has evolved to meet the vast unmet potential for microfinance in the country. The microfinance institutions having varied ownership structure like societies, trusts, not for profit companies and for profit companies, etc, are providing microfinance to the poorer sections of the society. A number of private sector banks are using the MFIs to meet their priority sector obligations.

The emerging SHG federations at village/block/district levels as in Andhra Pradesh, Uttar Pradesh and Bihar and other models provide valuable support and handholding functions to enable the emergence of micro-enterprises. This is being actively promoted so that the earning capacity of the poor people is enhanced and this will enrich the rural

T. Prakash & K. Devika Ph.D Research Scholars
Ururu Dhanalakshmi College, Tiruchirappalli.

economy. These efforts need to be strengthened, to ensure financial inclusion utilising the microfinance system, especially in un-banked rural areas.

Microfinance has had a tremendous impact on the lives of the underprivileged rural people. As on 31 March 2007, 41,60,584 SHGs were maintaining savings bank accounts with the banking sector with outstanding savings of Rs 3,512.71 crore, thereby ensuring financial inclusion for more than 5.8 crore poor households within its fold. More noteworthy, women empowerment has been one of the major outcomes of the SHG movement. The number of village micro-enterprises have been increased and income levels of SHG members have also increased. The need for better governance and involvement of panchayati raj institutions (PRIS) in development activities is also being enhanced. Rural infrastructure is also being improved thanks to the Rural Infrastructure Development Fund (RIDF) and this involves enhanced economic development activities.

5. Course Corrections

For the development of the microfinance sector and the rapid growth of the microfinance institutions certain course correction measures need to be put in place.

SHG-Bank Linkage Programme

Upscaling of the SHG-BLP in a sustainable manner is a formidable task before various stakeholders. There are various challenges prevailing under the sector that need to be addressed.

Regional Imbalances:

There is a need for even distribution of group formation and linkage efforts especially in the northern, central, eastern and north-eastern states and to put a check on the uneven spread of the SHG-BLP in the southern region (52%) of the country. This is more important in view of higher concentration of the rural poor in these regions. Special surveys and analytical studies need to be taken up in such regions to identify positive factors affecting the spread and sustainability of SHGs. There is a need to invest much more in capacity building programmes in these areas.

Capacity Building:

It has been observed that among SHGs, in case there is withdrawal of promoting institutions, there is a tendency for a slip in performance. The solution lies in nurturing of

the SHG up to a point where it becomes self managed and independent of the promoting institution. This implies setting up of a proper system for accounts keeping and auditing, credit management, capacity building, skills up-gradation, etc. There is a need to identify ways and means of improving the quality of SHGs consistent with rapid growth and balancing sustainability with easier financial access besides continuous emphasis on capacity building for bankers, NGOs and government officials involved in promoting and financing SHGs.

Livelihood Promotion:

There are a substantial number of credit-linked SHGs which are over three years old and stabilised in their credit and savings operations. It is necessary that members of such SHGs be encouraged to scale up and diversify their income-generating activities. Many NGOs are trying to promote micro-enterprises among SHG members. But their marketing abilities, skills and experience remain rather limited. The critical constraining factor is that SHG members face a lot of problems in marketing of their produce besides low level of appropriate skills. There is a need to evolve the methodology for promoting micro-enterprises to create livelihood and employment opportunities among SHG members, besides imparting relevant financial skills and developing their risk-taking abilities. In this direction, NABARD has initiated a three-year "pilot project" in nine districts across nine states through professional marketing agencies and the project has shown encouraging results. There is a need to rapidly upscale such efforts.

Low Bank Loan Per SHG Member:

Under the SHG-BLP, the average size of bank loan per SHG is low and translates to about Rs 7,000 per member. However, variations at the field level shows that in the older SHGs which have already participated in multiple loan cycles, the average loan per member is in the range of Rs 25,000 to Rs 40,000. Such small per capita loans do not enable the members to overcome poverty or acquire capital assets and thus, there is a need to increase the absorbing capacity of group members by way of enhancing their level of skills, literacy levels, access to information, etc. Nonetheless, the challenge remains for all the stakeholders, viz, government, bankers, NGOs, etc, to join hands in the collective effort for economic upliftment of the SHG members through various repeat cycles of credit.

Micro Insurance Products:

The SHG members have little or no access to insurance services, which are crucial for security and sustainability of these groups. According to a study conducted in 2003, over 82% of SHG households surveyed did not have any insurance cover and practically

none of the poorest house-holds surveyed had any insurance policy. There is a felt need to introduce micro insurance products and bring together various players in the insurance sector for supporting pilots for development of composite insurance products, which cater for life, health, crops, assets and accidents on a cluster or community basis which will meet the requirements of poorer and vulnerable rural people, at lower costs.

Perspectives

Microfinance has immense potential in the country. Quantifying it, however, would be extremely difficult at the moment and would mean talking in the abstract. However, there are certain welcome developments happening today, like the official concern for financial inclusion, which is extremely relevant for the rapid growth of this sector. The government of India has constituted two funds, the Financial Inclusion Fund (FIF) and the Financial Inclusion Technology Fund (FITF) with a view to promote financial inclusion and make financial services available at affordable rates. The FIF is meant to meet the cost of developmental and promotional interventions for financial inclusion whereas the FITF is meant to meet the cost of technology adoption for financial inclusion. The government and the RBI are keen on banks providing universal access to financial services and has directed all commercial banks and RRBS to add at least 250 rural household accounts every year at each of their rural and semi urban branches in order to move rapidly towards the objective of financial inclusion.

Financial inclusion will bring in enormous business volumes, large number of additional customers as also manifold increase in banking transactions. This would require application of cutting edge technology to deliver such services efficiently, while simultaneously complementing human efforts. Technological innovations such as smart cards, biometrics IDs, mobile hand-sets and rural kiosks that can help control costs are crucial for a safe and rapid scale up. For the development of the microfinance sector, the credit-plus approach is very relevant and the Andhra Pradesh model is now being tried out in Uttar Pradesh and Bihar, for replication. These initiatives need to be nurtured and strengthened. Also, specific steps have to be taken to improve the outreach of financial services in the 11 hill-states (eight north-eastern states, Jammu and Kashmir, Uttarakhand and Himachal Pradesh) and the 157 less developed districts, which are prone to internal disturbances. These are the areas which need, rapid growth of microfinance initiatives.

VIEWS OF CONTEMPORARY ECONOMISTS ABOUT ECONOMIC CRISIS

Introduction

The current economic crisis, which originated in the United States is commonly explained as resulting from financial deregulation in the US. Deregulation, it is argued, allowed, not just investment banks, but even ordinary banks to pick up assets that could rapidly become worthless, as has actually happened: the losses in the value of assets of the banks today exceed their net worth, which means that the entire banking system has become insolvent, with the scale of the bail-out packages for banks presented till now being utterly inadequate for restoring solvency.

There are, however, two obvious problems with this explanation-First, since deregulation can play only a permissive role it does not really amount to an explanation. This explanation is analogous to an explanation of theft in society in terms of the laxity of anti-theft laws. Second, if the impact of the absence of deregulation, ie, of tighter regulation, would have been exclusively to prevent the crisis, then there would still be some point in remaining satisfied with de-regulation as the proximate explanation, and not delving too deeply into more basic explanations. This, however, is not the case. Tighter regulation, even if we accept that it would have lessened the crisis, would almost certainly have truncated the boom as well. In other words, we have to see deregulation not as something which is super-imposed on an otherwise well-functioning system with the sole consequence of producing a crisis, but in the context of the totality of the logic of the deregulated system. And when we do so, the crisis, of the sort being experienced, appears not as an aberration of the system but as part of its very *modus operandi*. It represents not the failure of the system but the system itself.

Keynes had recognised this, which is why he had wanted a different capitalist system, with "socialisation of investment" and "euthanasia of the rentier".

Speculation, Keynes argued, produces bouts of euphoria, or "speculative excitement" as he called it. An initial rise in asset prices gives rise to expectations of a

P. Senthil, Ph.D Research Scholars
Urumu Dhanalakshmi College, Tiruchirappalli.

further rise, which makes wealth holders demand more of the asset and hence causes an actual further increase. And so the process goes on creating a speculative bubble.

A rise in asset prices caused by such a bubble, however, has important consequences for the real economy. The rise in asset prices improves the wealth position of the asset holders, which increases their consumption expenditure. In the case of financial assets, since it makes raising finance easier, it enlarges investment expenditure. In the case of all producible assets, such as houses for instance, since the rise in asset price makes it exceed the cost of production, there is larger demand for newly-constructed assets and hence larger production of them. Thus, the asset price bubble raises aggregate demand, and hence output and employment, well beyond what it would have been in the absence of such a bubble.

During the boom, therefore, the asset price bubble acts as a "super multiplier" to use Hicks' term (or "compound multiplier" to use Oskar Lange's term), i.e., an initial rise in the demand for an asset and hence in its price, which gives rise to an initial increase in its output, and hence in employment in the economy, is followed by a much larger increase in output and employment because of the asset price bubble that it generates.

In contemporary capitalism, with its developed financial markets, speculation which is necessarily rampant, plays as important a role in accentuating the boom as it does in precipitating a crisis. Booms in contemporary "free market" capitalism are necessarily speculation. To truncate its effects, through financial regulation to prevent the crisis, also entails truncating the boom, i.e., causing unemployment even earlier. With the State playing a proactive role in demand management- Keynes in short wanted the regime of "bubbles-sustained growth" such as characterised so-called "laissez-faire capitalism" in the era of finance, to be replaced by a regime of State-led growth, or more accurately, fiscally-stimulated and fiscally-sustained growth.

"SEVERITY AND EFFECTS OF FINANCIAL CRISIS"

The current global crisis forms the biggest policy challenge since the Great Depression given that this is a global not a regional crisis; it originates from the core and spreads to the periphery; there is a global credit crash; more innovative financial system means more risk and a wider contagion; export market contraction will make recovery harder; and as the previous imbalances of debt-led growth is now being corrected, it is unclear where the recovery will come from. What will be the effects of the current global crisis in different countries? We need to distinguish four different groups of countries:

The *developed countries* seem to be responding to the crisis differently from the developing countries in their crises of the 1980s and 1990s, thanks to their fiscal capacity to somewhat better weather the shock. The immediate decline in interest rates, credit lines to domestic banks, counter-cyclical fiscal policy (albeit at a lower degree than the financial rescue packages) are measures that were formerly denied to the developing countries by the IMF as well as the core countries. Indeed, in the developing countries, the conditionality credits of the IMF had made use of the crisis to impose further measures of liberalisation. However despite this crisis management, the real effects in the developed countries are much stronger than the previous stock market or banking crises of the 1980s.

The size of the future effects depends on the size of the fiscal stimulus plans, but some patterns emerge. The effects of the credit crash, particularly in countries with high household debt (e.g., US and UK), will be severe. The multiplier effects of the credit crash as well as the decline in consumption have already started to affect investments. The pessimistic expectations will amplify the decline of both consumption and investments. In countries like Germany or Japan with a high degree of dependence on export markets the contraction will also be rather severe, and the reliance on low wages to expand export markets will prove to be a curse. In the European Union (EU), some countries' ability to respond to the shocks will also be constrained by their fiscal capacity. Furthermore,

V. Balamurugan & Santhanakumar Ph.D Research Scholars
Ururu Dhanalakshmi College, Tiruchirappalli.

there are strong real and nominal divergences within the EU-15 as well as EU-27, which are now facing even more major problems in the face of the crisis. These differences are also being priced by the financial investors, who demand higher interest rates on the government bonds of countries like Italy, Greece, Spain, or even Austria due to its "eastern European" exposure compared to the interest rates on German bonds.

Broadly speaking the negative effects of the crisis on labour in the developed countries will work through demand, bargaining power, and path dependency channels. The decline in the wages in the emerging markets, which will suffer from the global crisis, will also add further pressures. Other additional channels of negative effects will be through housing debt, which will have strong distributional consequences for the indebted households. Differences with respect to skill levels and further dispersion of within labour distribution are also to be expected, e.g. the temporary workers losing their jobs first, and the more qualified workers being hoarded. However, some skilled workers in the automotive or metal industry or finance have already been the first to be affected. Furthermore the future cuts in governments' social expenditures, if they experience financing pressures, will also asymmetrically affect labour.

IMPACT OF GLOBAL FINANCIAL CRISIS ON OUR ECONOMY IN 21ST CENTURY

India, like other emerging markets, has suffered a more severe impact than supposed earlier. The impact has been pronounced after the Lehman crisis and, as Reserve Bank of India (RBI) governor D Subbarao (2009) has pointed out, it arises from three channels: the trade channel, the financial channel and the confidence channel.

In a time of global economic crisis, a higher level of financial integration impacts on the economy in three related ways: reducing Indian companies' access to overseas finance, lowering domestic liquidity and causing stock prices to fall.

Adverse global conditions have limited Indian firms' access to global finance in various forms: fresh international borrowings and external commercial borrowings (ECBs) have become difficult and existing ones are not easily being rolled over; long-term finance for international acquisitions made earlier through bridge finance is not available; buyers' credit has become scarce for international transactions; Indian banks' overseas branches and subsidiaries find they are unable to access funds in the wholesale market and have had to be provided with dollar funds by their parents from out of India; and so on.

There is a much broader impact on the Indian economy arising from foreign inflows in forms such as foreign direct investment (FDI) and foreign institutional investment (FII). These inflows had contributed to accretion of foreign exchange reserves. Any accretion to reserves enhances domestic liquidity; any decline in reserves constitutes a reduction in liquidity.

Turning now to the policy response, both fiscal and monetary policy have responded to the worsening environment although there is much debate about the adequacy of efforts on the two fronts, especially the monetary front. As mentioned earlier India did not appear significantly affected until after the Lehman episode hence the fiscal and monetary responses have come primarily after September 2008 although some fiscal measures taken earlier but implemented post-September are part of the menu of responses.

P. Soundararajan, Asst. Prof. of Economics
Urumu Dhanalakshmi College, Tiruchirappalli.

M. Ravichandran Asst. Prof. of Economics
G.A. College, Ariyallur

HOW TO DIAGNOSISE THE GLOBAL FINANCIAL SYNDROME?

Diagnosing the Problems

A necessary precondition to designing reforms is to agree on the diagnosis of what went wrong with the system that gave rise to the crisis. In the most general terms, there seem to be three candidates: over-large banks, excessively expansionary policies, and a misguided system of regulation.

One of the facts about the present crisis is that before it started we were convinced that the banks were well-capitalised. By the standards of Basel, they certainly were. Yet, in fact, we have witnessed a series of catastrophes due to banks' inadequate capitalisation: not only to the US investment banks, but also to American icons like Citi and Bank of America and to European banks like Royal Bank of Scotland, ubs, and the Icelandic banks. The conclusion has to be that something is sadly wrong with the system of bank regulation.

The problem is that crises and booms are self-propagating. A crisis feeds on itself because, for example, a restriction of credit by one bank reduces the prospects of every other bank receiving timely service of its loans. An increase in volatility means that those who have borrowed on margin face margin calls and are therefore forced to sell assets, which depresses asset prices, worsens liquidity, widens risk spreads, and leads to a further increase in volatility.

R. Nandakumar & G. Ravikumar Ph.D Research Scholars
Urumbu Dhanalakshmi College, Tiruchirappalli.

**IMPACT OF GLOBAL FINANCIAL CRISIS ON ICT AND
NETWORK CRISIS IN INDIA**

By and large, there was general consensus that current regulation and supervisory practices failed to mitigate the recent cycle in leverage, credit expansion and housing prices: little was done to tighten regulations in the upswing, nor to mitigate or reverse the pro-cyclical implications of the accounting/regulatory frame work in the downturn. Indeed, financial oversight and enforcement provided little or no check to the risky decisions made by financial institutions due to excessive compensation schemes and regulation had not evolved sufficiently to the profound changes (and underlying vulnerabilities) in the financial industry.

Since the global financial market can be seen as a network of national networks, there are several features that deserve more attention. Any solution or reform to prevent the next crisis must resolve the following core network problems revealed by the current crisis, namely, silos of supervision; increasing complexity of financial instruments and the system; complex interconnectivity within the system; large interactive feedback and spillover effects; lack of transparency; the bad incentive mechanisms that encourage excessive risk taking; and finally, ambiguity of responsibility between home and host authorities.

A. Jahangir Asst. Prof. of Economics
Dr. Zakir Husain College, Elayangudi, Sivagangai
Prof. S. Varatharajan Principal
National College of Arts and Science, Jayankondam

GLOBAL FINANCIAL CRISIS AND IMPACT ON INDIAN ECONOMY

Financial crisis is a common feature of market based Economics. The current global financial crisis began with the US sub-prime mortgage problem in mid-2007. Since the crisis originated in the heart of the world economy, its contagion effect spread very quickly, first to Europe and then to rest of the world. Several factors have contributed to the building up of the crisis. The primary structural factor has been the prevalence of large and persistent global macroeconomic imbalances across major economic powers characterized by large heterogeneity.

Impact of Crisis on Indian Economy

Initially, it was thought that the magnitude of the crisis would be small and its impact would be limited to US and EU. Given their restricted operation abroad, Indian banks had limited exposure to structured financial market involving subprime loans. But, as the crisis intensified and its severity became clear, it was not confined to the banking sector alone. As the effect considerably spread to the real sectors in US and EU, it was realized that the 'decoupled' hypothesis did not hold. The Indian economy would not remain immune to the global crisis.

The overall impact may be judged in terms of the fall in GDP growth to 6.7% in 2008-09 from 9% in the previous year. It looked as if the crisis put the Indian economy back on the pre-2003 growth trajectory. However, the whole of the fall of 2.3 percentage points, should not be attributed to the global crisis. Agricultural income grew by only 1.6% in 2008-09 as against 4.9% in 2007-08. This sharp fall, not related to the global crisis, might have contributed in about 0.8 percentage point fall in GDP. Given the current

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- 1. Dr. R. Palanivelu**, Asst. Prof. of Economics
 - 2. Prof. R. Swaminathan**, Asst. Prof. of Economics
- P.G. and Research Department of Economics,
A.V.V.M. Sri Pushpam College (Autonomous),
Poondi, Thanjavur District

share of agriculture in GDP, direct effect of 3.3 percentage full in agricultural income on GDP would be 0.6 percentage point and the rest indirect.

Capital Flows

In the initial phase of the crisis, when the 'decoupled' hypothesis was debated, India was thought to be a relatively attractive destination. As a result, Foreign Institutional Investment (FII) increased till January 2008. As the crisis US and EU grew, the flows reduced and considerably reversed later to meet each commitments and cover losses in their 'home' countries. During the year 2008-09 as a whole, there was net outflow of \$14 Billion as against a peak inflow of \$29 Billion in the previous year. This had strong impact on the stock market index which witnessed sharp fluctuations and fell sharply from about 21,000 in January 2008 to about 9000 by March 2008. Stock Market certainly went through turbulence and settled for some orderly behavior at the level of the index. In recent months, FII's have returned back to India with positive inflows.

The effect on real GDP in the various stimulations are given in Table. The simulation results show that a 10% fall in exports of goods and services causes a real GDP loss of 3.3%. the total effects capture the direct effect due to exports change and the induced effects due to changes in all other endogenous variables of the model. Given the current share of exports of goods and services in GDP, a 10% fall in exports could have a direct effect on GDP by about 2.0% and the rest might be considered as indirect multiplier effect. Since exports in India have low import content and the indirect effects are not insignificant. Note that the GDP effect here is due to export fall alone (partial effects) and not trade flows which also involved sharp contraction in imports whose 'competitive' component would have a favourable impact on GDP. The second simulation refers to fall in capital flows in the form of 10% fall in remittance and 15% fall in foreign savings. The effect on GDP operating through consumption and investment demand elements amounts to 1.8 percentage point decline. Simulation C corresponds to fall in international oil and gas price observed in the second half of last fiscal which turns out to be about 10% on yearly average data over the previous year. As expected, oil price decline had a favourable effect on overall GDP growth by 0.9 percent. This, the adverse effects on GDP of the first three scenarios due to global developments turn out to be 4.2 percentage points. The actual fall in GDP growth rate in 2008-09 was not as sharp in practice because observed change is the resultant of all factors operating up to that year including the counter measures. Yet, it is instructive to note the various potential effects under 'controlled conditions' for policy formulation.

Conclusion

In a globalised financial world, the fall out of the activities of greedy financial institutions and manipulators has overcast the economics of different countries. Keynes has long ago correctly diagnosed the ills of the system and also shown the positive path for correction. The minority authority has failed again and again to contain these diseases of capitalist economic structure. He had prescribed the positive stimulus for the government because the monetary authority, will be unable to lead the economy to high growth path free from fluctuations.

Unlike the advanced capitalist economics, India has certain advantages. The high rate of savings, protected monetary sector and high rate of growth growing information technology industry, are the silver line for India's success. The current survival agenda with particular focus on augmenting domestic demand and inclusive growth will energize the rural sector, encourage export and will enable sustainable development. The present steps taken for infrastructure development and rural employment will generate more employment and income. With inflation regulated, the stimulus agents will open the broad channel for robust growth. However, the leadership of steering the economy should not be left to the free market force. Rather the government must regulate all sectors in order to promote a balanced growth free from serious dislocation from international and domestic forces.

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The Indian Government has already been undertaken at the beginning of 2008a large expansionary fiscal package involving farmers 'loan waiving, revision of salary of government employees, rural infrastructure, and primary education.

GLOBAL FINANCIAL CRISIS AND KEY RISKS: IMPACT ON INDIA

Financial Globalisation: The Indian Approach

The Indian economy is now a relatively open economy, despite the capital account not being fully open. The current account, as measured by the sum of current receipts and current payments amounted to about 53 per cent of GDP in 2007-08, up from about 19 per cent of GDP in 1991. Similarly, on the capital account, the sum of gross capital inflows and outflows increased from 12 per cent of GDP in 1990-91 to around 64 per cent in 2007-08. With this degree of openness, developments in international markets are bound to affect the Indian economy and policy makers have to be vigilant in order to minimize the impact of adverse international developments on the domestic economy.

The relatively limited impact of the ongoing turmoil in financial markets of the advanced economies in the Indian financial markets, and more generally the Indian economy, needs to be assessed in this context. Whereas the Indian current account has been opened fully, though gradually, over the 1990s, a more calibrated approach has been followed to the opening of the capital account and to opening up of the financial sector. This approach is consistent with the weight of the available empirical evidence with regard to the benefits that may be gained from capital account liberalisation for acceleration of economic growth, particularly in emerging market economies. The evidence suggests that the greatest gains are obtained from the opening to foreign direct investment, followed by portfolio equity investment. The benefits emanating from external debt flows have been found to be more questionable until greater domestic financial market development has taken place (Henry, 2007; Prasad, Rajan and Subramanian, 2007).

Accordingly, in India, while encouraging foreign investment flows, especially direct investment inflows, a more cautious, nuanced approach has been adopted in regard to debt flows. Debt flows in the form of external commercial borrowings are subject to ceilings and some end-use restrictions, which are modulated from time to time taking into account

K. Prakash, M.Phil Scholar & Dr. P. Shanmugam, Asst. Professor, Department of Economics, Bharathiar University, Coimbatore

evolving macroeconomic and monetary conditions. Similarly, portfolio investment in government securities and corporate bonds are also subject to macro ceilings, which are also modulated from time to time. Thus, prudential policies have attempted to prevent excessive recourse to foreign borrowings and dollarisation of the economy. In regard to capital outflows, the policy framework has been progressively liberalised to enable the non-financial corporate sector to invest abroad and to acquire companies in the overseas market. Resident individuals are also permitted outflows subject to reasonable limits. The financial sector, especially banks, is subject to prudential regulations, both in regard to capital and liquidity (Mohan, 2007b). Some of the important measures by the Reserve Bank in this regard include, first, restricting the overnight unsecured market for funds to banks and primary dealers (PD) as well as limits on the borrowing and lending operations of these entities in the overnight inter-bank call money market. Second, large reliance by banks on borrowed funds can exacerbate vulnerability to external shocks. Third, asset liability management guidelines for dealing with overall asset-liability mismatches take into account both on and off balance sheet items.

Finally, guidelines on securitization of standard assets have laid down a detailed policy on provision of liquidity support to Special Purpose Vehicles (SPVs). In order to further strengthen capital requirements, the credit conversion factors, risk weights and provisioning requirements for specific off-balance sheet items including derivatives have been reviewed. Furthermore, in India, complex structures like synthetic securitisation have not been permitted so far. Introduction of such products, when found appropriate, would be guided by the risk management capabilities of the system.

The Reserve Bank has also issued detailed guidelines on implementation of the Basel II framework covering all the three pillars with the guidelines on Pillar II being issued as recently as on March 27, 2008. In tune with RBI's objective to have consistency and harmony with international standards, the Standardised Approach for credit risk and Basic Indicator Approach for operational risk have been prescribed. Minimum capital-to-risk-weighted asset ratio (CRAR) would be 9 per cent, but higher levels under Pillar II could be

prescribed on the basis of risk profile and risk management systems. The banks have been asked to bring Tier I CRAR to at least 6 per cent before March 31, 2010. After analyzing the global schedule for implementation, it was decided that all foreign banks operating in India and Indian banks having a presence outside India should migrate to Basel II by March 31, 2008 and all other scheduled commercial banks encouraged to migrate to Basel II in alignment with them but not later than March 31, 2009.

In addition to the exercise of normal prudential requirements on banks, the Reserve Bank has also successively imposed additional prudential measures in respect of exposures to particular sectors, akin to a policy of dynamic provisioning expansion. Hence, as a counter cyclical measure, the Reserve Bank increased the risk weight for In brief, the Indian approach has focused on gradual, phased and calibrated opening of the domestic financial and external sectors, taking into cognizance reforms in the other sectors of the economy. Financial markets are contributing to efficient channeling of domestic savings into productive uses and, by financing the overwhelming part of domestic investment, are supporting domestic growth. These characteristics of India's external and financial sector management coupled with ample forex reserves coverage and the growing underlying strength of the Indian economy reduce the susceptibility of the Indian economy to global turbulence.

Impact of the Crisis on India

While the overall policy approach has been able to mitigate the potential impact of the turmoil on domestic financial markets and the economy, with the increasing integration of the Indian economy and its financial markets with rest of the world, there is recognition that the country does face some downside risks from these international developments. The risks arise mainly from the potential reversal of capital flows on a sustained medium-term basis from the projected slow down of the global economy, particularly in advanced economies, and from some elements of potential financial contagion. In India, the adverse effects have so far been mainly in the equity markets because of reversal of portfolio equity flows, and the concomitant effects on the domestic forex market and liquidity

conditions. The macro effects have so far been muted due to the overall strength of domestic demand, the healthy balance sheets of the Indian corporate sector, and the predominant domestic financing of investment.

As might be expected, the main impact of the global financial turmoil in India has emanated from the significant change experienced in the capital account in 2008-09 so far, relative to the previous year. Total net capital flows fell from US\$17.3 billion in April-June 2007 to US\$13.2 billion in April-June 2008. Nonetheless, capital flows are expected to be more than sufficient to cover the current account deficit this year as well. While Foreign Direct Investment (FDI) inflows have continued to exhibit accelerated growth (US\$ 16.7 billion during April-August 2008 as compared with US\$8.5 billion in the corresponding period of 2007), portfolio investments by foreign institutional investors (FIIs) witnessed a net outflow of about US\$ 6.4 billion in April-September 2008 as compared with a net inflow of US\$ 15.5 billion in the corresponding period last year.

In summary, the combined impact of the reversal of portfolio equity flows, the reduced availability of international capital both debt and equity, the perceived increase in the price of equity with lower equity valuations, and pressure on the exchange rate, growth in the Indian corporate sector is likely to feel some impact of the global financial turmoil. On the other hand, on a macro basis, with external savings utilisation having been low traditionally, between one to two percent of GDP, and the sustained high domestic savings rate, this impact can be expected to be at the margin. Moreover, the continued buoyancy of foreign direct investment suggests that confidence in Indian growth prospects remains healthy.

Impact on the Indian Banking System

One of the key features of the current financial turmoil has been the lack of perceived contagion being felt by banking systems in EMEs, particularly in Asia. The Indian banking system also has not experienced any contagion, similar to its peers in the rest of Asia.

A detailed study undertaken by the RBI in September 2007 on the impact of the subprime episode on the Indian banks had revealed that none of the Indian banks or the

foreign banks, with whom the discussions had been held, had any direct exposure to the sub-prime markets in the USA or other markets. However, a few Indian banks had invested in the collateralised debt obligations (CDOs) / bonds which had a few underlying entities with sub-prime exposures. Thus, no direct impact on account of direct exposure to the sub-prime market was in evidence. However, a few of these banks did suffer some losses on account of the mark-to-market losses caused by the widening of the credit spreads arising from the sub-prime episode on term liquidity in the market, even though the overnight markets remained stable.

RBI Response to the Crisis

Central banks in some cases have substantially loosened the collateral requirements to provide the necessary short-term liquidity. In contrast to the extreme volatility leading to freezing of money markets in major advanced economies, money markets in India have been, by and large, functioning in an orderly fashion, albeit with some pressures. Large swings in capital flows – as has been experienced between 2007-08 and 2008-09 so far – in response to the global financial market turmoil have made the conduct of monetary policy and liquidity management more complicated in the recent months. However, the Reserve Bank has been effectively able to manage domestic liquidity and monetary conditions consistent with its monetary policy stance.

This has been enabled by the appropriate use of a range of instruments available for liquidity management with the Reserve Bank such as the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) stipulations and open market operations (OMO) including the Market Stabilisation Scheme (MSS) and the Liquidity Adjustment Facility (LAF). Furthermore, money market liquidity is also impacted by our operations in the foreign exchange market, which, in turn, reflect the evolving capital flows.

Concluding Observations

India has by-and-large been spared of global financial contagion due to the subprime turmoil for a variety of reasons. India's growth process has been largely domestic demand driven and its reliance on foreign savings has remained around 1.5 per cent in

recent period. It also has a very comfortable level of forex reserves. The credit derivatives market is in an embryonic stage; the originate-to-distribute model in India is not comparable to the ones prevailing in advanced markets; there are restrictions on investments by residents in such products issued abroad; and regulatory guidelines on securitisation do not permit immediate profit recognition. Financial stability in India has been achieved through perseverance of prudential policies which prevent institutions from excessive risk taking, and financial markets from becoming extremely volatile and turbulent.

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THE FINANCIAL CATASTROPHE – HOW INSULATED INDIA IS?

Introduction:

The financial crisis that arose in the later half of 2007 and was precipitated by the collapse of Lehman Brothers on 23rd Sep. 2008 is highly turbulent causing lot of concerns over the global economic environment since it broke out at the very epicenter of global capitalization and its contagion spread very quickly to the entire globe. India being an integrated part of the global economic order, was also exposed to the adverse impact of the global economic crisis, despite RBI's stance of enhanced resilience to be able to respond appropriately to global financial and monetary conditions. This paper examines the impact of US financial turmoil on Indian economy and the options for the policy makers.

Impact on GDP:

As per the CSO estimates, the real GDP growth has been placed at 7.9 per cent for 2008-09 and RBI projected the GDP for 2008-09 around 8.0 per cent for policy purposes. As per the estimate by the Asian Development Bank (ADB), one per cent point fall in the US real GDP growth would reduce Asia's (excluding Japan) GDP growth by 0.8 percentage point. IMF has placed the reduction in India's growth at 0.1 – 0.2 percentage by a similar estimate. This indicates that our economy is relatively less affected.

Sectoral Impact:

The possible intensity of the impact of US turmoil on the Indian economy is portrayed as below:

Agriculture:

The fact that the domestic demand for agricultural products is the major growth driver for the sector rather than the export demand, the impact of US turmoil on agriculture is seen to be minimal on the sector.

Dr. S. Syamali., Associate. Prof. in Commerce,
Seethalakshmi Ramaswamy College, Tiruchirappalli.

Industry:

The growth in Indian industry is primarily driven by the domestic demand. The recessionary trends in the US are impacting the export demand of certain industries such as jewellery, leather, auto components, pharmaceuticals and IT segments.

Service sector:

With the decline in its economic activity, the BPO orders to India will be subdued for sometime.

IT enabled services:

The impact on ITES is likely to be adverse, since the global slowdown has percolated to the financial services industry.

Trade:

India's export to US economy might decline as consumer confidence indices are hit, lowering the demand for imports in the US economy.

During 2007-08, India's exports to US stood at \$20.7 billion against the imports of \$13.2 billion, creating a substantial trade surplus of \$7.5 billion. In the wake of US turmoil, India's trade deficit with US is likely to widen. This is especially evident from the fact that the dependence of IT industry on external market has increased from 37.5% in 1998 to 63.8% in 2008. Hence, the Indian IT market cannot remain insulated from the developments in the external economy.

Capital Market:

The Indian stock market lost substantially since January 2008, as the Sensex crashed by over 45%. In recent months, the BSE sensex has seen market volatility and sharp erosion in market-capitalization following the meltdown in global equity markets. Since, the Indian debt market is not very active, the impact is not clearly visible in this market.

Table 7 : Likely impact of the US financial turmoil through different channels- Indian Economy

Sr. No.	Channel	Significance		
		Negligible	Moderate	Severe
1.	Growth		√	
2.	Agriculture	√		
3.	Industry		√	
4.	Services Sector		√	
5.	Savings		√	
6.	Investment	√		
7.	Infrastructure	√		
8.	Current Account Deficit		√	
9.	Capital Flows		√	
10.	Remittance Flows		√	
11.	Merchandise Trade		√	
12.	ITES Exports		√	
13.	Direction of Trade		√	
14.	Foreign Currency		√	
15.	Financial Markets		√	
16.	Asset prices		√	
17.	Investor Sentiment		√	
18.	Commodity Prices		√	
19.	Exchange Rate		√	

Source: RBI

Lessons for the policy Makers:-

Going by the severity of the crisis and the failure of several financial institutions in US a number of lessons can be learned and necessary steps can be taken. A few of them are

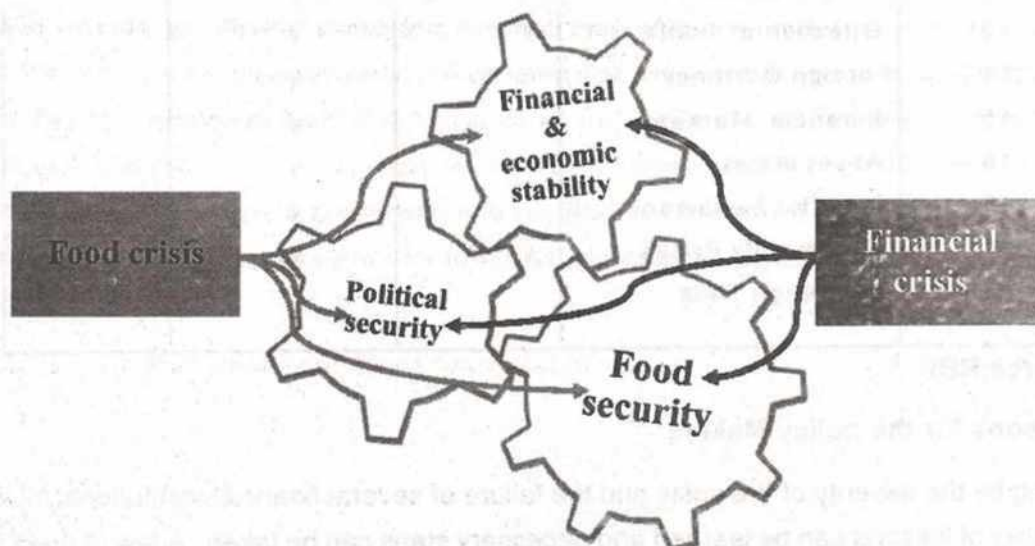
- ❑ Appropriate Early Warning Mechanism
- ❑ Review of the Internal Practices
- ❑ Keeping constant vigil and swift response to the developments

GLOBAL ECONOMIC CRISIS ON INDIAN AGRICULTURE

Introduction

The financial crisis in the second half of 2008 stemmed from fundamentally different causes – flawed regulatory regimes and subprime mortgage lending – but the two crises have fed on each other. Fueled with capital diverted from the collapsing housing market, speculation in agricultural futures, as well as ad hoc market and trade policies, the level and volatility of commodity prices further increased. Although the financial crisis developed from different underlying causes, they are becoming intertwined in complex ways through their implications for financial and economic stability, food security, and political security.

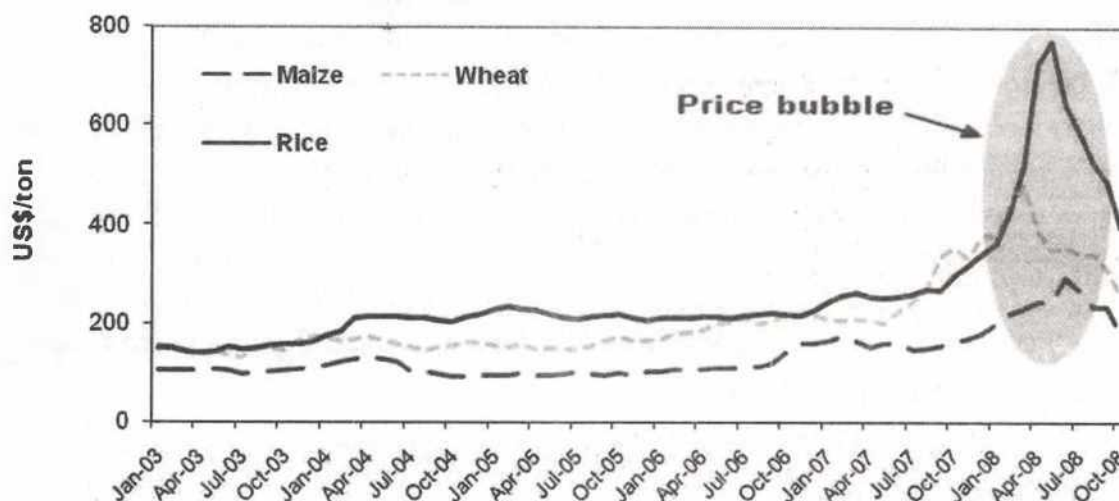
Linkages between the food and financial crises



D.Amutha, Asso.Professor in Economics, St.Mary's College (Autonomous) Tuticorin
R.Prabhavathy, Asst.Professor in Economics, Kamaraj College, Tuticorin

The price of nearly every agricultural commodity sharply increased in the past two years, creating a global food price bubble. At their peaks in the second quarter of 2008, world prices of wheat and maize were three times higher than at the beginning of 2003, whereas the price of rice was five times higher.

The global food price crises in 2007 – 08



The prices of butter and milk, for example, tripled between 2003 and 2008, and the prices of beef and poultry doubled. At the country level, these global food price changes have been transmitted to different degrees owing to factors such as transportation costs, domestic policies, and market structure, but most countries show general patterns similar to these global trends.

Suggestions

- Enhancing state intervention and increasing annual plan expenditure amounting to 10% of India's GDP (currently it is below 5%).
- Adopting specific relief packages for crisis-affected sectors aimed mainly at the small and medium enterprises; preventing job and pay cuts for workers and employees.
- Increasing public investment in agriculture and irrigation; providing protection against price crashes of crops through price support and increased import tariffs.

Conclusion

The unprecedented global economic crisis has definitely taken a toll of India's economic performance. Most likely it has also reduced our potential for economic development in the next 3 or 4 years. However, despite the severity of the global crisis, India's economy has demonstrated considerable resilience, in part, thanks to the strength of our agricultural sector. With sound and determined economic policies we should be able to recover a growth momentum of 7 – 7.5% in a year or two. That will be a little less than our growth performance in 2003 – 2008. But it will be far better than nearly every other significant economy in today's world.

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IMPACT OF THE GLOBAL FINANCIAL CRISIS ON INDIAN ECONOMY

Introduction

When the financial crisis erupted in a comprehensive manner on wall street, there was some premature traumatism among India policy makers and media persons. It was argued that India would be relatively immune to this crisis, be-cause of the "strong fundamentals" of the economy and the supposedly well regulated banking system

After a long spell of growth, the In-dian economy' is experiencing, a downturn, Industrial growth is faltering, inflation remain to double digit levels, the current account deficit is widening, raising money for new investments through public issues is on hold. Foreign exchange reserves are deplet-ing and the rupee is depreciating, the rupee plunged to 50 18 against dollar on November 21, 2008.

It is the law of gravity. The falls is always sharper than the rise. The sen-sex crashed to 300.5 points to 10,527.86 points from its peak level of 21,206 seen in January 10, 2008. The index has, plummeted by 50 percent-ages in just nine months. (Times of India, October 10, 2008). Liquidity which was the sole factor that favored : equities on the .way up has precisely been the cause of collapse since January, 2008. On Friday October 24, 2008, the sensex closed at 8,701.07 a level last seen on November 24, 2005. On October 27, 2008 the benchmark index of BSE ended the day lower by 1004 points to a three year intra-day low at 7,697.39 points.

The RBI and government have in-tensified efforts to improve liquidity con-dition in the Indian market.

Dr. T.Sridhar, Reader in Economics,
National College, Tiruchirappalli.

**IMPACT OF GLOBAL FINANCIAL CRISIS ON EMPLOYMENT
SITUATION IN INDIA**

Introduction

India is the most populous country in the world, next to China. As per the 2001 census, the total work force in our country is 402 million, of which 313 million are main workers and 89 million are marginal workers. Out of the 313 million main workers, about 285 million is in the unorganised sector, accounting 91 per cent (Economic Survey: 2005-06). The estimates provided by the National Sample Survey Organisation also reveal the similar pattern. As per the NSSO estimates for the year 2004-05, India had population of 1093 million, with a workforce of about 385 million. Of these, about 7 per cent belong to organised and the rest 93 per cent of the workforce include those self employed and employed in unorganised sector (Ratnam CSV:2006, Economic Survey 2007-2008).

In the present context of global financial crisis, the labour market in India is also likely to be affected badly and that warrants greater attention and protection. In this context, the present study examines the trends in employment in India, the realized impact of global crisis on employment situation, and suggests specific measures needed to protect the workers in India.

The discussion in this paper is organised in two sections. In the first section the nature of financial crisis and its impact on employment situation in India has been discussed. In the second section a brief summary of the main findings has been given.

Section1

Global Crisis and its Impact on Labour Market in India

Employment opportunities in the financial year 2008-09 have been affected by the global financial crisis and economic slowdown in the major markets of India. While

R.Albert Christopher Dhas, Assistant Professor of Economics,
The American College, Madurai.

M. Helen Mary Jacqueline Assistant Professor of Economics
Lady Doak College, Madurai.

comprehensive employment data for current financial year is not available, some sample surveys have indicated employment losses in the wake of the global financial crisis and economic slowdown.

According to the report on "Effect of Economic Slowdown on Employment in India," which is based on a sample survey of 2,581 units conducted by the Labour Bureau, Ministry of Labour and Employment, during October-December 2008, there was decrease in employment of about half a million workers during the period (GOI:2009a). The study revealed that the most affected sectors were gems and jewellery, transport and automobiles where employment has declined by 8.58 per cent, 4.03 per cent and 2.42 per cent respectively during the reference period. In textile sector, 0.91 per cent of workers have lost their jobs. It was observed that the major impact of the slowdown was noticed in the export oriented units.

Table 1

Industry wise change in Employment of Export and Non Export units

Industries	Exporting Units	Non- Exporting Units	Overall	Percentage change in capacity utilization*
Mining	-0.32	-0.33	-0.33	-0.32
Textiles	-1.29	0.32	-0.91	-0.09
Metals	-2.60	-1.24	-1.91	-5.68
Gems & Jewellery	-8.43	-11.9	-8.58	-1.03
Automobiles	-1.26	-4.79	-2.42	-7.05
Transport	0.00	-4.03	-4.03	N.A
IT / BPO	0.33	1.08	0.55	N.A
Overall	-1.13	-0.81	-1.01	-1.32

* indicates Average monthly change.

Source: Government of India (2009a) **Report on Effect of Economic Slowdown on Employment in India** (October–December 2008), Ministry of Labour & Employment, Labour Bureau, Chandigarh.

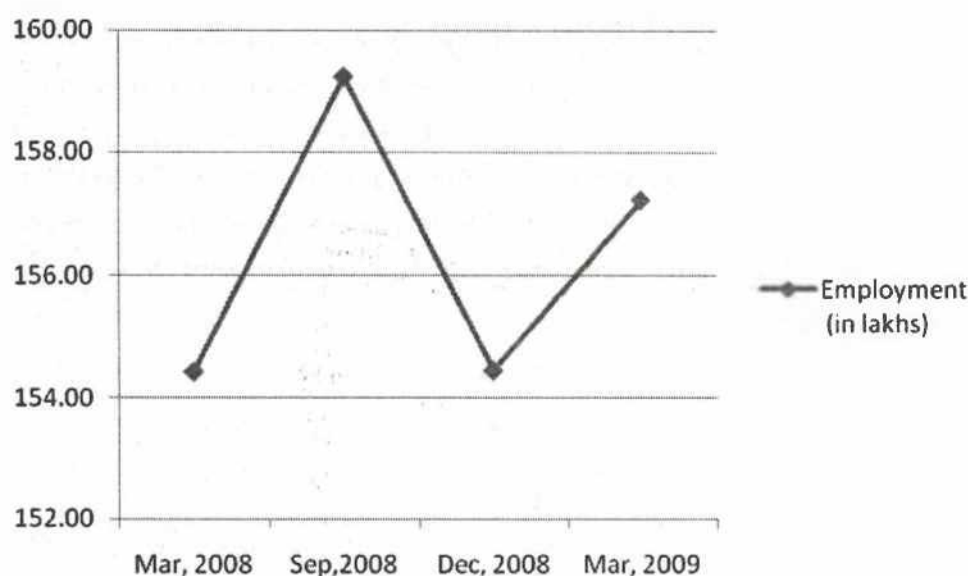
In the export sector, maximum decline in employment had been experienced by Gems & Jewellery sector (8.43) followed by Metals (2.6 percent), Textiles (1.29), Automobile (1.26 Percent) and Mining (0.32). Employment had not been adversely affected in the remaining sectors (Transport and IT/BPO) studied. In the domestic sector units, decline in employment was maximum in Gems & Jewellery (11.9) followed by Automobiles (4.79), Transport (4.03), Metals (1.24) and Mining (0.33). The survey also indicated that the utilization of production capacity had gone down but not very significantly over the period of the study. It appeared that the capacity utilization estimated was on the lower side. The most affected sector was the Automobile where, on an average, the capacity utilization had declined by 7.05 per cent per month, followed by 5.68 per cent in the Metal sector. At overall level, capacity utilization had decreased at the rate of 1.32 per cent per month during the period of study. Total earnings during the period under review had declined by 3.45 per cent.

Another thin sample survey conducted by the Ministry of Labour and Employment Government of India to assess the employment situation in January 2009 over December 2008 indicated a loss of about 1 lakh jobs in the month of January 2009. However, it may be possible that the unemployment indicated was seasonal in nature since the employment estimated in the reference period of the study was not in comparison with the same period in previous year and the employment in period October to December 2008 was compared to that in September 2008 and later January 2009 against December 2008 (Economic Survey:2008-09).

The subsequent second survey on the Effect of Economic Slowdown on Employment in India was conducted by the Labour Bureau(GOI:2009b) for the period January to March 2009 covering 3,192 units in 21 centres, indicated improvement in the selected sectors with employment rising by a quarter million. Sectors registering increased employment were gems and jewellery (3.08 per cent), textiles (0.96 per cent), IT-BPO (0.82 per cent), handloom-powerloom (0.56 per cent) and automobile (0.10 per cent). A decline in employment during Jan-Mar, 2009 had been observed in leather (2.76%), metals

(0.56%) and transport (0.36%). As compared to October-December, 2008 quarter wherein about half a million workers had lost their jobs, the employment in selected sectors increased by a quarter million during the January-March, 2009 period. During April, 2008-March, 2009 period employment in the sectors covered increased by 0.15 per cent, resulting in an addition of 0.28 million jobs. The trends observed in employment are evident from the diagram given below:

**Trends in Employment (in lakhs) in selected Industries in India
during March 2008 to March 2009**



Source: Government of India (2009a) **Report on Effect of Economic Slowdown on Employment in India** (January–March 2009), Ministry of Labour & Employment, Labour Bureau, Chandigarh.

The third "Quick Employment Survey" on the Effect of Economic Slowdown on Employment in India was the revisit to the units covered in the second quarterly survey to assess the direction of change in employment during April-June, 2009 over March, 2009. During the survey, 3,003 units are covered in 21 centres spread across eleven states. The survey covered eight sectors viz. Textiles, Metals, Leather, Automobiles, Gems & Jewellery, Transport, IT/BPO and Handloom/Powerloom. As per the survey, at overall

level, the employment declined by 1.3 lakh during April-June, 2009 over March, 2009. The most affected sectors were the export oriented units especially in Textiles and Gems & Jewellery. In the non-exporting units, the employment had in fact increased slightly during the period under survey.

The survey revealed that the employment had declined during the quarter April-June. During the month of May, the estimated employment declined by 1.57 lakh whereas in the month of April the decline was 0.38 lakh. However, there was slight increase in the employment (0.64 lakh) during June, thus showing an overall decline of 1.31 lakh during this period. The maximum decline in employment is seen in Textiles sector where it had declined by 1.54 lakh during April-June over March, 2009. Other sectors experiencing low/insignificant decline in employment were Gems & Jewellery, IT/BPO, Metals and Transport. In Leather, Automobiles and Handloom/Powerloom sectors there was slight increase in employment during the quarter April-June over March, 2009. Decline in employment during the months of April and May period may be attributed to seasonality. Table 2 provides the changes in the estimated employment during April to June 2009 over March 2009.

Table 2

Changes in Estimated Employment during April to June 2009 over March,2009
(in Lakhs)

Industry / Group	April, 2009	April- May 2009	April – June 2009
Textiles	-0.09	-1.92	-1.54
Leather	0.05	0.28	0.07
Metals	0.01	-0.09	-0.01
Automobiles	-0.01	0.07	0.23
Gems & Jewellery	-0.28	-0.27	-0.20
Transport	-0.02	-0.03	-0.01
IT / BPO	-0.28	-0.34	-0.34
Handloom /Powerloom	0.23	0.34	0.49
Overall	-0.38	-1.95	-1.31

* indicates Average monthly change.

Source: Government of India (2009c) **Report on Effect of Economic Slowdown on Employment in India** (April–June 2009), Ministry of Labour & Employment, Labour Bureau, Chandigarh.

The survey revealed that the employment had declined during the quarter April-June. During the month of May, the estimated employment declined by 1.57 lakh whereas in the month of April the decline was 0.38 lakh. However, there was slight increase in the employment (0.64 lakh) during June, thus showing an overall decline of 1.31 lakh during this period. The maximum decline in employment is seen in Textiles sector where it had declined by 1.54 lakh during April-June over March, 2009. Other sectors experiencing low/insignificant decline in employment were Gems & Jewellery, IT/BPO, Metals and Transport. In Leather, Automobiles and Handloom/Powerloom sectors there was slight increase in employment during the quarter April-June over March, 2009. Decline in employment during the months of April and May period may be attributed to seasonality.

In addition to assess the impact of slowdown in terms of employment, information on the regular earnings of workers are also collected with a view to see whether these have been affected by the economic slowdown in the economy. It is generally believed that the economic slowdown adversely impacts the quality of employment, besides the quantity reflected by the decline in employment. The quality aspect is measured in terms of decrease in average earnings received by the workers. The regular earnings include regular wages or salaries, payment of allowances like dearness, overtime, house rent and production bonus etc. which are paid more or less regularly for each pay period. The earnings of workers at overall level have declined by 1.3 per cent during April-June over March, 2009. The change in earnings is in the same direction as the change of employment; except in Metals, Gems & Jewellery and Handloom/Powerloom sector. The significant increase in average monthly earnings is in Gems & Jewellery sector (4.68 per cent) despite the fact that in percentage terms the maximum decline in employment is registered in the same sector (1.65 %). This may be due to the reason that the existing workers are paid overtime allowances.

In addition to the above evidences, the sample survey conducted by the Department of Commerce, Ministry of Commerce and Industry also highlighted the impact of global financial crisis on employment in India. The survey conducted from 402 exporting units revealed job loss (direct and indirect) to the tune of 1,09,513 persons during August 2008 to mid-January 2009. Another sample study conducted earlier (for the period August-October 2008) by the Department of Commerce for 121 export-related companies belonging to several sectors, primarily employment-oriented sectors like textiles including garments, leather, engineering, gems and jewellery, handicrafts, food and food processing, minerals, marine products has revealed loss in export orders to the tune of Rs. 1,792 crore and loss of jobs of around 65,507. Two other surveys for the period August 2008 to February 09, 2009, and August, 2008 to February 28, 2009 revealed job losses (direct and indirect) of 1,17,602 and 1,19,159 persons respectively (Economic Survey:2008-09).

Section 2

Summary and Conclusion

Based on the available evidences from the sample surveys conducted by the Ministry of Labour and Employment and the Ministry of Commerce, it is argued that the global financial crisis has affected the employment scenario, particularly in the exporting units. No doubt that the Government of India is concerned about the possible impact of global financial crisis on the Indian economy, including employment, and several measures, financial and fiscal, have been taken. A large number of measures have been taken to help the industry in general and more affected labour intensive export sectors in particular since October 7, 2008. The most recent measures were those announced on December 7, 2008 and January 2, 2009. In the interim budget of February 16, 2009, the Government announced continuation of interest subvention of 2 per cent on pre- and postshipment credit for most employment-oriented sectors such as textiles, carpets, leather, gems and jewellery, marine products and SMEs beyond March 31, 2009 till September 30, 2009.

Though, the negative effects of global crisis on employment is realized by the Government of India and certain steps were initiated already, the study calls for specific social security measures to protect the working population in India. It could be argued that India had a long tradition of social security and social assistance system directed towards the more vulnerable sections of society. The institution of self sufficient village communities, the system of common property resources, the system of joint families and the practice of making endowments for religious and charitable provided the required social security and assistance to the needy and poor of the nation. These informal arrangements of social security measures underwent steady and inevitable erosion.

In this context, it can be argued that the major security needs of the unorganised workers are food security, nutritional security, health security, housing security, employment security, income security, life and accident security, and old age security. In sum, the study calls for a Comprehensive, Universal and Integrated Social Security System for the working population in India.

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IMPACT OF GLOBAL FINANCIAL CRISIS ON HEALTH SECTOR

Introduction

The **financial crisis**, which was triggered by difficulties within the sub-prime mortgage market, and which has seen the near collapse of the international banking system, continues to spread. Some countries have already received large-scale emergency funding from International Monetary Fund (IMF), others are in discussions that could lead to this support. Many other countries are known to be facing severe financial problems. The resulting massive reduction in wealth has now tipped several OECD member countries into recession (defined as two successive quarters of negative growth in gross domestic product). The world risks the most **serious economic downturn** since the 1930s. The impact of earlier increases in the cost of food and fuel are estimated to have tipped more than 100 million people back into poverty. The challenge facing the world now is to prevent an economic crisis becoming a social and a health crisis.

In global health there has been significant progress towards achieving the **Millennium Development Goals** but many challenges remain. There have been reductions in child mortality and gains in the treatment and prevention of HIV/AIDS, tuberculosis, malaria, poliomyelitis and neglected tropical diseases. In contrast, there has been little change in maternal and newborn mortality, especially in Africa; nutrition has been relatively neglected; and there remain many countries in which less than half the population has access to adequate sanitation or essential medicines. Several countries, notably in Africa, have taken advantage of economic growth to increase levels of domestic spending on health. Aid for health has more than doubled in recent years, coming both from traditional and innovative sources. The economic consequences of the global financial crisis put these achievements at risk and will jeopardize progress on the challenges that remain.

T.M.Saravana Kumar, Ph.D. Research Scholar, Department of Economics,
Bharathiar University, Coimbatore

Impact of the Crisis on Health

Although poor populations in all countries are likely to be the first and hardest hit by any downturn, it is not just the poorest countries that will be affected by the current crisis.

Many high-income and upper middle-income countries will experience negative real income growth and substantial increases in unemployment, with their consequent impact on health. In those countries where the financial crisis has required IMF emergency assistance, the situation is likely to be particularly serious for health service financing, if spending restrictions are imposed during loan repayment. Before the current crisis, many low- and middle-income countries were badly affected by increases in food and fuel costs, others prospered during the boom in commodity and oil prices. With a fall in demand, prices have fallen, to the advantage of net importers but to the detriment of those more dependent on export revenues.

Health Spending

Total health spending in countries that have been affected by an economic downturn tends to fall, but not consistently. Some governments have protected health spending or even increased it, but others have done the reverse. Policy in this sphere is thus vitally important. In contrast to public spending, private out-of-pocket expenditure usually tends to decline in a recession, particularly if services are available at lower cost in the public sector.

The effects of the crisis in many low- and-middle income countries are increasingly evident: private financial flows are falling (from US\$ 1 trillion to half that amount); foreign direct investment and remittances are decreasing; and exports from developing countries are down in terms of price and volume. The consequent effects of unemployment and decreasing revenues impact on household income, government spending and the capacity of other actors in the private and voluntary sector to contribute to the health effort. All this is happening at a time of greater health need.

Protecting Health Spending

In contrast to what has happened in previous crises, several countries reported an increase in health budgets. Those that were expecting to face growing pressure from

ministries of finance need evidence-based arguments that demonstrate the economic benefits from investment in health. Others pointed out that access to health care is an entitlement in its own right, and that this too must be part of the case made to governments and financial institutions.

The Current Crisis: Impact on Development and Health

The World Bank estimates that a 1 percent decline in developing-country growth rates traps an additional 20 million people in poverty and that 100 million people have already been driven into poverty by high food and fuel prices. In September 2008, the U.N. Conference on Trade and Development reported that in many countries, concerns about inflation and the need for tighter monetary policies may not be well founded and may "lead to a further deceleration of growth." Also, when government budgets come under pressure and household income drops, demand on public services will increase.

The World Bank has initiated or strengthened a number of short- to medium-term programs, including the Global Food Crisis Response Program under the "New Deal for Global Food Policy." The Bank is also undertaking a series of priority measures aimed at ensuring that basic food and health provisions are in place for poor households. A key action will be to help countries prioritize public expenditures in order to ensure that effective social protection programs are in place. The Bank has also approved loans and grants with fewer conditions than in the past.

Conclusion

The current financial and economic crisis is still unfolding but is already of unprecedented magnitude and scope, with full recovery not predicted for four-five years. Evidence suggests that these events can have significant implications for health, especially for poor households and particularly women and children. Urgent action is needed to mitigate this, including as a key response to preventing social crisis. Household out-of-pocket spending on health accounts for over two-thirds of total expenditure in health with significant poverty implications. As discussed, household capacity to cope with the financial consequences of ill-health during crises is severely impacted through its unemployment and poverty consequences. Unemployment in South-East Asia has increased from 3.5%

in 2007 to over 5% in 2009 – from 79 million to 94 million. Further, the World Bank estimates that one percentage point decline in growth in developing regions could trap an additional 20 million people into poverty. This implies the estimated three percentage point deceleration in GDP growth could push about 50 million people into poverty in Asia, in addition to 50-60 million people already impoverished due to higher food and fuel prices in 2007-08 – a total of 100 million, implying an increase in poverty by 3-4% per centage points.

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FINANCIAL DEVELOPMENTS IN INDIA

The financial crises of the 1990s and others of the current decade affected the pace of liberalization. Therefore the lessons of these crises become important in this context. These have been documented in various studies (see Roubini 2004). The lessons were that the effects of crises could be minimized by avoiding real exchange rate misalignment, limiting fiscal imbalances and preventing excessive build-up of domestic debt, maintaining a monetary policy consistent with growth with low inflation and that the ratio of unheeded short-term currency debt over official reserves remains sufficiently low. Strengthening of supervision and prudential regulation, fostering of risk management capacities in banks and non-bank financial firms are also important.

Managing NPAs and bringing them down is an important element of supervision and impacts on the soundness of the banking system. The short-term capital inflows lead to build up of short-term funds with banks. When flush with these funds, in their anxiety to lend, banks often resort to reckless lending which in turn could lead to increase in NPAs- a typical problem of adverse selection arising out of asymmetric information.

Emerging markets should be willing to use short-term capital controls as part of their arsenal of policy instruments. There may be an argument that this may affect aggregate flows to emerging markets. Evidence from various studies, however, tends to suggest that restrictions on short-term flows affect the maturity structure of foreign debt, but does not affect the overall volume of flows.

Full capital account convertibility as the experience of South Korea, Malaysia, Thailand and Indonesia suggests can lead to massive and unsustainable inflows, followed

Dr.T. Porselvi, Asst.Professor in Economics,
Nehru Memorial College, Putthanampatty.

N.S. Sumathi, Asst.Professor in Economics,
H.H. The Rajah's College, Pudukkottai

by, as the risk perception changes, to massive outflows or a flight to quality, leading to a crisis. Therefore, caution is suggested in moving towards capital account convertibility. Such imposition of controls on short-term flows should, however, not become a permanent feature. The down side is that it is likely to lead to imbalances between short term and long term flows and may lead to a reduced focus on other important financial development policies like prudential regulations and strengthening supervision.

This means that a country has to strike a balance between the quantum of short-term flows relative to long term flows so as to ensure that the economy is not destabilized and at the same time not pushed into a lower growth trajectory. This would require countries to weigh the costs and the benefits coming from such financial flows. As countries are at different levels of financial and economic development, the decision depends upon country specific situation. Hence, in order to come to a conclusion whether a country has reached a stage of full capital account convertibility, we will need to contextualize the above.

THE GLOBAL FINANCIAL CRISIS IN INDIA

When the crisis first broke internationally, within India there was much talk of how the Indian economy is less likely to be affected and how the Indian financial sector will be relatively immune to the winds from the international financial implosion. But it is clear that important elements of the balance of payments and the domestic financial sector have been affected. There are significant implications for domestic banking, which are already reflected in the credit crunch that has dramatically affected access to credit especially for small and medium enterprises. There are effects on some important macroeconomic prices – in particular the exchange rate. And there are direct and indirect effects on employment, with falling export employment generating negative multiplier effects. Despite all this, Indian policy makers still seem to be caught in some complacent time-warp, whereby they proudly point to the GDP growth rate (now spluttering, but still high by international standards) and to the supposed “resilience” of the domestic financial sector. Of course, neither of these is as positive as the government would like to make out. The current slowdown in GDP is sharper than the government would like to admit, and more significantly it has been accompanied by a much steeper than expected reduction in employment, especially in export sectors.

Domestic banking is still generally secure, especially because nationalised banking remains the core of the system, largely thanks to resistance from the Left parties to government attempts to privatise it. Even so, there are clear signs of fragility and inadequacy within the banking sector: the recent rapid growth of often dodgy retail credit, associated attempts to securitise such debt, the emergence of a credit crunch in the face of macroeconomic uncertainty, and the inability or unwillingness of the banking system to provide loans to medium and small borrowers other than in the form of personal credit. Beyond these implications, the effects of the global crisis have directly impacted upon some important macroeconomic variables. Three such indicators stand out in terms of their quite sudden deterioration since the middle of last year: the decline in the foreign

Dr. C. Selvaraj, Asst. Professor in Economics,
Government Arts College, Udumalpet.

exchange reserves held by the Reserve Bank of India; the fall in the external value of the rupee, especially vis-à-vis the US dollar; and the decline in stock market indices.

It is more than obvious that the current global crisis provides a real opportunity to initiate and develop alternative policies, both internally and domestically. A change in economic paradigm is essential; without it the international economy will continue to lurch from crisis to crisis and the developing world will not be able to advance and provide basic needs to citizens. The need for more state intervention in economies is now recognised everywhere: the concern now is to ensure that such state involvement is more democratic and more accountable to the people. Everyone now recognises the need to reform the international economic regime.

But the idea should not simply be to fix a system that is obviously broken: we need to exchange it for a better model. That is because, as noted above, the current financial architecture has failed to meet two obvious requirements: of preventing instability and crises, and of transferring resources from richer to poorer economies. Not only have we experienced much greater volatility and propensity to financial meltdown across emerging markets and now even industrial countries, but even the periods of economic expansion have been based on the global poor subsidising the rich. These global failures are so immense that they constitute enough reason to abandon this system. But there are other associated failures in terms of what the regime has implied within national economies: it has encouraged pro-cyclicality; it has rendered national financial systems opaque and impossible to regulate; it has encouraged bubbles and speculative fervour rather than real productive investment for future growth; it has allowed for the proliferation of parallel transactions through tax havens and looser domestic controls; it has reduced the crucial developmental role of directed credit. So we clearly need a new system, even if the goals remain the same as that of the original Bretton Woods: to ensure currency stabilisation through international monetary co-operation; to encourage the expansion of international trade in a stable way; and to promote development by facilitating productive investment. To achieve this in the current context, four elements are crucial. First, the belief that self-regulation supported with external risk assessment by rating agencies is an adequate way to run a financial system has been blown sky-high.

GLOBAL DEPRESSION AND RECESSION – A COMPARATIVE STUDY

INTRODUCTION

The collapse of a global housing bubble, which peaked in the U.S. in 2006, caused the values of securities tied to housing prices to plummet thereafter, damaging financial institutions globally. Questions regarding bank solvency, declines in credit availability, and damaged investor confidence had an impact on global stock markets, which suffered large losses during 2008. Economies worldwide slowed in late 2008 and early 2009 as credit tightened and international trade declined. Critics argued that credit rating agencies and investors failed to accurately price the risk involved with mortgage-related financial products, and that governments did not adjust their regulatory practices to address 21st century financial markets. Governments and central banks responded with unprecedented fiscal stimulus, monetary policy expansion, and institutional bailouts.

US RECESSION VS REST OF THE WORLD DEPRESSION

Below is a brief article on the comparison of the economy in the US and in other countries with the Great Depression and Now. The long and short of it - the US does not seem to be tracking quite as severely as the Great Depression. Often cited comparisons - which look only at the US - find that today's crisis is milder than the Great Depression. In this column, two leading economic historians show that the world economy is now plummeting in a Great-Depression-like manner. Indeed, world industrial production, trade, and stock markets are diving faster now than during

1929-30. Fortunately, the policy response to date is much better. The parallels between the Great Depression of the 1930s and our current Great Recession have been widely remarked upon. Paul Krugman has compared the fall in US industrial production from its mid-1929 and late-2007 peaks, showing that it has been milder this time. On this

Dr. S. Jeyarani Assistant professor Department of Economics
The American College, Madurai

basis he refers to the current situation, with characteristic black humour, as only "half a Great Depression." The "Four Bad Bears" graph comparing the Dow in 1929-30 and S&P 500 in 2008-9 has similarly had wide circulation (Short 2009). It shows the US stock market since late 2007 falling just about as fast as in 1929-30.

This and most other commentary contrasting the two episodes compares America then and now. This, however, is a misleading picture. The Great Depression was a global phenomenon. Even if it originated, in some sense, in the US, it was transmitted internationally by trade flows, capital flows and commodity prices. That said, different countries were affected differently. The US is not representative of their experiences.\

Our Great Recession is every bit as global, earlier hopes for decoupling in Asia and Europe notwithstanding. Increasingly there is awareness that events have taken an even uglier turn outside the US, with even larger falls in manufacturing production, exports and equity prices.

In fact, when we look globally, the decline in industrial production in the last nine months has been at least as severe as in the nine months following the 1929 peak. Here, then, is a first illustration of how the global picture provides a very different and, indeed, more disturbing perspective than the US case considered by Krugman, which as noted earlier shows a smaller decline in manufacturing production now than then.

Similarly, while the fall in US stock market has tracked 1929, global stock markets are falling even faster now than in the Great Depression. Again this is contrary to the impression left by those who, basing their comparison on the US market alone, suggest that the current crash is no more serious than that of 1929-30.

Another area where we are "surpassing" our forbearers is in destroying trade. World trade is falling much faster now than in 1929-30. This is highly alarming given the prominence attached in the historical literature to trade destruction as a factor compounding the Great Depression.

To sum up, globally we are tracking or doing even worse than the Great Depression, whether the metric is industrial production, exports or equity valuations. Focusing on the US causes one to minimize this alarming fact. The "Great Recession" label may turn out to be too optimistic. This is a Depression-sized event.

We are only one year into the current crisis, whereas after 1929 the world economy continued to shrink for three successive years. What matters now is that policy makers arrest the decline

CONCLUSION

As can be seen, in both crises there was a lag of five or six months before discount rates responded to the passing of the peak, although in the present crisis rates have been cut more rapidly and from a lower level. There is more at work here than simply the difference between George Harrison and Ben Bernanke. The central bank response has differed globally.

Clearly, monetary expansion was more rapid in the run-up to the 2008 crisis than during 1925-29, which is a reminder that the stage-setting events were not the same in the two cases. Moreover, the global money supply continued to grow rapidly in 2008, unlike in 1929 when it leveled off and then underwent a catastrophic decline.

GLOBAL FINANCIAL CRISIS AND IT'S IMPACT ON INDIAN ECONOMY

Indian economy has been hurt by the global financial crisis but India may be in a better position with quick recovery and for future growth than many of other economies. The current financial crisis would affect India in the following ways.

Impact on capital flows

- ❖ The most immediate effect of this crisis on India has been an outflow of foreign institutional investment from the equity market.
- ❖ The foreign institutional investment(FII) pulled out \$ 11.1billion during the first nine and half month of 2008 a sharp decline in FII inflow exacerbated the downward pressure with the rupee depreciating by almost 25 % the rupee plunged to 50.17 against dollar on November 21,2008
- ❖ The BSE sensex (1978-79=100) increased significantly form the level of 13,072 as end march 2007 to its peak of 20,875 on Jan 8 2008. With portfolio flow reversing in2008 because of international financial crisis. The sensex has now dropped to a level of 8,891 on March 6, 2009.
- ❖ The main impact of the global financial crisis in India has emanated from the significant change experienced in capital account in 2008-09. The total net capital outflow fell down April-June 2007 \$17.3billion to 13.2 billion in April –June2008
- ❖ Portfolio investment by foreign institutional investors (FIIs) witnessed a net outflow of about US\$ 6.4 billion in April September 2008 as compared with net inflow of us \$ 15.5billion in the corresponding the period of last year

Economic growth decelerated in 2008-09 to 6.7 per cent this represent the decline to 2.1 per cent from the average growth rate of 8.8 per cent in the previous five years this is lower than 7 percent projection in the mid year review 2008-09 and advanced estimate of 7.1 per cent the of the growth of GDP at factor cost at 6.7 per cent in 2008-09 nevertheless represent a deceleration from high growth of 9.0 per cent and 9.7 percent in 2007-08 and 2006-07 respectively.

Dr. R.Rajaratnam.SJ, Principal * **T.Lakshmanan**. Research Scholar,
Department of Economics, St Joseph's College, Tiruchirappalli.

The deceleration of growth in 2008-09 was spread all sector except mining & quarrying and community and social and personal

In agriculture and allied activities decelerated due to fall in production of non-food crop, manufacturing, electricity and construction sectors decelerated the slowdown in manufacturing could be attributed to the combined impact of a fall in export followed by a decline in domestic demand. The rise in the cost of inputs during the beginning of the years and the cost of credit reducing manufacturing margin and profitability. Manufacturing was adversely affected by the impact of global recession

In the Economic Survey 2008-09 shows the slowdown in growth of GDP is more clearly visible due to deepening impact of the global crisis and slowdown in domestic demand.

Impact on foreign trade:

- ❖ India export started declining in October 2008 when it went down by 12.1 per cent followed by a 9.9 per cent in November a 1.1 per cent decrease in December and steep 15.9 plunge in January 2009. The recession abroad have an adverse effect on our export of goods and services.
- ❖ The fall in import in February 2009 was 18.1 per cent at 17.2 billion which reduced the trade deficit of \$4 billion against a deficit of \$5.69 billion in February 2008. The small and medium exporters have been worst hit by the global slowdown.

Impact on employment:

- ❖ According to the report on "Effect of Economic slow down on Employment in India" which is based on a sample survey of 2,581 units conducted by the Labour Bureau, Ministry of Labour and Employment during October-December 2008, there was decrease in employment of about half a million worker during the period
- ❖ The most affected sector were gems and jewellery, transport and automobiles where employment have declined by 8.58 per cent 4.03 per cent and 2.42 per cent respectively in textile sectors, 0.91 per cent of workers have lost their jobs.
- ❖ A sample survey conducted by the department of commerce for 402 exporting units revealed job losses (direct and indirect) to the tune of 1,09,513 person during August 2008 to mid January 2009.
- ❖ The two other surveys shows that job losses (direct and indirect)

DUBAI HIT HARD BY FINANCIAL CRISIS

There is much about Dubai that is artificial and based on illusion: the man-made islands designed to represent a map of the globe; the indoor ski slope in the midst of desert; the incredible hotel with glass walls looking onto a sea aquarium mimicking the surrounding ocean. And recently, Dubai had also become synonymous with excess: building the tallest tower in the world and the biggest and most expensive luxury hotels, residences, shopping malls and office complexes; providing the market and the sales venue for the most outlandish and flamboyant luxury goods; redefining grandiose expressions of opulence for the world as a whole.

Several real estate properties have already dropped in price by up to 50% and we have not even seen the full extent of the global financial crisis. Analysts forecast much steeper forecasts ahead. Dubai's economy diversified away from oil towards real estate and tourism making it extremely vulnerable to today's market conditions. Due to financial crisis the following have taken place in the case of Dubai economy.

- 1. Repatriation of capital**
- 2. Capital flight**
- 3. Property Prices Increase**
- 4. Developers Feel Effects of Price Uncertainty**

R.Rajkumar, Asst. Professor & **R.Arul**, Research Scholar,
Department of Commerce, St.Joseph's College, Trichy

CRISIS PREVENTION AND CAPITAL CONTROLS IN INDIA

This paper analysed the capital controls in India and the potential risk of a financial crisis and/or a recession hitting the Indian economy. The paper also looks at the exchange rate regime followed by the RBI in India. Finally, in particular, it looks at two scenarios which may trigger a financial crisis. A look at the booming stock markets in India was undertaken to analyse the possibility of a stock market crash. Last, the paper analysed the banking sector and its reforms to study whether it is capable enough to deal with sudden outflows arising out of a stock market crash or would it succumb to its own weaknesses, further worsening the crisis by initiating a banking crisis and/or a currency crisis.

The main conclusions of this paper can be summarised as follows:

Currency mismatches arise when a country does not have sufficient sources of hard currency, like assets denominated in hard currency or sources of income in hard currency (e.g. exports) to discharge such debts. In India's case, it has not been possible to analyse the assets denominated in hard currency. Hence, in this paper, it cannot be stated for surety whether India will experience a currency mismatch or not. However, in the absence of such analysis, it can only be stated that the risk of a currency mismatch looms over India.

1. There has been a selective liberalisation of the capital account. However, many controls still exist qualifying India to be termed as a "capital-controlled country".
2. The exchange rate, though touted as "market-determined", can at best be described as a "quasi-managed float" or a "dirty float" due to frequent interventions by the RBI.
3. The stock market is, in all probability, heading for a crash since the stocks are severely overpriced. Furthermore, due to a very high share of market capitalisation by FIIs, India faces the risk of huge outflows of funds in the event of a stock market crash.

Dr.K.Senthilkumar, Guest Lecturer in Economics,
Government Arts College, Udumalpet.

A. Thaha Sahad, Asst.Professor in Economics,
H.H. The Rajah's College, Pudukkottai

4. Banking sector, though technically capable to deal with huge transactions increase, still suffers from inherent weaknesses, especially the public sector banks, as reforms have been brought about at a slow pace.
5. India might face risks of a currency mismatch in case of devaluation of the rupee owing to a low proportion of debt denominated in local currency in total external debt. However, short-term debt being a small percentage of the same, places it in a somewhat comfortable position in the immediate future. Furthermore, huge foreign reserves act as a buffer to prevent any severe exchange rate crisis.
6. The stock market crash, in an event it happens, results in a huge loss of business confidence, and might lead to a recession, especially if the inflow of funds from FIIs suffers a setback.
7. It may not yet be the right time to move towards full capital account liberalisation due to still large fiscal deficits, a looming stock market crash and inherent weaknesses in the banking sector.

This suggests that India might face a stock market crash but that, though bad enough in itself may not be accompanied by a financial crisis as authorities are in a strong position to counter pressure on the Indian currency. As for a banking crisis, the indicators of financial system soundness indicate considerable improvement but the authorities still have to remain cautious and not let laxity in reforms to set in. In periods of economic growth and asset price boom, it is common for banks to embark on riskier project. The authorities have to tighten the prudential regulations to keep that in tow. And, in view of all the above circumstances, capital account convertibility should not be introduced until further headway is achieved in the above directions.

THE IMPACT OF THE CRISIS ON THE INDIAN ECONOMY

The main reasons for the present financial crisis are as follows:

1. Boom and burst in housing markets of USA.
2. Speculation.
3. High risk mortgage loans lending / borrowing practices.
4. Securitization practices.
5. Inaccurate credit rating.
6. Policies of central bank.
7. Financial institutions debt level and incentives.
8. Credit default swaps.

Indian exports

In India's GDP increased up to 2.42 times from 1999 – 2000 to 2007-2008, where as Gross Domestic saving increased significantly up to 3.67 times during the same period. Savings contributed around 37.68% of our Gross Domestic Product for the year ended March 2008, as against 24.8 % during 1999 – 2000.

Among the emerging economies, India seems best placed to tide over as US recession. It is exports from just 23.5 % of the GDP, and the average share of exports to the US during the last five years was only 2 % of GDP, compared to 8% for China and over 20% for ASEAN. Besides, the share of export to the USA has declined over the same period.

Unlike east Asian economies whose major exports to the US are manufactured goods, employing large number of people, the major exports from India are software services, whose direct influences on jobs and the larger economy is comparatively less.

N.Sivanesan M.Phil, Research scholar Department of Economics,
National College, Tiruchirappalli.

Forex Reserve

Forex reserve is the basket of foreign currency assets SDR, and foreign investments. The foreign investment is the combination of foreign institutional investors (FII) and foreign direct investment (FDI), which are collectively called as non-debt capital. The rest of the foreign investment is treated as Debt capital, which must be reliable as per the stipulated contracts. India's Debt capital formed around 56.1% out of the total capital flight to India during 2006-2007.

Obviously to attain the planned double -digit growth rate, we must build up the forex in our kitty. But due to global slowdown and meltdown in the US economy, India's forex reserve plummeted to \$248 billion during March 2009 from the peak of \$316 billion.

There is pulling out of money by foreigners, may be due to booking profit as well as necessity of funds. But it is just 1-5 of there total inflows. Still, four-fifth of the forex reserves is intact. That is, out of the \$68.77- billion investments by FII in December 2007, only \$13.619 billion where pulled out from our equity market, and rest of \$ 55.152 billion of FII was intact during March 2009, which reflects the confidents of foreigners in our emerging economy.

Impact on the Banking System

India's banking system has been considerably less affected by the ongoing crisis then banking system in the US and Europe. This is because the causes of the crisis are quite different from that elsewhere. In the advanced economies, the banking system suffered huge losses; this led to a collapse in the flow of credit and confidence and dragged down the real economy. In India, it is the real economy that has been affected through various channels and banking is feeling the effects of a slowing down of the economy.

Conclusion:

While the global financial markets are likely to remain closely coupled to Wall Street, the real economies elsewhere, without the fully coupled or decoupled, may still emerge unscathed from the recession.

The Indian banking sector is well placed to weather the storm because it is not directly exposed to the financial crisis. It faces secondary effects arising from the slowdown of the economy.

GLOBAL FINANCIAL CRISIS ITS IMPACT ON INDIAN AGRICULTURE AND LABOUR MIGRATION – SCENARIO

The term Global Financial Crisis is by now well written about though not fully understood. Broadly we can understand it as undue overpricing of assets, both real and financial and its subsequent diminution of value either due to lack of liquidity. Where such diminution takes place rapidly it could lead to a crash or a crisis. If the price crash takes place in real estate or metals, normally it should not spread across the globe in spite of *Globalization*. Globalization means, Freedom and ability of individuals and firms to initiate voluntary economic transactions with the residents of other countries. That is global mobility of factors of production.

The New Economic Policy 1991 was accelerated to develop the domestic economy to withstand the global competition. In this period there was faster growth in all the sectors but Agriculture was worst affected. The agricultural land is transferred to industry and housing construction.

Agriculture is the main occupation of Indians, and around 70 per cent of the population is engaged directly or indirectly in this field and generate 22 per cent of National Gross Product. But now the share of agriculture in Gross Domestic Product of the country had come down to 18 per cent.

The reason for crises in agriculture is due to the arbitrary policies. The technical improvements have changed the traditional system and patterns of agriculture. The agricultural laborers face a lot of problems such as harassment by money lenders, inability to get medical treatment for a family, lack of positive and co – operative support from banks etc. Dependents on agriculture continue to suffer under the clutches of poverty and hunger.

The percentage of landless peasants in India has gone up by 32 per cent in the last few years. There is no equitable price for their products. Farmers are giving up

Dr. C.Mookiah Associate Professor, Manonmaniam Sundaranar University,
Dr.M.Chelladurai Asst.Prof in Economics,
Lekshmipuram College of Arts and Science, Neyyoor

agriculture and migrating to other areas in search of employment. In 1990, the percentage of landless peasants in India was only 22 per cent, but it has now gone up to 32 per cent. There are many farmers who are deeply in debt and 48 per cent of farmers are in the stranglehold of usurious money lenders.

The present government is giving high priority for the emancipation of the poor with the clear objective of eradication of poverty, reduction of inequalities and elimination of privileges. The poor monsoon affected the agricultural growth and GDP for the year 2009 – 2010. Last time the country experienced a severe monsoon failure was in 2002 – 2003. The agricultural laborers migrated from one area to another with in the state or country in order to get seasonal or temporary or part-time work in different sectors.

Migrant workers are not organized under any trade union and other labour standards. There are no strong trade unions of migrant workers in the unorganized sector. The bargaining power of these migrant workers is thus weaker than of the workers in the organized sector.

Global opportunities are threats to food, agriculture and agricultural labourers. The government plays a major role to achieve rapid economic development with equity. In every plan period the policy makers make huge allocation and priority to rural development. The rural welfare schemes should be implemented to agricultural labourers.

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INDIAN CAPITAL MARKET

Venture capital is very different from traditional sources of financing. Venture capitalists finance innovation and ideas, which have a potential for high growth but with inherent uncertainties. This makes it a high-risk, high-return investment. Apart from finance, venture capitalists provide networking, management and marketing support as well. In the broadest sense, therefore, venture capital connotes human as well as financial capital. In the global venture capital industry, investors and investee firms work together closely in an enabling environment that allows entrepreneurs to focus on value creating ideas. Venture capitalists, meanwhile, drive the industry through ownership of the levers of control in return for the provision of capital, skills, information and complementary resources. This very blend of risk financing and handholding of entrepreneurs by venture capitalists creates an environment particularly suitable for knowledge and technology-based enterprises.

Scientific, technological and knowledge-based ideas - properly supported by venture capital - can be propelled into a powerful engine of economic growth and wealth creation in a sustainable manner. In various developed and developing economies, venture capital has played a significant developmental role. India, along with Israel, Taiwan and the US, is recognized for its globally competitive high technology and human capital. India's recent success story in software and IT is almost a fairy tale when considering obstacles such as inadequate infrastructure, expensive hardware, restricted access to foreign skills and capital, and limited domestic demand. It also indicates the potential India has in terms of knowledge and technology-based industry.

The development of a proper venture capital industry, particularly in the Indian context, is needed if high quality public offerings (IPO's) are to be achieved. In the present situation, an individual investor becomes a venture capitalist of a sort by financing new enterprises and undertaking unknown risks. Indian capital market is more volatile and its response highly according to the scenario changes in the world capital market responses.

M.K.Durgamani, Ph.D Research Scholar, Department of Commerce,
Periyar University, Salem

GLOBAL FINANCIAL CRISIS

While much mainstream media attention is on the details of the financial crisis, and some of its causes, it also needs to be put into context (though not diminishing its severity).

Plummeting stock markets have wiped out 33% of the value of companies, \$14.5 trillion. Taxpayers will be bailing out their banks and financial institutions with large amounts of money. The UK and other European countries have also spent some \$2 trillion on rescues and bailout packages.

Such numbers, made quickly available, are enough to wipe many individual's mortgages, or clear out third world debt many times over. Even the high military spending figures are dwarfed by the bailout plans to date.

Poor Nations will get less financing for development

The poorer countries do get foreign aid from richer nations, but it cannot be expected that current levels of aid (low as they actually are) can be maintained as donor nations themselves go through financial crisis. As such the Millennium Development Goals to address many concerns such as halving poverty and hunger around the world, will be affected.

Rethinking economics

During periods of boom, people do not want to hear of criticisms of the forms of economics they benefit from, especially when it brings immense wealth and power, regardless of whether it is good for everyone or not.

Dr.M.Sumathy, Reader in Commerce,

M.Sathana Priya, Research Scholar, Bharathiar University, Coimbatore.

It may be that during periods of crisis such as now, the time comes to rethink economics in some way. Even mainstream media, usually quite supportive of the dominant neoliberal economic ideology entertains thoughts that economic policies and ideas need rethinking.

Some have been writing for many years that while the current economic ideology is flawed, it only needs minor tweaking to correct it and make it work for everyone; a more compassionate capitalism, but capitalism nonetheless. Others argue that capitalism is so flawed it needs complete doing away with. Others may yet argue that the bailouts by large government will distort the markets even more (encouraging bad practices by the big institutions) and rather than more regulation, an even freer form of capitalism is needed.

What is hoped is that fruitful debate will increase in the mainstream.

This will also attract ideologues of different shades, leading to both wider discussion but also more entrenched views. Those with power and money are less likely to agree to a radical change in economics where their power and influence are going to diminish, and will be able to lobby governments, produce compelling ads and do whatever it takes to maintain options that ensure they benefit.

GLOBAL FINANCIAL CRISIS

The current global financial crisis has its genesis following from the bankruptcy of the citadel of Banking Sector – Lehman Brothers in 2008. The large global imbalances on account of loose monetary policy adopted in advanced economies during the early part of this decade was greatly responsible for this crisis. This imbalance tendency had its roots in US which viewed wrongly to rise the asset prices, particularly house prices, on the lack of excessively an accommodative monetary policy of lax lending standards as well as certain financial innovation resulting in a large price in mortgage credit to households. As a result of these policies inflation started cropping in 2004 and many banks faced losses on account of the credit practiced in mortgage sector.

In 2008 there emerged a happening crisis on global financial markets the extreme level of risk aversion, the mounting loss of banks and financial institutions. The elevated level of commodity prices were factor that led to dampened the growth prospects for EMES.

But in India the type of toxic assets that have devastated the banking system of western countries had only a negligible impact on Indian scenario. Bank's loans to individuals for housing have been backed by prudent loan-to-value ratios. Provisioning norms for standard assets here also raised except for agriculture and SMEs. This helps flow of credit to the productive section of the economy. This also resulted in substantial shrinking of non-bank sources of funding in India. As a result the abundant liquidity in the advanced economies found its way into our economy boosting asset and commodity prices, including oil-providing a boost to consumption and investment. The US outstripping domestic aggregate supply in US on account of global imbalances see a boost in the accommodative monetary policy and total demand in India.

K. Rajesh, Lecturer in Economics, National College (UAC), Tiruchirappalli.

IMPACT OF FINANCIAL CRISIS AND POVERTY

Developing countries are already being affected by the financial crisis, even in cases where their financial systems are relatively insulated from the sub-prime mortgage assets that triggered the financial crisis in advanced economies. The secondary effects of the crisis are playing themselves out in many developing countries, including a steep fall in export demand, which is expected to be followed this year by a drop in FDI and possibly a decrease in both overseas development aid and migrant remittances. Industrial centres in the developing world have been affected, with reports from South America, South Asia and China of manufacturing firms firing employees as a result of declining export demand. China's export sector has been particularly hard-hit, with an estimated 10 million workers losing their jobs in the final months of 2008, many of them internal migrants who have moved from rural areas to work in urban production centres

In both advanced economies and developing countries, governments and civil society groups should work to ensure that migrant rights are not eroded. Civil society groups should challenge the stigmatisation of migrant workers. If migrant return programmes are initiated by governments, these should ensure that migrants are treated with dignity and given proper assistance upon return. In developing countries, there is a risk that migrants may be less able to find work, leading to increasing insecurity. Governments and development NGOs should aim to provide migrants with adequate social protection and to provide unemployed migrants with access to services and skills training.

A. William, Asst. Prof. of Economics, A.A. Govt. Arts College, Villupuram

V. Dharamalai, Ph.D., Research Scholar, Department of Economics,
Government Arts College (Autonomous), Kumbakonam

**FOREIGN CAPITAL FLOWS INTO INDIA : ISSUES
AND POLICY OPTIONS****Introduction**

Foreign capital has significant role for every national economy, regardless of its level of development. For the developed countries it is necessary to support sustainable development. For the developing countries, it is used to increase accumulation and rate of investments to create conditions for more intensive economic growth. For the transition countries, it is useful to carry out the reforms and cross to open economy (Edwards, 2004), to cross the past long term problems and to create conditions for stable and continuous growth of GDP (Razin, 2001), as well as integration in world economy (Boskovska, 2006; Lensik, 1999). But, to realize the potential exist in the developing countries, foreign capital plays a very crucial role. Capital inflow can help developing countries with economic development by furnishing them with necessary capital and technology. Capital flows contribute in filling the resource gap in countries where domestic savings are inadequate to finance investment. Capital inflows allow the recipient country to invest and consume more than it produces when the marginal productivity of capital within its borders is higher than in the capital-rich regions of the world. Capital inflows facilitate the attainment of the millennium development goals (MDGs) and the objective of national economic, empowerment and development strategy (NEEDs). As the economy becomes more open and integrated with the rest of the world, capital flows will contribute significantly to the transformation of the developing economy (Levin, 2001).

M. Karuppiah , Asst.Professor in Economics,
H.H.The Rajah's College, Pudukkottai

Added to this, capital inflows are necessary for macroeconomic stability as capital inflows affect a wide range of macro economic variables such as exchange rates, interest rates, foreign exchange reserves, domestic monetary conditions as well as saving and investments.

Capital flow in the forms of portfolio and foreign direct investment is not only an engine for globalization but also a catalyst for economic development for developing countries (Stiglitz and Andrew, 1981; Tesar, 1991; Tobin, 1983; Wade and Veneroso, 1998). However, capital flow from developed countries to developing countries has been skewed (Aghion *et al*, 2001). Only selected

Asian and Latin American countries received capital from developed countries in a large scale. Most sub-Saharan African countries, which urgently needed foreign capital for economic betterment, have been excluded from globalized investment. Data indicate that in most countries, resurgence in economic growth and a marked accumulation of international reserves accompany the increased capital inflows. In Asia, measured either in current or constant US dollars; net private capital³ inflows in the mid 1990s were unprecedented in terms of the size of the flow to emerging markets in the post-war period

Composition of Capital Inflows in India

India is a developing country, like many other developing countries, international capital flows has significant potential benefit on the Indian economy. Under the liberalized foreign exchange transactions regime, the results were dramatic. The liberalization of the portfolio investment led to a surge in inflow of capital for investment (Mody and Murshid, 2002) in the primary and secondary market (Dash and Sumanjeet, 2005) for Indian equity and corporate (and subsequently sovereign) bond market. The composition of capital inflow has changed significantly over the years (Gopinath, 2004). Dependence on aid has vanished and foreign direct investment (FDI), foreign portfolio investment (FPI), external commercial borrowings (ECB) and nonresident Indians (NRI) deposits dominate the capital flows. Among these again, there has been a gradual shift away from debt components to equity flows.

RECESSION AND ITS IMPACT ON AUTOMOBILE INDUSTRY IN INDIA

The Automobile Industry is one of the fastest growing sectors in India. Indian automobile industry, manufacturing cars, buses, three wheelers, two wheelers, commercial vehicles, heavy vehicles and provides employment to a large number of workforce. The production of automobiles in India is mainly for the domestic customers. Cars with 79% of automobiles in India, dominate the automobile industry in India. The major thrust of the paper is to evaluate the performance of the car manufacturing companies in India for the period 2004-09 with regard to its profitability and turnover.

The Automobile Industry is one of the fastest growing sectors in India. The increase in the demand for cars, powered by the increase in the income is the primary growth driver of the automobile industry in India. The introduction of tailor made finance schemes, easy repayment schemes has also helped the growth of the automobile sector. With more than 2 million new automobiles rolling out each year, on roads of India, the industry is set to grow further. Automobile industry made its silent entry in India in the nineteenth century. Since the launch of the first car in 1897, India automobile industry has come a long way.

Indian automobile companies:

Hindustan Motors, Mahindra, Maruti Suzuki, Premier & Tata Motors

Objective

To analyze the performance of the car manufacturing companies during the financial years 2004-05 to 2008-09.

For the study secondary data for the period 2004-09 were collected from various issues of Economic Survey and Census of Automobiles Industries.

Since cars occupy 79% of the automobiles in India the analysis was done only on the performance of the car manufacturing companies in India. There has been consistent increase in the Gross Profit Ratio of all the companies from the year

Dr. I Francis Gnanasekeran, Reader and Head of the Dept. of Commerce,
St. Joseph's College, Trichy

Mrs. V. Josephine Lourdes De Rose, Lecturer, Dept. of Commerce,
Holy Cross College, Trichy

2005 – 2008 which shows that the price of the automobiles have been increased without any corresponding increase in the cost of the goods sold and their earning capacity have been excellent and there has been a drop in the sales as well as the profit of all the automobile manufacturing concerns in India during the financial year 2008 – 09 which shows that the industry has been affected by the economic recession.

Annual results of the car manufacturing companies in India:

Maruti Suzuki

When comparing the data of Maruti Suzuki Ltd for the past five years the sales of the company have been increasing from 2005 to 2008 and in the year 2008-09 there has been a decrease in the quantum of sales. Similarly there is a decrease in the net profit of the concern for the financial year 2008-09. In analyzing the gross profit ratio there has been a 6% decrease in the year 2008-09 and incase of net profit ratio it is 4% decrease in the same year. The reported earnings per share of the concern have also depicted a downward trend in the earnings of the company during the financial year 2008-09.

Tata Motors Ltd

Tata Motors sales has doubled from the financial year 2005-06 to 2007-08 and decreased by 40% in the growth rate of the sales. The earnings per share of the company have gone down drastically by Rs. 30. Net profit ratio of the concern has shown a decrease in the financial years 2007-08 and 2008-09.

Mahindra & Mahindra Ltd

The data of Mahindra and Mahindra Ltd depict that the sales of the concern has been consistently increasing from the financial year 2005-06 to 2008-09, but the gross profit has decreased in the financial year 2008-09. Keeping 2005-06 as the base year the net profit has doubled during 2007-08. The earnings per share of the concern have also been fluctuating during the past five years. The return on net worth of the concern has also gone down drastically by 36% when compared to the previous year.

Hindustan Motors Ltd

Sales of Hindustan Motors Ltd has shown a steady increase from the year 2005-06 to 2007-08 and thereafter met with a decrease of 15% in the growth rate. The company has been suffering losses during the financial year 2008-09 producing no earnings to its share holders for the same financial year. The return on net worth has gone down drastically by 100% during the last financial year.

Premier Ltd

There has been a consistent fluctuation in the sales volume of the Premier Ltd from the financial year 2005-06 to 2007-08 and thereafter a 22% increase in the sales growth rate is recorded in the financial year 2008-09. The net profit of the company has shown 100% increase from the year 2004-05 to 2006-07 and thereafter has gone down by 100% in the year 2007-08 and still reduced by 43% in the year 2008-09. Earnings per share have also recorded a similar growth rate in accordance with the net profit of the concern.

When comparing the sales of the car manufacturing companies Maruti, Mahindra and Premier have recorded an increase in sales while Tata and Hindustan have recorded a decrease in the sales but with regard to the profit of the companies all of them show a decreasing trend. In 2009, the automobile industry is expected to see a growth rate of around 9%, with the disclaimer that the auto industry in India has been hit badly by the ongoing global financial crisis.

GLOBAL FINANCIAL CRISIS AND DEVELOPING ASIAN COUNTRIES

Introduction

Following a period of economic boom, a financial bubble, global in scope, had burst engulfing several nations of the world. The collapse of the U.S sub-prime mortgage market and the reversal of the housing boom in industrialized economies has aroused domino effects world over. Furthermore, several weaknesses in the global financial system gradually surfaced making the financial products and instruments more complex and gnarled, leading to a loss of trust and eventual failure of the whole system. When banks, which are meant to play a critical role in regularizing market systems, show signs of crisis, it is not just the wealthy who suffer, but potentially everyone. Within a globalized system, a credit crunch engenders grave concerns through the real economy in no time, thereby transmutating a global financial crisis into a global economic crisis. The current global financial crisis has been regarded the toughest and the most complicated since the Great Depression of the 1930s. The global crisis and its timing had brought about an external shock coupled with persistent fear and panic among people. According to the recent estimates of the International Monetary Fund (IMF) in the 'World Economic Outlook', global output is projected to decelerate from 3.75% FY 2008 to 2.2% FY 2009. The downturn is anticipated to continue in 2009, while some experts perceive the gloomy scenario to persist even beyond 2010. Moreover, world trade too is expected to shrink in the coming years.

The ramification of the on-going crisis has extended well beyond ones imagination leading to –

- ✓ A loss of hundreds of billions of dollars in capital value of stocks
- ✓ A rapid freezing-up of the inter-bank credit

Dr. M Gowhar Jhan Associate Professor

Miss. Divya Balasubramanian, PhD Research Scholar, Department of Economics,
Ethiraj College for Women, Chennai.

- ✓ A rise in the actual cost of borrowing despite falling interest rates of the Central bank
- ✓ High unemployment rates in several countries across the globe
- ✓ Foreclosures and bankruptcies world over and
- ✓ Clogging of credit flow in the system.

The impasse witnessed in the credit flow has been a result of a direct impact on investment and consumption on the real economy.

Today, both people along with several developed and developing nations have been placed in an eccentric situation for they seem flummoxed as to when the bottom of this recessionary slide would be reached. The occurrence of these events has also led to a loss of confidence among people and has shrunk the growth prospects of the global economy.

The Evolution and Impact of the Crisis in Developing Asia

The global financial crisis has driven the developing Asian countries to encounter some of its most difficult economic challenges in the recent times. These countries have already witnessed a sharp deceleration in their growth rates and are anticipated to further drop in the coming years. The crisis has not only aggrandized unemployment, deprivation, financial and fiscal stress levels but has also showed signs that could probably worsen these levels in course of time. Poverty reduction and other key development efforts have also been knocked off the track. As the economic fallout from the financial crisis that began in the United States (US) became rampant worldwide, overall growth in developing Asian countries tumbled from its impressive peak of 9.5% in 2007 to 6.3% in 2008. In 2009, the Asian Development Outlook experienced another steep fall to 3.4%. With the global financial systems and major economies remaining fragile, the recovery is expected to be long marked by setbacks and further shocks.

The current crisis has no doubt been broader, deeper and more complex as against the Asian financial crisis of 1997–1998. The Asian financial crisis has evolved from the

structural weaknesses in financial and monetary systems in Asia while the current damage has occurred from the financial and economic meltdowns prevalent in the advanced countries. The US sub prime mortgage collapse has shattered the confidence in major global financial institutions and instruments leading to –

- ✓ Massive deleveraging
- ✓ Crashing of equity prices
- ✓ Freezing of credit markets
- ✓ Reversing of credit & investment flows to Asia
- ✓ Wounding of Asian stock prices & exchange rates and
- ✓ Interrupting a decade of record economic expansion and social progress in developing Asia.

During the earlier crisis, healthy growth and demand in the developed world has helped support Asia's recovery, however, this time, the US, Japan, and Europe popularly referred to as the G3 countries, have slipped into a recession while their business confidence and consumption, on which the region has long depended, too declined.

The crisis has also adversely impacted the export-dependent Developing Member Countries (DMCs). Despite the relatively strong performance of the People's Republic of China (PRC), the overall growth of East Asia has declined from 10.4% in 2007 to 6.6% in 2008 and has been projected to further shrink to 3.6% during the year 2009. The growth rate in Southeast Asia recorded 4.3% in 2008 as against 6.4% in 2007, it may however, fall below 1% FY2009. Only countries with limited external linkages defied this Southeast Asian trend. The economies of South Asia, including India's, has been relatively less affected as they depended less on exports. Their growth levels slowed down moderately from 8.6% in 2007 to 6.8% in 2008 and it is anticipated to decline again in 2009. Most of Central Asia's DMCs have been harmed economically by plunging prices for their vital

commodity exports and by the recession in the Russian Federation, their main trade and financial partner. The sub-region's growth plummeted from 12% in 2007 to 5.7% in 2008, and is likely to be at 3.9% during 2009. Against this bleak backdrop, the Pacific sub-region's growth of 5.1% in 2008 appears buoyant, but the Pacific DMCs are likely to feel the full impact of falling commodity prices.

Social Impact

1. ***Aggrandization of unemployment and slowing down of poverty alleviation efforts***
2. ***Decimation of jobs of women workers***
3. ***Aggravation of child mortality, hunger & disease***

Suggestions

With a view to respond to the current crisis which has been global in scope, the developing countries in Asia need to adopt effective measures to face the challenges and improve their growth rates in the near future.

Global Economic Crisis of 2007: An Understanding from Trade Cycle Theory, History and Great Depression of 1929

Trade Cycle Theory

As fluctuations in economic activities are referred to as trade cycle, some indices are needed to exactly identify the fluctuations. National income, production, employment, prices, profits etc., are possible indicators. The magnitude of volatility of these indicators differ widely and some are more volatile less exact than others. Trade cycle theory considers national income a preferred indicator. The theory also presumes that cyclical fluctuations in national income are caused by changes in the level of aggregate demand. In a typical boom, both output and prices rise and in a typical slump both output and prices fall. This movement in the same direction by output and prices is a source of fluctuations on demand side. When output and prices move in opposite directions, it becomes a chief source of fluctuation on supply side. Therefore, symptom of boom is rise in output and of slump is fall in output but the price as a symptom to accompany it depends on whether the fluctuation arises from demand side or supply side conditions.

The theory has also explained why there are fluctuations in aggregate demand or aggregate spending? Aggregate expenditure consists of consumers' expenditure on goods and services, referred to as consumption and expenditure on fixed and working capital, referred to as investment. Fluctuations in investment are believed to cause cycle. However, consumption and investment are interdependent and their mutual interaction explains the fluctuations.

Fall in national income could be singled out as a primary symptom of depression. The secondary symptoms are persistent changes in price level, severe unemployment and alarming fall in profits. Historically the fluctuations occur repeatedly. Events that caused the fluctuations deserve a full scale articulation to understand global financial crisis.

Dr.A.Hidhayathulla, Asst. Professor & Dr. P.N.P. Mohamed Sahaputheen

Head Department of Economics, Jamal Mohamed College, Tiruchirappalli

Subprime Crisis of 2007

Prime lending is lending to those borrowers who are having high credit worthiness. Subprime lending means lending to those who are less credit worthy. Lending to those with less credit worth is irrational. However, the American banks have lent generously to those borrowers who are less credit worthy. Their rationality of utilizing the available funds most efficiently has prompted them to lend irrationally. The financial crisis experienced by banks and financial firms consequent to non-repayment of loans by subprime borrowers is known to be subprime crisis. It started appearing in the third quarter of fiscal 2007. Just like any other major recession this too has its root in the economic events in the preceding decade like

1. **High Rate of Housing Price Appreciation and Undue Confidence**
2. **Low Short Term and Long Term Interest Rate over 2002-07**
3. **Shift in US Mortgage Lending Pattern**
4. **Flawed Securitisation Model**
5. **Weak Financial Regulation**

1929 Vs 2007

A comparison of great depression with subprime crisis would provide a better understanding of economic crisis.

1929 Great Depression	2007 Subprime Crisis
Originated in USA	Originated in USA
High agricultural prices driven lending and borrowing	High housing prices driven lending and borrowing
Stock market crash	Stock market crash
Banking panic and failure	Banking panic and failure
Unsustainable decline in money supply	Unsustainable decline in money supply
High rate of interest	Low rate of interest
Small and undiversified banks	Weak unmonitored banking sector

Conclusion

The value of world output is \$61.22 trillion in 2008 (World Fact Book 2009) while over the counter derivatives had a notional value of some \$684 trillion in June 2008, representing the value of the underlying assets against which the derivatives were issued (World Development Indicators 2009). The global finance zoomed into an illusion misrepresenting the intrinsic worth of underlying real output. The greed of financial innovators has deprived the basic needs of billions making their survival a question. As occurrence of crisis became almost regular public spending stimulus seems to be a less potent option. A high price level in the immediate preceding decade worked as an incentive to irrationally lend and borrow, (economic) systemic change to cut the incentive would work at the very root of origin of a crisis. The banking and financial regulation should be made arm length to cover every aspect of functioning of the system leaving no space for even a minor weakness. A financial and monetary services examination at international level must be conducted. The examination should contain question to evaluate the honesty in the candidates and human element in the evaluation process may be minimized to a possible extent. The world countries and companies should accept the personnel qualified in the examination for monetary management in central banks and financial management in corporations.

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THE CREDIT CRUNCH AND THE WORLD-WIDE ECONOMIC CRISIS

Introduction

The global financial crisis began with the bursting of USA's housing bubble and high default rates on sub-prime mortgages in 2005-06. The inflow of funds from the world countries as a result of saving glut made it easier for the federal reserve of USA to keep interest rates too low which contributed to the US housing bubble. Financial institutions invested heavily in mortgage backed securities which derived their value from the housing prices and mortgage payments. Housing bubble in USA has resulted in house owners refinancing their houses at lower interest rates or financing consumer spending by taking out second mortgage loan. Defaults on housing loan repayments and foreclosure activities increased dramatically as house prices failed to go up as anticipated.

Implications for India

Many governments including India formulated proposals on the basis of Keynesian proposal of increasing public expenditure to cope with the raging recession. The impact on Indian economy seems to be less since India's trading ties is much more diversified and only a small portion of its trade is linked to U.S.A. It is a fact that India's growth is based on a sound foundation of strong domestic consumer market of the middle class. India has managed to survive the negative impact of the global recession, the reason lies in the fact that its high economic growth rate is propped by a strong domestic consumer base like China. Further, the government has taken some strong measures such as cutting Cash Credit Ratio by 1.5 points, Cash Reserve Ratio to 7.5% from 9% and provision of 1% subsidy on housing loan interest for lower and middle income housing.

The implications of crisis had been felt in growth and employment of service sector particularly in IT, banking and finance as well as in real sector such as manufacturing and exports. The financial crisis has led to reduction in development expenditure on

Dr. D. Rudrappan, Professor of Economics and Development Studies, School of Social Sciences, Covenant University, Ota, Ogun State, NIGERIA

employment and poverty programmes. As a result, the growth of India's economy has declined from 9.3 per cent in 2007 to 7.3 per cent in 2008 and is expected to decline further in 2009 also as per IMF estimate.

As economic growth contracts, it has led to declining demand for labour leading to rising unemployment and underemployment along with large scale job losses and downward pressure on wages. Further, global financial crisis has affected credit and confidence of the banking and financial markets in India. The capital market has suffered due to slow growth and the capital has become more expensive on account of a rise in interest rate. The value of real estate and stocks have fallen as a result of credit and investment bubbles. It is observed in 2008 and 2009, several companies particularly in the IT and financial sectors have continued to downsize and cut costs and they may not likely to hire more people in future.

Although the main transmission channels have primarily affected urban labour markets, the consequent effect on the rural economy, employment and household income cannot be under-estimated. Moreover, migration to urban areas will be reduced as a result of job losses in export manufacturing sector. This will result in reverse migration in India which will coincide with reduced wages and declining household income. ILO has estimated that in 2009 and 2010, an estimated 20.3 million jobs will be needed to absorb India's growing labour force. However, there is very little chance that sufficient number of new jobs will be created to keep up with expected labour force growth.

It is observed that the government budget has faced constraints on the revenue side, as the Indian economy slows down leading to reduction in overall investments in social services, infrastructure and a further decline in financing for development through public and private channels. Further, it is reported that the existing level of inequality and implementation of poverty amelioration schemes could worsen following increasing unemployment and declining household income. The poor people not only face increasing prices of basic necessities but also live along with economic stagnation that threatens their livelihood. Apart from this, slow down in eradicating poverty and extreme hunger will likely impact the achievement of other goals including Millennium Development Goals (MDGs).

India's Response to the Crisis

The Government of India has rolled out several fiscal policy measures to increase aggregate demand and to stimulate economic growth. Furthermore, the Government also has announced a second fiscal stimulus package within a month emphasizing on support to labour intensive and export oriented businesses along with encouraging investment in infrastructure and ensuring liquidity in the financial system. India's two fiscal stimulus packages together accounted for \$8.1 billion representing 0.7 per cent share of the country's GDP in 2008.

Conclusion

To stem the financial crisis, it is recommended for both advanced and developing countries that more priority should be given to public spending programmes and job creation in education, health and pension systems that have high multiplier affect on employment. Moreover, small and medium enterprises and poor people who face credit constraints should be suitably helped in Government's fiscal programme. In addition to this, effective social safety net program is suggested to support poor families so as to keep their children in educational institutions. Large scale social transfer should also take place in order to stimulate domestic spending and to protect the poor from the unemployment problem. More broad based investments are essential and this would not only result in more demand creation, but also would put in place adequate supplies to cater to those demands, thereby spurring economic growth further. Therefore, the need of the hour is to explore possibilities in the fields of finance, education, law, media, hospitality and entertainment till the downturn in the economy is reversed. Thus, it is concluded that the monetary authorities have to ensure strict compliance of all the rules and strong regulatory practices by all the financial institutions for reinforcing stability and healthy growth in the financial system.

**IMPACT OF GLOBAL ECONOMIC RECESSION IN INDIA'S GROWTH AND
EMPLOYMENT LEVEL**

"The biggest issue affecting lenders today is the unemployment rate. Because, not only does that affect consumer lending directly, but it impacts business lending as those consumers just don't have the income to buy the goods they did before."

Marcus Baram

Introduction

Economic condition of a country always changes time to time. In current economic scenario, recession has grabbed almost all the organizations of the world. Economic Recession is a financial meltdown, which can last for a period of few months to couple of years and can affect regional or world economy, leading to financial crisis, market crash, unemployment and economic depression. A long lasting impact of economic recession can lead to economic depression.

Slowdown

There are important factors that caused this economic slowdown. These include the high oil prices, which will lead to high prices of food. Since food production is dependent on the production process and transportation process on oil, this will be combined with the credit crisis and an increase in unemployment. As early as in January of 2008, the International Monetary Fund (IMF) predicted that global economic growth would decline. It would be greatly affected by the United States economy.

Indian Economy

The Indian economy, having achieved an annual growth rate of plus 9 percent during the three fiscal years ended March 2008, has been showing sign of slowdown for the past several months. As per the provisional data, the Indian economy grew by 6.9 percent during the first three quarters of the fiscal year 2008-09, with agriculture, industry

B.Gangabai, Research Scholar Jamal Mohamed College, Trichirappalli.
Jamal Mohamed College, Trichirappalli.

and services sectors registering a growth of 1.1, 5.1 and 9.8 percent respectively. The 4th quarter results are expected to be even lower which will bring down the annual GDP growth to 6–6.5 percent. The contagion effect of the global crisis is visible in India's real economy, financial sector, as well as in the falling business confidence index.

A recession normally takes place when consumers lose confidence in the growth of the economy and spend less. During recession the money flow in the economy is disturbed on account of lack of willingness of the people to spend their money on consumption of goods and services owing to fear for the future. When people spend less, the industries manufacturing goods and services have to suffer losses as there is poor demand for goods and services and further production cannot be afforded. This results in unemployment.

Objectives

1. To find out the impact of recession on GDP growth in India
2. To explore the impact of employment in India due to economic recession in 2008.

Slowing GDP

In the past 5 years, the economy has grown at an average rate of 8-9 per cent. Services, which contribute more than half of GDP, have grown faster along with manufacturing, which has also done well. But this impressive run of GDP ended in the first quarter of 2008 and is gradually reduced. Even before the global confidence dived, the economy was slowing. According to the revised estimates released by the CSO (May 29, 2009) for the overall growth of GDP at factor cost at constant prices in 2008-09 was 6.7 per cent as against the 7 per cent projection in the midyear review of the economy presented in the Parliament on December 23, 2008. The growth of GDP at factor cost (at constant 1999-2000 prices) at 6.7 per cent in 2008-09 nevertheless represents a deceleration from high growth of 9 per cent and 9.7 per cent in 2007-08 and 2006-07 respectively. The RBI annual policy statement 2009 presented on July 28, 2009 projects GDP growth at 6 per cent in 2009-10.

Reduction in employment

The employment effects of the global economic recession have been a key driving factor behind the use of large stimulus packages all over the world. The global economic

recession has taken its toll on the Indian economy that has led to multi-crore loss in business and export orders, tens of thousands of job losses, especially in key sectors like the IT, automobiles, industry and export-oriented firms. It has also shaken up the investment regime, which is being restructured, with the telecom sector likely to be declared off-limits for foreign investors. This leads to a decreased demand for goods and services, which in turn leads to a decrease in production, lay-offs and a sharp rise in unemployment. IT industries, financial sectors, real estate owners, car industry, investment banking and other industries as well are confronting heavy loss due to the fall down of global economy. Federation of Indian chambers of Commerce and Industry (FICCI) found that faced with the global recession, inventories industries like garment, textiles, chemicals gems and jewellery had cut production by 10 per cent to 50 per cent.

This recession has adversely affected the service industry of India mainly the BPO, KPO, IT companies. According to a sample survey by the Commerce Ministry 109,513 people lost their jobs between August and October 2008.

A latest government study shows that about 5 lakh people were rendered jobless between Oct 2008 to Dec 2008 due to the ongoing recession. The findings were revealed in a survey conducted by the Labour Bureau of Union Ministry of Labour and Employment as part of a study on the effect of global economic turmoil over on employment in India. A sample size of 2581 units covering 20 centres across 11 states was taken up for the survey. The major sectors like textile and garment industry, metals and metal products, Information Technology and BPO, automobiles, gems & jewellery, transportation, construction and mining industries were also included in the survey.

The survey noted that the total employment in all these sectors had come down from 16.2 million in Sep to 15.7 million by Dec 2009. It was the exporting industry that witnessed a greater decline in employment with the gems and jewellery sector cutting 8.43 pc of its workforce. This is followed by metals and textile sector, which laid off 2.6 per cent and 1.29 percent of their work force respectively. Meanwhile in the domestic sector again it was the gems and jewellery sector, which witnessed maximum decline in employment with 11.9 pc of their work force losing jobs. Automobile sector lost 4.79 pc of its workforce, while transport sector shed 4.03 pc.

A disturbing trend of India's economic performance is a deceleration in employment growth to 1.92 per cent per annum from 1993-94 to 2006-07 from 2.61 per cent between 1983-1993-94 although growth in terms of gross domestic product (GDP) was rapid. Clearly, there has been a decline in employment per unit of GDP growth or employment elasticity to 0.28 from 1993-94 to 2006-07 from 0.52 over the years 1983-1993-94.

Applying this elasticity to the likely GDP growth of 7 per cent in 2008-09 and 5 per cent in 2009-10 to project the generation of employment provides an average of 8 million work opportunities this year and 6 million the next year.

Conclusion

According to Srinivasan, President, Confederation of Indian Industry (CII,) the first and the most critical point is that the Government needs to ramp up investment in infrastructure, immediately to 7 per cent of the GDP and to 9 per cent in the next 1-2 years time. To achieve this government requires to do two things: Increase public spending substantially and at the same time create an investment conducive environment to encourage greater private sector participation in creation of infrastructure. The second aspect is improvement of delivery mechanism.

Increased efforts to generate employment will be an essential component of an effective response to the global recession in almost all developing countries. Keeping people in work, even on minimal incomes, helps to maintain essential household purchases and promotes social stability, especially in countries where systems of social protection are weak. The employment generation impacts of existing aid programs in infrastructure and enterprise development will be boosted significantly by 2009-10 budget initiatives in rural development and food security and economic infrastructure. Emphasis will be given to labour-intensive public works programs, such as road maintenance, especially in rural areas, where alternative employment opportunities are scarce. Programs to increase employment opportunities will be targeted to groups most affected by the recession, such as women in export-oriented industries or rural youth. Australian support for technical and vocational training will also continue to be expanded. Sustaining investment in infrastructure, including maintenance, is also critical to avoid exacerbating future infrastructure bottlenecks, which will lengthen the impact of the recession and slow economic recovery.

THE GLOBAL FINANCIAL CRISIS IN DEVELOPING COUNTRIES

Introduction

The old saying "History doesn't always repeat itself, but often rhymes", is based more on fact than fiction. It's been a lot of time we hear of "Recession" going on in US market. Everyone is talking about recession. We cling to newspapers, television news channels, and financial reports only to discover "what next" in recession. It would be naïve to imagine that a recession in the United States would have no impact on India. The United States accounts for one-fourth of the world GDP. The fears of a US recession led to panic in the Indian stock market.

Causes of US Recession

- Falling house prices
- House Prices could have further to fall
- Mortgage Lenders going bust
- Current Account Deficit
- Budget Deficit
- High levels of debt
- Falling Stock Market

Over the past couple of months, fears of a slowdown in the United States of America have increased. The impact of the subprime crisis along with a slowdown in mortgages has led to a significant lowering of growth estimates. Since the United States dominates the global economy, any slowdown there would have an impact on most of the global economic variables.

R.Sornapriya, Lecturer, C.Mahalaxmi

Department of Commerce Seethalakshmi Ramasamy College, Tiruchirappalli

Impact on India

For India, it could mean a further appreciation in the rupee versus the US dollar and a darkening of business outlook for sectors dependent on US companies. The overall impact of a US slowdown on India would, however, be minimal as the factors driving growth here are more local in nature. Unlike the rest of Asia, India is a strong domestic demand story, so any slowing in the US is likely to have a more muted impact on India. Strong growth in domestic consumption and significant spending on infrastructure are the two pillars of India's growth story. No sector has a dominant influence on earnings growth and risks to our estimate are limited. Corporate India is also learning to master the art of efficient capital management, reduction in costs and delivery of value-added services to sustain profit margins. Further, interest rates are expected to be stable primarily due to control over inflation and proactive measures undertaken by the RBI.



IMPACT OF ECONOMIC CRISIS ON THE INDIAN ECONOMY

Introduction

The impact of the global crisis is said to be get transmitted into the Indian economy through three distinct channels, namely, the financial sector, exports and exchange rates. The present paper attempts to trace out the impact of the crisis by examining the trends in the movement of India's foreign trade sector and financial sector.

Objective

1. To analyse the trends in the movement in indicators of Indian financial sector since US crisis.
2. To identify the performance of India's foreign trade sector since US crisis.
3. To portray the movements of stock market since US crisis.

Materials and Methods

Certain crucial indicators like trends in monetary aggregates, assets, liabilities and investments of Indian scheduled commercial banks, trends in exports, imports and trade balance, capital flows, foreign exchange reserves, indices of exchange rates and index number of share prices were taken into account. Month- wise data from September 2008 to October 2009 were collected for these indicators. Since there is no uniformity in the availability of data, sophisticated econometric tools could not be used. However, this did not affect in analyzing the objectives framed.

Dr.A.B.Angappapillai, Asst.Professor,Department of Economics,
A.A.Govt.Arts college, Musiri
A.Jahangar, Dr. Zakir Husan College, Ilayangudi.

Analysis and Interpretation

a) Trends in Monetary Aggregates

The trends in the currency with the public indicate that the amount of currency which stood at Rs.586989 crores increased to reach Rs.707211 crores indicating almost a 1.20 times increase. During the seven month period of analysis, the amount of currency held with the public stood highest with Rs. 707211 crores in the month of October, 2009. However, the rate of increase worked out indicated the highest growth in the currency held with the public occurred in the month of October, while a negative rate of increase could be seen in the month of July,2009.

However, the deposit money with the public shows a different picture. Though the amount held as deposits increased continuously during the period of analysis, the negative growth occurred in the month of October, 2008. The probable reason for a higher growth in the currency held with the public and a negative growth in the deposit may be that the financial crisis intensified in the month of September, 2008 and this might have caused the public to loose confidence on the financial institution which made them to keep them the money as cash than depositing it in the banks.

b) Assets and Liabilities position of SCBs

The assets and liabilities position of the scheduled commercial banks indicate that in the case of the liabilities of the banking system, the liabilities which stood highest at Rs. 132529 crores in Oct.2008 has experienced a net decline to reach Rs. 81622 crores in Oct. 2009. The percentage change calculated for these months indicate that except in August, 2009 for all the months it has recorded a declining trend with the highest decline recorded in April, 2009 over October, 2008.

The aggregate deposits of the bank has shown a continuous increase right from the on slought of the US crisis. The aggregate deposits which stood at Rs. 3622174 crores in October, 2008 has increased continuously to reach Rs.4317703 crores in October, 2009.

However, borrowings show slightly a volatile nature. The amount of borrowings of SCBs which stood at Rs.116147 crores in October 2008 has declined in the next period but which increased in May,2009. Again it indicated an oscillation during the remaining periods also though it eventually reached Rs.133476 crores. The percentage increase calculated also confirms this. While for the months of May, 2009, August, 2009 and October 2009 the increase in borrowings were positive for the remaining periods like April, June, and July, 2009 it recorded a negative change.

The cash deposit ratio which was 8.3 in October, 2008 has declined continuously till August 2009 but which increased in the remaining months namely September, and October, 2009. The highest decline has experienced in the month of April 2009, while the highest increase has recorded in September, 2009 with 6.56 per cent. The declining ratio is an indication of efficiency of the banks, as holding cash has higher opportunity cost and a declining cash holdings for every rupee of deposits indicates the increasing business of the bank.

The investment deposit ratio shows an increase for a majority of the periods considered.

The credit deposit ratio which stood at 75.40 per cent in October, 2009 has experienced a continuous decline during the period of analysis to reach eventually to 69.10 per cent in October, 2009.

Thus from the analysis it can be concluded that the aggregate deposits of the SCBS during the crisis period has increased. However, due to the tight monetary policy of RBI, the banks have shown much interest in investing in securities than lending it as advance. .

c) Trends in Exports, Imports and Trade Balance

The exports of India, an important indicator that is expected to get reflected due to US crisis indicates that it has experienced deceleration in a majority of the periods. The imports also showed a similar trend though the decline is not as high as found in the case of the decline in exports.

The amount of trade balance though stood highest in the initial period, it experienced a decline which eventually reached the lowest level in the end period. The percentage change indicated that the highest decline occurred in February, 2009 and the highest increase recorded in March, 2009.

d) Trends in Foreign Investment Inflows

The foreign direct investment stood at a higher level than the portfolio investment. The trends in foreign direct investment indicated that it is positive for all the period though declining while the portfolio investment stood negative till March, 2009 but which turned out to be positive for the remaining period of analysis. As a result, the total investment experienced an oscillation.

e) Trends in Foreign Exchange Reserves

The foreign currency assets position of India has experienced a continuous decline during the study period. In the case of gold reserves, though in the initial period, the reserves shown a negative change, in the later periods it indicated a positive change implying during the crisis period the government's interest in keeping its reserves in terms of gold than foreign currency assets.

It is also interesting to note that the SDR reserves of the country stood negligible in the initial year experienced a sudden spurt in August 2009 after which it increased till the end of the period. The reason behind such a sudden spurt is that India has been allocated the equivalent of about \$4.78 billion as its share of International Monetary Fund's Special Drawing Rights (SDR) worth \$250 billion.

f) Trends in the Indices of Real and Nominal Effective Exchange Rates

In the case of the both trade based as well as export based weights, the real as well as the effective exchange rate has experienced a continuous decline till April 2009 after which it has started increasing. This declining exchange rate is due to the slow down of the external trade and foreign currency reserves.

g) Trends in Index Number of Share Prices

The average share prices stood at 13942.80 points and this declined continuously till March 2009 after which it started increasing. Such a trend could be observed in the case of maximum as well minimum indices calculated. The increasing trend could be seen till the end of the study period. This resembles the movement of the exchange rates.

Conclusion

The analysis of the data provided the conclusion that though the economy has experienced a slaughter down during the initial period of the onset of the US crisis the economy, due to the immediate action of the government and RBI, could withstand the crisis and recover fast. Though RBI and the government have reacted to it, since there were no measures taken in the sphere of foreign trade sector this sector was affected slightly higher.

INDIA: A BRIGHT SPOT AMIDST THE GLOBAL RECESSION?

Introduction

Mahatma Gandhi had once said: "India's way is not Europe's. India is not Calcutta and Bombay. India lives in her several hundreds of villages" . Moreover, more than 70% of India's population lives in villages and constitutes a big market for industry because of increasing disposal incomes and awareness level. In comparison to just 5,161 towns in India there are 6,38,365 villages in India. This in itself is an indicator where the real India resides .

Agrarian Sector

Our country is endowed with a good degree of ethnic and regional diversity. About three-fourth of the total population resides in the rural areas and majority of them are dependent upon agriculture for their subsistence. The development of the nation largely depends upon the development of the rural population .India is an agro-based economy and the growth of most of the other sectors of economy is driven by rural demand. Urban market is reaching towards the saturation point, thus bringing in an urgent need to focus on rural development. The agrarian crisis is the most glaring—yet mostly ignored—aspect of economic policy gone wrong in India. In a country where more than two-thirds of the population is engaged in some form of agriculture, the agrarian sector has been the hardest hit. Agriculture contributes about 24.7% to the Gross Domestic Product (GDP) of the country. It also contributes about 13.1% to the total Indian exports. This sector provides employment to 58.4% of the country's workforce and livelihood to more than 650 million people. Despite this fact, the condition of these people has not shown any significant improvement. . Companies are realizing slowly but surely that the key to gain true market leadership lies in tapping the rural potential. However, the rural sector in India suffers from different kinds of problems. Some areas are having enough money but their level of awareness and hence consumerism is very low .

Dr. Leela Bhaskar, Reader in Economics,
Ethiraj College for Women, Chennai.

Landholding

In the agricultural scenario, farmer plays a central role. However, he is moving on the path towards economic ruin. The average size of holding is now 1 hectare indicating the marginalization of holdings. Over a period of just four decades, the average size of holding has decreased from 2.6 hectares to 1.06 hectares. Massive numbers are likely to be pushed out of agriculture as the holding size will have a floor below which the farmer cannot survive. The production structure now rests on the weak shoulders of marginal, small and semi-medium holdings (all below 4 hectares) who now account for two-thirds of total cultivated land. Four decades back, nearly 60 per cent of cultivated land was with the medium and large holders. The widening gap in productivity between agriculture and non-agriculture stands out. While agriculture now accounts for only one-fifth of GDP, 57 per cent of total workers are still trapped in agriculture.

Farmers Suicides

A recent all-India study by the National Sample Survey (59th Round Situation Assessment Survey) indicated that over 60 per cent of farmers desired to leave agriculture if an alternative was available. The reason they gave was very low and uncertain returns forcing them to turn to casual wage labour for survival. Many of them find the urban slums a lesser evil than struggling in agriculture. A recent trend is suicide by a large number of upwardly mobile farmers indicating that the more enterprising among them are getting frustrated in their attempts to move up. Would it not be reasonable to assume that one suicide may persuade scores to curb their ambition to move up! It is easy to imagine the disastrous consequences of this fallout for the spread and pace of agricultural modernization.

Policy

There is a need to focus more on the economic well-being of the farmers, rather than just on production. Socio-economic well-being must be a prime consideration of agricultural policy, besides production and growth. The aim of the policy is, therefore, to stimulate attitudes and actions which should result in assessing agricultural progress in terms of improvement in the income of farm families, not only to meet their consumption requirements but also to enhance their capacity to invest in farm related activities.

Indian farmers are credited with successfully averting famine in the country for several decades, but the worst monsoon of 37 years in 2009 brings into sharp focus the further work required to improve food security. Spurring efficiencies in India's agricultural production, to 4% per annum, will be essential to achieve broadly inclusive growth, while adopting international best practices and products will further reinforce food security for both urban and rural populations. India's agricultural development will depend on leadership at the government level, but also on the technology and skills that the private sector will introduce to our farmers and rural communities. While the rural emphasis is long overdue, it is the quality of investment that matters. Guaranteeing employment for 100 days and in certain states giving free power may not be the best strategies. Emphasis on concrete measures of PWR (power, water and roads) will create sustained jobs and create wealth. The country has no hope of becoming self-sufficient in power at the current pace, even by 2017. Water is connected with power. Hence imaginative investment in infrastructure is the key.

Another significant impact of the crisis has been on general living conditions, in particular food security for households. While inflation rates were near zero for the year ended in March 2009, prices for food and essential medicines have continued to increase. Unemployment has climbed, wages have stagnated or fallen and cash crop producers have faced falling prices, reducing the purchasing power for food. Furthermore, measures that try to provide additional export incentives – such as interest reductions for export credit – to export sectors such as textiles, garments and leather do not counteract the effect of large losses of export orders as major markets start shrinking.

To sum up

It will take many more creative and imaginative policy responses to bring India out of the economic crisis. Almost all Indian economists would agree that there needs to be a change of direction in both investment and consumption. What that change should be is the subject of vigorous debate ? The change that is needed in the home market is to emphasize wage-led growth, diversify exports and generally make moves designed to turn economic adversity to advantage. This requires employment-oriented policies that improve the living standards of the bulk of the population, as well as seeking new sources of export markets especially in the developing world.

Conclusion

The problem of overcoming the crisis in agriculture cannot be tackled effectively within the framework of agriculture alone. Improving the quality of education in rural areas and small towns needs urgent attention. It can equip farmers with capacity to absorb knowledge of technology and opportunities not only within agriculture but also outside. Similarly, rural infrastructure including roads, warehouses, computer access needs vast improvement. It could facilitate diversification of the rural economy.

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**IS THE GLOBAL FINANCIAL CRISIS
A BLIP OR A DEEPER CONCERN OVER THE LONG HAUL?**

I. Prologue

The Global Financial Crisis which began around the mid-July, 2007, has been under extraordinary stress-Stress that has now decisively spilled over to the global economy more broadly. Although America's housing collapse often has been cited as having caused the global financial crisis, the financial system was vulnerable because of intricate and highly leveraged financial contracts and operations. U.S.Monetary Policy, is making the cost of credit negligible and therefore is encouraging such levels of leverage, and generally a "hypetrophy of the financial sector" (financialization).

II. Causes of the Global Financial Crisis

In its Declaration of the Summit on "Financial Markets and the World Economy" held in London on Nov., 15, 2008, Leaders of the Group : G-20 identified the following causes :

During a period of strong global growth, growing capital flows and prolonged stability earlier this decade, market participants sought higher yields without an adequate appreciation of the risks and failed to exercise proper and due diligence. At the sametime, weak underwriting standards, unsound risk management practices, increasingly complex and opaque financial products and consequent excessive leverage, combined to create vulnerabilities in the system. Policy makers, regulators and supervisors in some advanced countries did not adequately appreciate and address risks building up in financial markets. Thus, they could not keep pace with financial innovation or to take into account the systematic ramifications of domestic regulatory actions.

Prabhat Patnaik who is at the Center for Economic Studies and Planning in India has pointed out that the cause of the problem lies in the fundamental defect of the free market system as well as in its incapacity to distinguish between "ENTERPRISE" and "SPECULATION".

B.Ramachandran, Asst. Regional Manager (Retd), Central Bank of India, Madurai.

The crisis rapidly developed and spread into a global economic shock, resulting in the deleveraging of financial institutions-further accelerated the liquidity crisis and caused a decrease in international trade. India too, is witnessing fluctuations in its exports in dollar terms, thus, compounding the exporter's woes due to the dynamic exchange rates.

III. Impact on India and Asia

The turmoil in the international markets of the advanced economies that started around the mid-2007 has exacerbated substantially since 2008. India, like most of the encouraging market economies, has so far not been seriously affected by the recent financial meltdown in developed economies. However, the financial crisis will impact developing countries because of the ensuing recession which will shrink demand for the commodities as well as sources of credit and financial flows.

The Indian economy is relatively an open economy. With the degree of openness, developments in international markets are bound to have cascading effect on Indian economy. Therefore, policy makers need to be vigilant to minimize the impact of such adverse international developments on the domestic economy.

All the sops given to exporters, even a major depreciation of rupee, have not helped overcome the slack in world demand for exports. Unless Indian growth picks up to revive confidence in the country's future, the liquidity crunch in the industrial countries will continue to pull out foreign capital from India.

The recession is bound to affect demand, capacity utilization and employment in a wide range of manufacturing industries to the domestic market. The curtailment of interest provision by financial sector would further reduce demand, increase inventories, and lead to job losses in industries directly or indirectly.

While an overall policy approach has been able to reduce the potential impact of the financial threat on domestic financial markets and the country's economy, with reference to the world, there is recognition that the country also faces some down side risks from these developments. The risks arose mainly from the potential reversal of Capital flows on a substantial medium term basis, based on the projected slow down of the global economy. This is more visible in advanced economies of potential financial

contagion. In India, the adverse effects so far have been mainly in equity markets; the concomitant effects on the domestic forex market and the liquidity conditions.

IV. RBI Response to the Crisis

In response to these developments central banks in major advanced economies have taken a number of coordinated steps to increase short term liquidity. RBI., in India has been effectively able to manage domestic liquidity and monetary conditions consistent with its monetary stance.

IV. Fiscal Stimulus Packages

Governments around the world have committed a total of more than \$2.6 trillion to bailout banks and jump-start growth. In addition, they have promised to guarantee \$ 2.7 trillion plus in loans. To revive the economy out of the recession the Govt. of India announced a package of Rs.35,000Crores in the first instance of Dec., 7, 2008.

V. Regulatory Systems

A dynamic, vibrant regulatory system aimed at giving a global reach, taking into consideration the long term proposals, as put forth by eminent economists and scholars, would enable to minimize the impact of fiscal crisis and prevent recurrence. According to

Joseph E.Stiglitz Pro-cyclical monetary and fiscal policies are often foisted on developing countries while developed countries are adopting counter-cyclical policies. This situation must change.

Gunnar Myrdal advocated that Institutional planning, production goals and price planning are necessary and the role of the industrialized countries shall be to provide aid to poor nations.

A.Michael Spence and Gordon Brown called for an early warning system to help to detect a systematic risk.

Epilogue

f& The stark truth is that economic issues dominate the world we live in, affecting our perceptions and future. The current financial system is "riddled with gaps", weaknesses and jurisdictional overlaps and suffers from an outdated conception of financial risk. It

should be filled through comprehensive review, reform of a systematic nature. As put forth by **Toffler** in his book "FUTURE SHOCK" the world economic conditions are out-of-control and are being fused with outmoded myths and methods. Hence, we need to build up a more stable "Economic Order" – guided by financial discipline including the rich and powerful states to restore confidence not only in Governments. but also in institutions on a global level.

f& The global recovery from the recession has begun but sustaining it will require a delicate rebalancing of economies both within and across countries.

f& The new paradigm should entail interalia a food-grain-led growth strategy, sustained through larger Government , spending, which simultaneously rids the world of both depression and financial food crises. The trade and financial arrangements of the world economy have to be oriented towards achieving this end.

End Note

Though several months have elapsed after the onset of recession, there is still no clarity of understanding amongst the policy makers and economic thinkers as to how exactly it should be tackled and how long it will last. While some are already seeing signs of recovery – others fear that there will be further waves of recession. It may be concluded by quoting **John Maynard Keynes** who said : "New policies and new instruments to adapt and control the working of economic forces, so that they do not intolerably interfere with contemporary ideas as to what is fit and proper in the interest of social stability and social justice". These words resonate just as strongly today.

THE GLOBAL FINANCIAL CRISIS AND THE POOR IN LOW INCOME COUNTRIES

The global financial crisis will worsen the budgetary position of many LIC governments. Government revenues are expected to suffer as economic activity slows and commodity prices fall. Potential declines in donor support and tighter financing conditions will likely impose further pressures on LICs' budgets. At the same time, many countries will need to increase spending to protect the poor, and additional spending pressures may arise from currency depreciation and rising interest rates, which could raise debt service costs.

There is a risk that the impact on LICs could be more serious—26 countries appear particularly vulnerable to the unfolding crisis. These include countries heavily dependent on commodity exports, such as oil exporters, as well as fragile states with little room for maneuver. Baseline projections for 2009 foresee a total balance of payments shock of US\$165 billion. They also suggest that LICs may need at least US\$25 billion to offset the impact of the shock on their international reserves; given the heavy downside risks to the forecast, the needs could be much larger approaching US\$140 billion in a "bad case" scenario.

It is not surprising that those who are already vulnerable in low income countries may be those worst hit by the crisis, but what is unknown is the depth of chronic poverty into which some people may fall, which needs, therefore, specific attention. It is clearly too soon to measure chronic poverty in the context of the current crisis, but previous research identifies early warning signs and individual factors that can come together to produce 'poverty traps' or conditions which keep people in a position of sustained poverty; identifying and targeting these early will be essential. As the global economy starts to recover, the trickle down effects should begin to be felt at a national level with net poverty levels slowly on the decline. However, these effects are unlikely to benefit those forced into a situation of chronic poverty unless specific action is taken to target such populations.

R.Vairam & K.Koushikha, , Department of Economics,
Bharathiar University, Coimbatore

THE GLOBAL FINANCIAL CRISIS: OPPORTUNITIES FOR CHANGE

The global financial crisis, brewing for a while, really started to show its effects in the middle of 2007 and into 2008. Around the world stock markets have fallen, large financial institutions have collapsed or been bought out, and governments in even the wealthiest nations have had to come up with rescue packages to bail out their financial systems.

On the one hand many people are concerned that those responsible for the financial problems are the ones being bailed out, while on the other hand, a global financial meltdown will affect the livelihoods of almost everyone in an increasingly inter-connected world. The problem could have been avoided, if ideologues supporting the current economic models weren't so vocal, influential and inconsiderate of others' viewpoints and concerns.

But if they boil over and a global interdependent system is close to a standstill, global leaders can and do act. Who would have thought that trillions of euros would be found within a matter of weeks to deal with the global financial crisis? This should be a lesson for other global issues such as climate change and poverty.

Development money will be scarce, at the least in the short term. This will apply to governments' development aid but also the non-profit sector in general. The outcome may be a consolidation in this sector - but also lots of broken promises. However, rather than competing for scarce resources, the development community should use the crunch in development aid to assess approaches and structures, to reform in a way that allows letting go of ineffective models. Competition for creativity should result in doing things better with less.

Undoubtedly there are many more sophisticated angles to the global financial crisis. The importance is to understand the crisis as an opportunity which should not be wasted

Finally, the financial crisis also has important longer-run implications for the U.S. role in the global economy. The very large decline in U.S. household wealth has already led to a strong pickup in household savings, which seems likely to continue, resulting in a sustained reduction in the U.S. current account deficit. This also means that the U.S. consumer will no longer be the global buyer of last resort, suggesting that other regions will need to play an increased role in supporting global growth and adjustment.

C.Boopathi Lecturer

B.Adhiynaryanan, Head, Department of Business Management,
Jayam College of Engg & Technology, Dharmapuri.

**CONTENTMENT IN GROWTH AND RESPONSIBILITY ARE THE KEYS!
(INTROSPECTION INTO THE ROOT CAUSE OF GLOBAL FINANCIAL
CRISIS)**

The Global Financial Crisis of 2007-2009 rooted in the subprime crisis in the USA is the worst financial crisis after the Great depression. It ransacked the world stock market, derailed the world large financial institutions and made every nation, even the richest, to come up with a rescue package to bailout their financial systems. Though it is invariably claimed that the origin of this global problem is the subprime crisis in the US, this paper makes a humble effort to go to the root of the crisis rather than the peripherals.

A brief but a comprehensive view on the causes of this crisis would be useful for understanding the crisis and to prevent any such possible recurrence. The economists are different in enumerating the possible causes for the crisis, because any single phenomenon could be linked to the crisis successfully if one is judiciously connecting that phenomenon to the present crisis. As with any large event in any field of human endeavour, it is never about just one thing. There are many causes of the financial crisis, some recent and some longstanding. This paper concentrates on the credit creation embedded in the present globalization mania as the root cause for the present financial crisis.

New dimensions in credit creation

The financial crisis is so deep and wide because of some developments in the practice of credit creation. The financial operators in the financial markets have become so engrossed and possessed with the desire to make more money by hook or crook. The rich with the cooperation of the politically powerful were able to reduce the gap between the banking system and the capital market and maneuver in various methods and

Dr.A.Jebamalai Raja, Reader in Economics

Urumu Dhanalakshmi College Trichirapalli.

A.John Sundara Raj, Assistant Professor, Department of Economics

St.Joseph's College (Autonomous), Trichirapalli.

instruments that can be used to perpetuate this credit creation in a more complex and elaborate way. This trend in the mind set of the financial system with the invention of new instruments empowered the banks and financial institutions to exploit system to the hilt. Some the new developments in credit creation that fueled the crisis are briefed here.

High-risk taking attitude

Out of greediness to make more money both the lenders tend to take unduly high risk. Banks and institutions as lenders began to indulge in subprime and predatory lending where the borrowers have very poor credit quality and have history of high defaulting in order to make more money. They have invented different means and ways to improve their capacity to create more credit or lend more. Borrowing from other institution and selling to others, entering into mortgages and buying them in order to securitize them are some of the modern methods that are popular in credit creation. This tendency to lend to 'unsound' and 'unsafe' purposes where the risk is high has worsened the situation.

Securitization

Securitization is yet another method where the illiquid financial assets are converted in to separate securities (financial instruments) and sold to other investors. The practice of securitization in association with the subprime and predatory lending accelerated the growth and spread of the risk to the investors.

Inadequate and inefficient regulatory system

In the context of extremely faster and continuous changes in the technical and institutional aspects of the financial system, the absence of proper regulatory mechanism suiting to the new changes has augmented the financial crisis. Leave alone the updating the regulatory system, even the existing regulations and controls such as barriers to entry, competition between products (instruments), institutions, markets and so on were removed by the rulers. The poorly and ambiguously regulated financial market like a rudder-less boat plunged in to the crisis.

Unreliable poor credit rating

The credit rating agencies either use faulty rating process or maliciously biased. The ratings given by these agencies are inaccurate and unreliable because the instruments and institutions being rated are complex or the agencies that give the rating are poorly regulated. Both the lenders and the borrowers make use of this shortcoming of the

system for their own convenience and the result the risk and defaulting grows in the financial market leading to the crisis.

Invention of complex financial instruments

The modern financial market has invented and using new instruments such as the Adjustable-rate mortgage (ARM), Mortgage-backed securities (MBS), Collateralized debt obligation (CDO) etc. These financial products or instruments are developed in such a way to circumvent the existing inefficient regulatory mechanism in order to make more money by lending even to the defaulters without exposing the poor credit rating. This has further intensified the crisis.

The list of the new aspects of the modern financial system is endless. These few areas are shown here to highlight how the modern financial market does the credit creation function with sophistication and nimbleness.

Trade slump

The fall in the credit facility to firms and consumers affected the demand and supply in the global market. The negative impact on the demand for goods has affected those who supplied those goods and services to these buyers of US and other countries. This led to the decline of trade in the world and affected every economy irrespective of their exposure to the subprime lending crisis in US.

The crisis which was local essentially made global because of the labyrinth of financial and economic activities that prevails in the global economy. The already existing global system has provided the mechanism and made it easier for the crisis to spread to other countries from US.

Conclusion

The improper and unregulated credit creation function of the banks is the more responsible culprit for the present global financial crisis. It is an important function of a commercial bank as long as it is intelligently and responsibly performed. There is no doubt that the reckless credit creation steeped in greediness and irresponsibility is bound to bring such global financial crisis in the present globalized world. The avaricious mind cannot adhere to any regulatory system it is so infected that will find new ways to fulfill its appetite. Therefore the need is the metanoia. A change 'within' – in the mind set – is the need of the time not 'in the outside' – the financial regulatory system.

**IMPACT OF RECENT GLOBAL FINANCIAL CRISIS
ON INDIAN ECONOMY**

1.INTRODUCTION

There is no controversy to the fact that the western capitalist world has been experiencing a severe financial crisis. Though the epicenter of the crisis was the US, its shockwaves are being felt in the financial markets of almost all the countries of the world. Since financial sector of an economy is directly related to its real economy, the crisis in the financial sector is bound to have heavy bearing on the real economy of each country. Thus, the crisis affected countries have undergone serious changes in their macro economic variables like growth, employment, price level, etc.

The Global Financial crisis started around in mid 2007 and became worst during the year 2008. Global crisis came to boil in September 2008 when on 15th September 2008, the fourth largest American investment bank, Lehman Brothers was filled for bankruptcy. Some others also collapsed during the same period like Merrill Lynch, Washington Mutual in U.S. etc. It is often said that when the US sneezes the rest of the world catches a cold.

CONSEQUENCES ON INDIAN ECONOMY

Since the Indian economy is now relatively an open economy, the changes in the international markets are bound to have significant impact on it. Though the effects of the global crisis on Indian economy has not been so serious because of its well-regulated banking system, some repercussions of the global melt down can be easily observed in certain sectors of the economy. The immediate effect of the crisis has been felt on the Indian equity markets. The foreign institutional investors have faced heavy losses in their domestic countries and to cover such losses or in fear of an uncertain environment, have

Dr. P.Natarajan Assistant Professor,
G.Sasikumar Ph.D., Research Scholar,
Rajah Serfoji Government. College, (Autonomous), Thanjavur.

started selling of their equities in India, leading to heavy outflow of FII from the Indian equity market.

Net FII inflows in India were accounted as \$20.3 billion in 2007-08. Out of this \$11.1 billion was pulled out during the first nine-and-a half months of 2008. This outflow of FII has severely affected Indian stock market and currency market. As a result of outflow of FII, Sensex fell from 20,873 on January 08, 2008 to less than 10,000 by October 17, 2008 (Chandrasekhar and Ghosh 2008). This is because of the dependency of Indian Stock market on foreign investments. However the stock market has been reviving impressively after the recent elections. As recorded on June 09, 2009 there is a substantial surge in the Sensex by 461.08 points.

FII outflow has also tremendous impact on Indian currency markets. Due to withdrawal of FII, value of rupee has been steadily depreciated. Between January 01 and October 16, 2008, the RBI reference rate of rupee to the dollar fell from Rs. 39.20 to 48.86 (Chandrasekhar and Ghosh 2008). Moreover, due to heavy outflow of FII, the foreign exchange reserve has been depleted reducing the country's import cover. Foreign exchange reserves which stood at \$ 309.72 billion as at end – March 2008 declined to \$ 286.33 billion as at end – September 2008. The decline in foreign exchange reserve reduced import cover to 11.2 months as at end – September 2008 as against 14.4 months as at end March 2008. The foreign exchange reserve of India has further declined to \$ 262.306 billion as on May 29, 2009.

Though Indian banking system showed substantial resilience during the crisis, some adverse effects of the financial meltdown have been felt on credit- financed economic activities. Due to widespread uncertainty, banks have limited their credit facilities forcing the traders to face a situation of credit crunch. This has led to curtailment of credit financed investment and credit financed consumption which may slow down the growth rate of the Indian economy.

During the global crisis, the export sector of India has faced a decline of around 20 percent. The most affected export sectors are tea (-20 %), handicrafts (-70%), carpets (-32 %), oil meals (50%) man-made yarn (-17%), cotton yarn (-19%) and marine products (-19%) (Shirole 2008).

Following table shows the changing pattern of employment situation in India in different quarters:

Table : Sector-wise Employment Trends over different periods (in millions)

Industry	Aprl.08-Mar09	Apr.-Sept.08	Oct-Dec08.	Jan-March 09
Textile	0.307	0.206	0.107	0.208
Leather	-0.019	0.008	0.006	-0.033
Metals	-0.130	-0.001	-0.100	-0.029
Automobile	-0.175	-0.008	-0.169	0.002
Gems and Jewellery	-0.104	0.022	-0.159	0.033
Transport	0.007	0.007	0.004	-0.004
IT –BPO	0.416	0.258	0.066	0.092
Handloom-Power Loom	-0.023	-0.014	-0.016	0.007
Overall	0.279	0.479	-0.477	0.277

Source : Report on effect of economic slowdown on employment in india, Ministry of Labour and Employment Labour Bureau, GOI, May-2009.

It can be easily observed from the table that the employment in some selected sectors has increased by 0.279 million during the period April, 2008 to March, 2009. Though employment in these sectors increased substantially by 0.479 million during April-September, 2008, it declined during the quarter of October-December, 2008 by 0.477 million due to the economic slowdown. However, the quarter of January-March, 2009 have witnessed an increase in employment by 0.277 million.

CONCLUSION

To overcome the current financial crisis, change in economic paradigm is necessary. State intervention is needed in every economy and state spending should be more democratically accountable and more directed towards altering consumption and production patterns in more sustainable directions. To prevent instability and crises and for transferring resources from richer to poorer economy, reform in international economic

regime is needed. Systematic state regulation of finance is also required to ensure currency stabilization. Some degree of socialization of banking is must to prevent private player's intention to circumvent regulation. Fiscal stimulation is necessary in both developed and developing countries to manage real economy effects of the current crisis. In India too, a major change in economic paradigm is required these measures stated above. For ensuring stability, banks are required to function within the prudential limits of their inter-bank liabilities in relation to their net worth. Further reduction in inflation towards international level and to maintain a sustainable interest rate differential linked to the inflation differential with the rest of the world, is a key challenge for India. In the medium term, there is continuous need to adopt monetary management to the emerging needs of a fast growing and increasingly open economy. Liberalization of debt flows can lead to arbitrage flows, therefore, is necessary to have appropriate fixed ceiling on debt flows. Apart from fiscal and monetary measurement, direct public expenditure will be more economically effective and more welfare improving if it is directed dominantly towards employment schemes, Social spending and rural and urban infrastructure for mass use.

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WORLD FINANCIAL CRISIS AND INSTABILITY IN INDIAN EXTERNAL AGRICULTURAL TRADE

The world financial crisis began in July 2007 when a loss of confidence by investors in the value of securitized mortgages in the United States resulted in a liquidity crisis that prompted a substantial injection of capital into financial markets by the United States Federal Reserve, Bank of England and the European Central Bank. In September 2008, the crisis deepened, as stock markets worldwide crashed and entered a period of high volatility, and a considerable number of banks, mortgage lenders and insurance companies failed in the following weeks.

The main objectives of this paper are:

1. To review the changes in the foreign trade of India in the era of globalization and trade liberalization;
2. To examine the changes in the dimension of external agricultural trade during the above said period;
3. To explore the pattern of growth and instability of agricultural trade with rest of the world in the epoch of financial crisis, since mid 2007;
4. To suggest policy measures to stabilize the agricultural trade growth to reach India's goal of double the volume of export.

MATERIAL AND METHODS OF ANALYSIS

Data for the study were collected from the Directorate General of Commercial Intelligence and Statistics (DGCIS), Ministry of Agriculture and Cooperation, and Agricultural and Processed Food Products Export Development Authority (APEDA). Collected data are analysed with the help of tables, percentages and diagrammatical representation.

SCOPE OF THE STUDY

This paper discusses the world financial crisis and instability in Indian external agricultural trade in terms of major agricultural products exported from India. The

R. Thamilmani, & N.Kumar Ph.D. Research Scholar, Department of Economics,
Periyar E.V.R. College (Autonomous), Tiruchirappalli .

agricultural products included for the analysis are floricultural products and seeds, fruits and vegetables, processed fruits and vegetables, livestock products, other processed foods, non-basmati rice, basmati rice, wheat and other cereals.

FINANCIAL CRISIS AND INDIAN AGRICULTURAL EXPORT

This section of the paper reviews of the impact of world financial crisis analyse in Indian economy in general, and analyse impact of agricultural exports from India.

Impact of World Financial Crisis in India

The global financial crisis is hitting South Asia at a time when it is already reeling from the adverse effects of a severe terms-of-trade shock. Countries have responded by partially adjusting domestic fuel prices, cutting development spending and tightening monetary policy. The adverse effects of these terms of trade losses have been substantial, reflected in a slowdown of growth, worsening of macroeconomic balances and huge inflationary pressures. The global financial crisis will likely worsen these trends, particularly on the growth and balance of payments front. Slowdown in global economy will adversely affect South Asian exports and could hurt income from remittances. Lower foreign capital flows and harder terms will reduce domestic investment. Both will lower growth prospects.

India, South Asia's largest economy, has been facing major challenges owing to the global financial crisis. The immediate effects were plummeting stock prices, a net outflow of foreign capital, a large reduction in foreign reserves and a sharp tightening of domestic liquidity. These caused a rapid depreciation of the exchange rate and a surge in short-term interest rates. The second round effects emerged from a slowdown in domestic demand and exports. Demand effects have been particularly severe in housing, construction, consumer durables and the IT sector. As a result, manufacturing production has taken a hit and activities in the organized services sector (housing, construction, IT) are down sharply. Exports declined considerably. A recent government study estimates job losses to the tune of five hundred thousand between October and December 2008. GDP growth rate is now estimated at around 7 percent for 2008, down from 9 percent in 2007, and is projected to decline to around 5 percent in 2009.

Export of Agricultural Products

In the total agricultural exports, products like floricultural products and seeds, fruits and vegetables, processed fruits and vegetables, livestock products, other processed foods, non-basmati rice, and other cereals have significant place. Table 4.2 provides information of export of these products from India during the period between 1998 and 2007.

Value of export of the floriculture products and seeds is highly erratic during the period under analysis. It has increased from 162 crores in 1998 to 774 crores in 2006, after that it declined to 482 crores. Export of fruits and vegetables shows a steady increase over the period under analysis. The value of this export increased from 536 crores in 1998 to 2437 crores in 2007. Similarly, export value of processed fruits and vegetables increased very consistently from 706 crores in 1998 to 2679 crores in 2006. However, in the year 2007, the value of export of this item is decreased remarkably.

Live stock is another important item of export from India. Export value has increased sharply from 852 crores in 1998 to 5129 crores in 2007. Similarly, other processed food items also show a better performance. Value of export of these products has continuously increased from 1127 crores in 1998 to 6523 crores in 2007, with a sudden hike in the year 2001. Export of basmati and non-basmati rice shows an increasing trend. They have important place in the total agricultural export. On the contrary, wheat export is highly erratic, and its export contribution is almost nil in the year 2007. Export other cereals is increased from 9 crores in 1998 to 734 crores in 2004, after that it decreased to 599 crores in 2006. In the year 2007, the value of export of this item comes down to 90 crores.

Growth and Instability in the Export of Agricultural Products: 2006 onwards

One can assess the growth and instability in agricultural exports with the closer observation of year to year comparison of monthly statistics on export of different years. Tables 3 to 9 provide such information for the year 2006 to 2009 (data are not available

for certain months of 2008; and for the year 2009 it is available for January and February alone). And Table 10 summarizes the results of growth and instability in the export of agricultural commodities exported after 2006.

During the year 2006, that is before the financial crisis, export performance of most of the items taken for the analysis show a good signal. Most of them grow at faster rate. The rate of growth is either more than 10 per cent or more. This is sufficiently true in the cases of floriculture and seeds, fruits and vegetables, non-basmati rice, and other cereals export. Export of processed fruits and vegetables and livestock product has a moderate growth during this year. However, export items like basmati rice and wheat show a strong negative trend. In most of the months they grow at the rate of either 0 to -25 per cent or more than that.

In the year 2007, there are significant changes have been observed in the export performance of different commodities. Export of commodities like floriculture and seed, live stock products, non-basmati rice, basmati rice and other cereals grow at the rate of more than 25 per cent. Only the commodities like processed fruits and vegetables, and wheat showed a negative growth in export. The negative growth in these commodities not as a result of financial crisis happened in the mid 2007. They show such a performance throughout the year. So, we can infer that financial crisis untouched the export performance of different agricultural commodities.

Regarding the year 2008, the export performance of different commodities continues in a good path. This is very strong in the cases of fresh fruits and vegetables, livestock products, other processed foods, basmati rice and other cereals. However, the export performance of commodities floriculture and seeds, processed fruits and vegetables and non-basmati rice show a negative trend. It is important to note that the negative export growth of non-basmati rice takes place as result of government ban on export of it (as a measure to check price rise), and not because of financial crisis.

Monthly export details for the year 2009 available only for the months of January and February. Export performance of different commodities not changed for these two months. They continue their performance as in the year 2008.

Eventhough there is instability in agricultural export of different agricultural commodities, the overall performance agricultural export is good during the world financial crisis. They show a good signal for the Indian economy, which is largely suffered by down performance of export from other sectors.

CONCLUSION

On going analysis shows that the export performance agricultural commodities are not affected by the world financial crisis. Available literature on financial crisis indicate that the Indian economy has resistance power to bear the effects of world financial crisis, because of strong savings habit of the people and much regulated financial sectors in India. But, we should consider the structure of Indian economy while analyzing successful resistance of the crisis. More than 60 per cent of the people still depend on agriculture for their livelihood, even after the structural changes took in the Indian economy. The people are producing and marketing basic goods, which have a constant demand world-wide. So, the government should come forward to invest more on agriculture and promote agricultural production and export.

IMPACT OF GLOBAL FINANCIAL CRISIS OF FINANCIAL INSTITUTIONS

The collapse of a global housing bubble, which peaked in the U.S. in 2006, caused the values of securities tied to housing prices to plummet thereafter, damaging financial institutions globally. Questions regarding bank solvency, declines in credit availability, and damaged investor confidence had an impact on global stock markets, which suffered large losses during 2008. Economies worldwide slowed in late 2008 and early 2009 as credit tightened and international trade declined. Critics argued that credit rating agencies and investors failed to accurately price the risk involved with mortgage-related financial products, and that governments did not adjust their regulatory practices, **to address 21st century financial markets. Governments and central banks responded with** unprecedented fiscal stimulus, monetary policy expansion, and institutional bailouts. The immediate cause or trigger of the crisis was the bursting of the United States housing bubble which peaked in approximately 2005-2006. High default rates on "sub prime" and adjustable rate mortgages (ARM), began to increase quickly thereafter.

IMACTS ON FINANCIAL INSTITUTIONS

The International Monetary Fund estimated that large U.S. and European banks lost more than \$1 trillion on toxic assets and from bad loans from January 2007 to September 2009. These losses are expected to top \$2.8 trillion from 2007-10. U.S. banks losses were forecast to hit \$1 trillion and European bank losses will reach \$1.6 trillion. The IMF estimated that U.S. banks were about 60 per cent through their losses, but British and Euro zone banks only 40 per cent.

IMPACT OF THE CRISIS ON INDIAN FINANCIAL INSTITUTIONS

While the overall policy approach has been able to mitigate the potential impact of the turmoil on domestic financial markets and the economy, with the increasing integration of the Indian economy and its financial markets with rest of the world, there is

Dr. Dhanabalan, Lecturer, Department of Commerce, MKU, Madurai
G.Kannabiran, Assistant Professor, Department of Economics,
The American College, Madurai.

recognition that the country does face some downside risks from these international developments. The risks arise mainly from the potential reversal of capital flows on a sustained medium-term basis from the projected slow down of the global economy, particularly in advanced economies, and from some elements of potential financial contagion. In India, the adverse effects have so far (been mainly in the equity markets because of reversal of portfolio equity flows, and the concomitant effects on the domestic forex market and liquidity conditions. The macro effects have so far been muted due to the overall strength of domestic demand, the healthy balance sheets of the Indian corporate sector, and the predominant domestic financing of investment.

Domestic investment is largely financed by domestic savings. **However, the corporate sector has, in recent years, mobilized significant resources from global financial markets for funding, both debt and non-debt, their ambitious investment plans.** The current risk aversion in the international financial markets to EMEs could, therefore, have some impact on the Indian corporate sector's ability to raise funds from international sources and thereby impede some investment growth. Such, corporate would, therefore, have to rely relatively more on domestic sources of financing, including bank credit. This could, in turn, put some upward pressure on domestic interest rates. Moreover, domestic primary capital market issuances have suffered in the current fiscal year so far in view of the sluggish stock market conditions. Thus, one can expect more demand for bank credit, and non-food credit growth has indeed accelerated in the current year (26.2 per cent on a year-on-year basis as on September 12, 2008 as compared with 23.3 per cent a year ago).

One of the key features of the current financial turmoil has been the lack of perceived contagion being felt by banking systems in EMEs, particularly in Asia. The Indian banking system also has not experienced any contagion, similar to its peers in the rest of Asia. A detailed study undertaken by the RBI in September 2007 on the impact of the sub prime episode on the Indian banks had revealed that none of the Indian banks or the foreign banks, with whom the discussions had been held, had any direct exposure to the sub-

prime markets in the USA or other markets. However, a few Indian banks had invested in the collateralized debt obligations (CDOs) / bonds which had a few underlying entities with sub-prime exposures. Thus, no direct impact on account of *direct exposure* to the sub-prime market was in evidence. However, a few of these banks did suffer some losses on account of the mark-to-market losses caused by the widening of the credit spreads arising from the sub-prime episode on term liquidity in the market, even though the overnight markets remained stable.

CONCLUSION .

The crisis rapidly developed and spread into a global economic shock, resulting in a number of European bank failures, declines in various stock indexes, and large reductions in the market value of equities and commodities. Both MBS and CDO were purchased by corporate and institutional investors

Globally. Derivatives such as credit default swaps also increased the linkage between large financial institutions. Moreover, the de-leveraging of financial institutions, as assets were sold to pay back obligations that could not be refinanced in frozen credit markets, further accelerated the liquidity crisis and caused a decrease in international trade. World political leaders, national ministers of finance and central bank directors coordinated their efforts to reduce fears, but the crisis continued. At the end of October 2008 a currency crisis developed, with investors transferring vast capital resources into stronger currencies such as the yen, the dollar and the Swiss franc, leading many emergent economies to seek aid from the International Monetary Fund.

UNCHECKED GLOBALIZATION THE REASON FOR FINANCIAL CRISES

Introduction:

To every action there is always an equal and opposite reaction. Newton's third law is the key for this paper.

In the recent past many nations, especially developing nations, considered 'Globalization' as the only way for their economy to flourish. But it is the tight time to explain to them that globalization is not the solution but the root cause of all their problems.

This paper argues that globalization is the reason for the financial crises. It explains the globalization in theory and points out the way it is in practice. It talks about the problems arising out the globalization, i.e. **financial** crisis. Not being content with stating the problems alone, the paper comes out with the solution for the problems arising out of globalization.

The Vicious Cycle

Demand

Production

Profit

More and More Production

Demand sated

Production surplus

Profits down or wiped out

Recession and the Crisis.

Recession and the Crisis.

Search for new markets. (Globalization) (Export or Perish)

Satisfy demand, if not, create demand.

Yaadha Dheepan. C & Bala Murugan.J The American College, Madurai

Induce weak countries and communities with the help of media to spend more. Give Credit to buy and spend.

UDs fall in Debt Trap.

Global Recession and the Crisis.

Impact of financial crisis through globalization in India.

Financial crisis may have affected a few areas, but it has not altered the personality of India. It had an impact on merchandise exports and service exports. The decline in export growth may sharply affect some segments of the Indian Economy that are export oriented. The slowdown in the world economy has affected the garment industry. The orders for factories which are dependent on exports, mainly to the D.S have come down following deferred buying by big apparel brands. Rising unemployment and reduced spending by the Americans have forced some of the leading brands in the D.S to close down their outlets, which in turn has affected the apparel industry here in India. The D.S accounts for 55 per cent of all global apparel imports (Bageshree and Srivatsa 2008). The global recession will undermine other major export sectors of the Indian economy like sea foods, gems and jewellery.

Great savings habit among people, strong fundamentals, strong conservative and regulatory regime have saved Indian economy from going out of gear, though significant parts of the economy have slowed down and there is a wide variance of opinion about how long it will continue. It is expected that growth will be moderate in India.

The important lesson that we must learn from the crisis is that we must be self-reliant. The most important lesson to learn is that we be aware that "East India Company is not given another Lease of Life".

Lesson to learn from Indian trade history:

Our forefathers attempted globalization of trade for "need"

But advanced economies now implement globalization for their "greed".

An Opportunity:

India is a nation with young population. The chart by US Census Bureau shows the number of people in India at different age group. India is a young nation which has

more number of people at the age group of 0-19. This is the strength. India's demographics are favorable to growth. It's a young country with low dependency ratios. Millions of Indians under the age of 30 are slowly receiving better access to healthcare and education, which enables younger Indians to drive the economy by virtue of middle class growth. They will become consumers, spend discretionary income, and enjoy the associated status. This growing middle class will continue to create large levels of domestic customer demand for goods and services.

Conclusion:

- It is not the author's intention to argue that globalization is bad or the reason for recession.
- But, it is inferred that the unchecked globalization or globalization with bad intentions that has caused the recession and the crisis.
- It is the need that should drive the wheels of trade and commerce but not greed.
- It has been strongly contended that India has the resilience and wisdom to withstand this sort of ill-effects caused by unthinking west.
- *It is being concluded with the argument that the onus now falls on the Indian Economists to show the right way with their rich past experience duly researched and presented to the world.*

Every action with a bad intention will end up in recession.

GLOBAL FINANCIAL CRISIS. AN OVERVIEW
AMERICAN FINANCIAL CRISIS

Introduction

American economy is the most powerful and leading economy of the world. In the world of open economy and free movement of capital, the financial crisis started in US will definitely affect the rest of the world and it had happened. Hence it is relevant to understand the cause of the crisis and the remedial measures suggested by expert in that field.

American financial system failed in its crucial responsibilities managing risk and allocating capital. The industry as a whole has not been doing what it should be doing and it must face change in its regulatory structures. Regrettably many of the worst elements of the us financial system. Were exported to the rest of the world.

Paul Krugman also notes the wasted talent, at the expense of other area in much head. To him much of the nation's been damaged by the magnetic pull of quick personal wealth, which for years has drawn many of their best and brightest young people into investment banking, at the expense of science, public service and just about everything else.

People working in the financial markets, pushed a type of "Market fundamentalism". The disguised policies that resulted pushed by among others some members of president – elect Barack Obama economic team had earlier inflicted enormous costs on development countries. The moment of enlightenment came only when those are a triumph of reason and evidence over ideology and interests.

Economic theory has long explained why unfettered markets were not self – correcting, why regulation was needed why there were an important role for government to play in the economy.

S.Nandhini & M.Kokila Devi M.Phil Scholar Department of Economics
Ururu Dhinalakshmi College Tiruchirappalli .

In a widely attended brainstorming session at which participants were asked what single failure accounted for the crisis, there was a resounding answer. The belief that markets were self – correcting.

The so called " efficient market model, which holds that prices fully and efficiently reflect all available information also came in for a trashing. So did inflation targeting. The excessive focus on inflation had diverted attention from the more fundamental question of financial stability. Central banker's belief that controlling inflation was necessary and almost sufficient of growth and prosperity had never been based on sound economic theory.

Joseph stiglitz argues that failure in financial markets have come about because of poorly designed incentive structures, inadequate completion, had inadequate transparency. Part of this is because larger institutions have been resistant changes that would actually create more health competition, something Adam smith had long noted in his wealth of nations often regarded as the bible of capitalism. Better regulation is required to reign in the financial markets and bring back trust in the system.

If government appoints as regulators those who do not believe in regulation of is hot likely to get strong enforcement are transparent. Relatively simple regulatory systems may easier to implement and more robust and more resistant to regulatory capture.

Well – designed regulations may protect us in the short run and encourage real innovation in the long. Much of our financial market's creativity was directed to circumventing regulations and taxes.

**PRIVATISATION OF PROFITS VERSUS SOCIALISATION OF LOSSES: A
DISCUSSION ON CONCEPTUAL FRAMEWORK FOR BAIL-OUT OR NO-
BAILOUT PROBLEM**

The recent financial crisis has witnessed yet another situation, wherein Governments bailout private firms, whereas the crisis itself was caused by the reckless business aggressiveness of these private firms. Banking and investment firms, that were thought as "too big to fail" were in fact the first set of candidates that failed. Firms that were critical of socialistic policies and that advocated free market expect the same socialistic policies to come to their rescue when their own actions fail the system.

Governments, in such situations are caught in a difficult situation. On one hand, if they do not rescue the failed firms by means of bailout packages, it would be difficult to contain economic recession. On the other hand, there arises a question as to why the private firms who enjoyed enormous profits by their actions should be bailed out by using tax payers money. What is generally missed in such arguments is that, the citizens or tax payers too have an implied interest in the bailout. By providing such bailouts, the pace of the economic recession is contained and therefore, job losses or loss of personal wealth is contained. Hence, in a way, the tax payers are paying a fee for securing their own future. However, this does not absolve us from the basic question – should losses be socialized at the cost of tax payers, whereas the profits are enjoyed by private firms? This may also lead to the problem of moral hazard – wherein private firms would assume that, there is an implicit government guarantee in the event that their actions lead to market failure. As a result, there is no incentive for them to be cautious of their actions.

Dr. S.M.Suriyakumar Dept. of Economics,
Urumu Dhanalakshmi College, Tiruchirappalli.
N Prasanna Venkatesan
Financial Operations Analyst, The World Bank

A government's position with respect to bailout package is as shown in figure-1:

Figure-1: Government's position

Government's position

The lower the bailout package, the higher the political costs. Political costs include, loss of popularity or support to the government, criticism from opposition parties and the probability of failure in the next election. The society's position is as shown in figure-2.

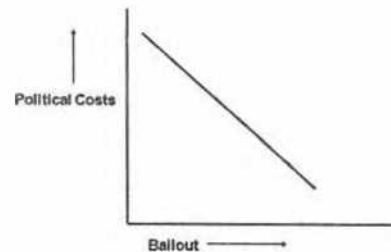
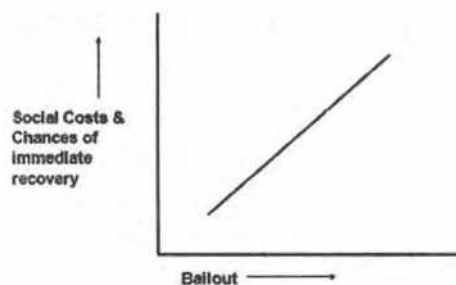


Figure-2: Society's position

Society's position



Social costs by means of decreased spending on social projects increase in direct proportion with the bailout package (since tax collection is used towards bailout). Similarly, chances of economic recovery too increase in direct proportion with the bailout package. It is a tough situation indeed. The question is how to achieve a situation which would benefit both the sides – firms and also the society.

Pareto optimality approach: One way to approach the problem is the Pareto criterion of making someone better off without making anyone else worse off. Let us construct an abstract problem, following typical textbook models. Let us assume there are two resources, from the point of utilisation of tax collections.

- * Bailout package – X
- * Social projects – Y

These resources are to be allocated to two consumers:

- * People – p

Financial Institutions – n

Now, from the resource allocator's (government's) point of view, the allocation of tax money to the financial institutions needs to be maximized, without making the tax payers worse off.

- Maximize utility for financial institutions without making the public worse-off
- } Maximise $u_n = f_n(x_n, y_n)$
- } Subject to:
- } $f_p(x_p, y_p) = k_p$ — (this constraint is to ensure that the financial institutions to be made better-off without making the public worse-off)
- } $x_n + x_p = X; y_n + y_p = Y$
- } (these two conditions denote the total available amounts of X and Y)

By transforming this equation into a Lagrangian expression and solving it, we get that:

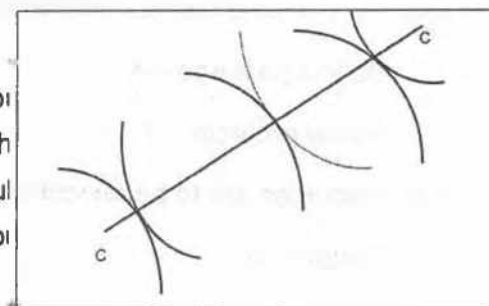
$$\frac{Mu_{x_n}}{Mu_{y_n}} = \frac{mu_{x_p}}{mu_{y_p}}$$

- Marginal rate of substitution of the two uses of resources (a) bailout package and (b) social projects must be same for both the public and the financial institutions.
- That is, the ratio of marginal utilities to both the parties towards both the option must be the same.

By means of the commonly used Edgeworth Box diagram, the above can be depicted as shown in figure-3.

Figure-3: Edgeworth Box

The choice or division of resources between bailout and social projects will be Pareto optimal, if the allocation is along the contract curve CC. As a result the financial institutions can be made better off without making the public worse off.



While the Pareto criterion provides us with a good intuitive understanding, it is not without limitations and challenges, making it difficult to apply in practical applications.

Tragedy of Commons:

Literatures compare the financial crisis and bailouts to that of Tragedy of Commons, observed during 19th century. Owners of cattle allowed their cattle to graze on a pasture that was common to all herdsmen. Since no one had any specific ownership claim on the common pasture, everyone used it such that the common resource depleted soon. This is because, the gains from allowing an additional animal to graze solely to the owner, whereas, the cost of grazing is spread to all cattle owners. As a result, an individual cattle owner has no incentive to show restraint in using the common pasture, thus allowing the common resource to deplete.

This logic is being applied to financial markets. Financial institutions behave like an individual cattle owner. For every risky asset that they add to their portfolio, they estimate their profit to increase. In the event of a market collapse, the losses are spread out to the entire society, by means of bailout package. This leads to a situation of moral hazard that encourages financial institutions to be reckless in their actions. Hence, there is a need to devise a market mechanism that would act as a deterrent to Tragedy of Commons.

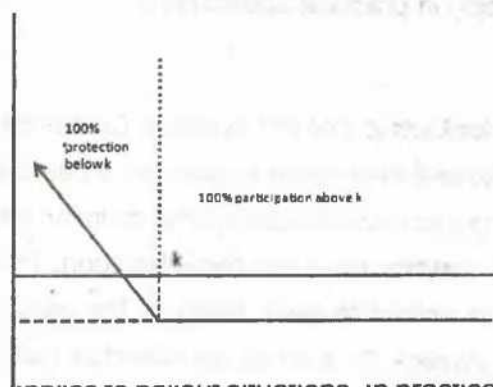
One way is to allow the regulator to control which part of the land is allowed to be grazed and if so, by how many animals. The corollary of this solution in financial markets will be impractical to implement, given the large number of investors, the speed of operations that is expected, need to ensure a free market and costs of such regulation.

Solution from Put-option perspective:

Another way of approaching the problem is to treat the bailout as a Put-option. A put-option gives its buyer, a right, but not an obligation to sell the underlying asset when the price of the underlying asset goes below a specific price called as 'strike price'.

A bailout package is like a put-option. The financial institutions, in a way sell their portfolio of assets to the government, when the value of the assets in their portfolio goes too low. As shown in figure-4, the buyer of a put option (in a general financial derivative) has unlimited potential for profit.

Figure-4: Pay off for a Put Option Buyer



As we see in Figure-4, when the value of the underlying asset goes below the strike price, the financial institutions sell it off to the government. In other words, the financial institutions are given 100% protection below the strike price. They also enjoy 100% participation when the value of the underlying asset is above the strike price.

The seller of the option is the government. Though Put-option is a very basic model, it aptly applies to bailout situations. In practice, firms that get bailed out do not make any payment to the government, as a price for the bailout. It is akin to buying a put option with zero premium. Thus, the financial institutions win both ways. This encourages the phenomenon of Tragedy of Commons.

In order to introduce some kind of deterrent, it would be prudent for the Put option seller (the government) to charge a premium from the firms. Charging such a premium for bailout package is a double edged sword. Firms that pay a premium for future bailout may act even more reckless in their business, because, now they have an explicit right to sell the defaulted assets to the government. Hence, the value of the option premium should be estimated such that it not only acts as a deterrent, but also prevents moral hazard problem.

While this paper introduced some conceptual issues and suggests a theoretical solution, it is acknowledged that, there is an unfinished agenda – estimating the value of option premium.

Theoretically, the estimation of option premium must take the following into consideration:

1. The present value of estimated future bailout amounts
2. The limit to the future bailout (a certain proportion of estimated future tax collections)
3. Ability to pay - of the option buyers (firms)
4. The premium should not become a major transaction cost for the industry
5. The premium should take into consideration, the possible moral hazard effect that it may cause.

It is hoped that, these theoretical perspectives may pave way for future empirical researches in this area.

GLOBAL FINANCIAL CRISIS ON TEXTILE SECTOR

The Indian textiles industry contributes substantially to India's export earnings. The export basket consists of wide range of items containing cotton yarn and fabrics, man-made yarn and fabrics, wool and silk fabrics, made-ups and variety of garments. India's textile products, including handlooms and handicrafts, are exported to more than a hundred countries. However, the USA and the EU, account for about two-third of India's textile exports. The other major export destinations are Canada, U.A.E., Japan, Saudi Arabia, Republic of Korea, Bangladesh, Turkey, etc. In 2008-09, various export promotion councils and trade bodies have been representing to the Government that the textiles exports have adversely been affected by recent global economic slowdown, leading to considerable loss 'of employment in the textile sector.

The specific objectives of the study are:

1. To study the growth of textile industry
2. To study the production performance of textile industry
3. To study the Export performance of textile industry
4. To study the import performance of textile industry

Impact of global recession on India's textile exports

i) India's textiles and clothing export has observed ups and downs in recent times. The Indian textile industry which depends almost exclusively on domestic sources the strong appreciation of Indian rupee vis-a-vis the US dollar in 2007-08 landed the textiles and clothing exports in a difficult situation. This was established by the fact that India's share in global textiles and clothing exports in 2007 declined to 4% and 2.8% , respectively from 4.3% and 3.3% in 2006.

Dr. M. Soundarapandian Professor and Head, Dept of Rural Industries and Management,
K. Rathinavalli Research Scholar, Department of Rural Industries and Management,
Gandhigram rural university, Gandhigram .

- ii) In 2008-09, conditions prevailing worldwide have not at all been conducive for the textile exports. The world is currently passing through a recessionary phase and the major markets like US, EU and Japan are facing financial crisis. .
- iii) In 2008 EU's overall imports of textiles and clothing recorded a growth of 7.32%, India managed to record a growth rate of 6.42%, while china, largest exporter with a share of 38.5% in EU, recorded a growth of 20.46%. In the current calendar year, India's growth rate has slipped and recorded a decline of over 15% in January, 2009 over January, 2008 while EU's overall imports of T & C also recorded a decline of 9.96%.
- iv) Some of the reasons attributed to this decline are the financial sector meltdown and economic slow down in international markets, increased cost of production due to increasing raw material costs, power and other input costs which have affected the profitability of textiles and garments units in India and their exports. The liquidity crunch is another factor that is affecting the industry.
- v) The Government introduced two packages of duty concessions, tax and interest rebates in December, 2008 and January, 2009 to provide stimulus to the economy in general to combat the recession.

Conclusion

The approach of the Government in the content of opening up of global textiles market, is to sustain the textile industry and continue to provide livelihood to the several lakh of weavers who depend on this activity. This requires Constant skill upgradation to provide marketable products, technology up gradation to increase the productivity and to maintain the quality to compete the world market besides product diversification; through continuous design interventions. The textile sector maintain the Export level in the global market.

IMPACT OF GLOBAL FINANCIAL CRISIS ON INDIAN ECONOMY

Global financial crisis is not a new one, which is unavoidable in the globalisation era where ups and downs are common in the economy. As Shard Joshi has rightly pointed out that, "A mother would not exchange her baby for a doll simply because the doll does not fall ill". The global financial crisis became prominently visible in September 2008, with the failure of several large United States based financial firms. This is being witnessed by almost all major economies of the world including India. This global financial crisis has been started from the financial markets and spread to all sectors of the world economy. However the exact magnitude and dimensions of the impact is not clear as of now. Several business journals have been reporting the causes for the global financial crisis and published data on employment, unemployment and exports of various developed countries at regular intervals.

At present India is one of the strongest nations in the world and the third largest economy in Asia, the rate of growth of its GDP has increased significantly. On the financial front the Indian banking sector was not overly exposed to sub-prime crisis. The impact of global financial crisis has been discussed in India into different distinct channels namely the financial sector, exports and labour markets.

This paper makes an attempt to study the impact of global financial crisis on Indian economy and how India has escaped from the recession.

Dr. V. Backiyavathi Assistant Professor, Department of Economics,
Bharathidasan University, Khajamalai Campus, Thiruchirapalli

TEN LESSONS FROM THE SUB – PRIME CRISIS

Introduction:-

The term financial crisis is applied broadly to a variety of situations in which some financial institutions or assets suddenly lose a large part of their value. In the 19th and early 20th centuries many financial crises were associated with banking panics. Other situations that are often called financial crises include stock market crashes and the bursting of other financial bubbles currency crises and sovereign defaults.

Types of Financial Crisis:-

- ❖ Banking crisis
- ❖ Speculative – bubbles and crashes
- ❖ International financial crises
- ❖ Wider economic crises

Banking Crisis:-

When a bank suffers a sudden rush of withdrawals by depositors, this is called a bank run. Since banks lend out most of the cash they receive in deposits, it is difficult for them to quickly pay back all deposits if these are suddenly demanded, so a run may leave the bank in bankruptcy. Causing many depositors to lose their saving unless they are covered by deposit insurance. A situation in which bank runs are widespread is called a systematic banking crisis or just a banking panic.

Speculative – bubbles and crashes:-

Economists say that a financial asset exhibits a bubble when its price exceeds the present value of the future income that would be received by owning it to maturity.

International financial crises:-

[Main articles: currency crisis and sovereign default]

M. Anbumanikandan, & K.Vithyakala, A.V.V.M. Sri Pushpam College, Poondi.

when a country that maintains a fixed exchange rate is suddenly forced to devalue its currency because of a speculative attack, this is called a currency crisis or balance of payment crisis. When a country fails to pay back its sovereign debt, this is called a sovereign default.

Wider Economic Crises:-

[Main articles: Recession and Depression]

Negative GDP growth lasting two or more quarters is called a recession. An especially prolonged recession may be called a depression, while a long period of slow but not necessarily negative growth is sometimes called economic stagnation.

❖ Widening Gambit of Central Bank Regulation:-

In the present crisis, the US fed found itself obliged to offer liquidity to non – bank institutions, thus extending its lender of last resort role. It then gave a banking license to some of the investment banks so that they could convert themselves into banks. The underlying principle is that if an institution seeks or needs assistance from the central bank, then it has to submit itself to central bank regulation. The time may have come to examine whether all systemically important financial institutions must be subject to central bank regulation.

❖ Prudential Limits on Securitization:-

Rampant securitization is seen as one of the causes of the sub – prime crisis. Banks had no qualms about originating large volume of low quality loans because they knew they were not going to have these on their own books for long.

The 75% limit would apply not just to loans in the aggregate but loans by category, home loans, credit cards, car loans, etc.

❖ Regulation of Derivative Contracts:-

Two problems with derivatives have become apparent. In the case of some products such as credit default swaps, the contracts were a huge multiple of the underlying contract. Another suggestions is that to move certain derivative contracts to exchange and limit over - the counter products. This would subject these contracts to the exchanges discipline of making to market and meeting margin requirements on a regular basis and avoid the sort of large scale defaults on contracts we have seen.

A FOCUS THE GLOBAL FINANCIAL CRISIS

INTRODUCTION

The real gross domestic product – the output of goods and services produced by labor and property located in the United States – decreased at an annual rate of approximately 6 percent in the fourth quarter of 2008 and first quarter of 2009 versus activity in the year – ago periods. The U.S. unemployment rate increased to 10.2% by October 2009, the highest rate since 1983 and roughly twice the pre – crisis rate. The average hours per work week declined to 33, the lowest level since the government began collecting the data in 1964.

U.S. Economic Effects

On November 3, 2008, the EU – commission at Brussels predicted for 2009 an extremely weak growth of GDP, by 0.1 percent, for the countries of the Euro zone (France, Germany, Italy, etc.) and even negative number for the UK (-1.0 percent), Ireland and Spain. On November 6, the IMF at Washington, D.C., launched numbers predicting a worldwide recession by – 0.3 percent for 2009, averaged over the developed economies. On the same day, the Bank of England and the Central Bank for the Euro zone, respectively, reduced their interest rates from 4.5 percent down to three percent, and from 3.75 percent down to 3.25 percent. As a consequence, starting from November 2008, several countries launched large “help packages “ for their economies.

The U.S. Federal Reserve Open Market

The U.S. Federal Reserve Open Market Committee release in June 2009 stated : “ ... the pace of economic contraction is slowing. Conditions in financial markets have generally improved in recent months. Household spending has shown further signs of stabilizing but remains constrained by ongoing job losses, lower housing wealth, and tight credit. Business are cutting back on fixed investment and staffing but appear to be making progress in bringing inventory stocks into better alignment with sales. Although economic activity is likely to remain weak for a time, the Committee continues to anticipate that policy actions to stabilize financial markets and institutions, fiscal and monetary

B.Bharathiraja & Suresh, M.Phil Research Scholar

A.V.V.M. Sri Pushpam College, Poondi.

stimulus, and market forces will contribute to a gradual resumption of sustainable economic growth in a context of price stability.

Responses to financial crisis

The U.S. Federal Reserve and Central banks around the world have taken steps to expand money supplies to avoid the risk of a deflationary spiral, in which lower wages and higher unemployment lead to a self – reinforcing decline in global consumption. In addition, governments have enacted large fiscal stimulus packages, by borrowing and spending to offset the reduction in private sector demand caused by the crisis. The U.s. executed two stimulus packages, totaling nearly \$ 1 trillion during 2008 and 2009.

Regulatory proposals and long –term responses

This credit freeze brought the global financial system to the brink of collapse. The response of the USA Federal Reserve, the European Central Bank, and other central banks was immediate and dramatic. During the last quarter of 2008, these central banks purchased US\$2.5 trillion of government debt and troubled private assets from banks. This was the largest liquidity injection into the credit market, and the largest monetary policy action, in world history. The governments of European nations and the USA also raised the capital of their national banking systems by \$1.5 trillion, by purchasing newly issued preferred stock in their major banks.

CONCLUSION

United States President Barack Obama and key advisers introduced a series of regulatory proposals in June 2009. The proposals address consumer protection, executive pay, bank financial cushions or capital requirements, expanded regulation of the shadow banking system and derivatives, and enhanced authority for the Federal Reserve to safely wind – down systemically important institutions, among others.

GLOBAL ECONOMIC TURMOIL – CHALLENGES FOR INDIAN ECONOMY

Introduction:

Global economic turmoil, especially that began in the financial sector of USA. The financial crisis, which a year ago seemed to be localized in one part of the financial system in US, has exploded into a systematic crisis, spreading through the highly interconnected financial markets of industrial countries and has had its effects on other markets as well. The real economy is clearly affected. And it is most serious crisis of the world, we must remove.

I – Factor responsible for the crisis:

The factors responsible for this serious crisis is varied and complex. The crisis can be attributed to a number of factors pervasive in both the housing and credit markets, which developed over an extended period of time. The factors are

Mortgage markets and Neglect of Borrowing Norms

It is the practice of lending, mainly in the form of mortgages for the purchase of residences, to borrowers who do not meet the usual criteria for borrowing at the lowest prevailing markets interest rate. The value of all outstanding residential mortgages, owed by USA households to purchase residence housing was US\$ 10.6 trillion as of midyear 2008. On account of this residential properties of US turned into foreclosure actions.

Securitization to minimize Credit risk

Credit risk arises because a borrower has option of defaulting on the loan he/she owes. Traditionally, lenders (who were primarily thrifts) bore the credit risk on the mortgages they issued. Now, the lenders sell the right to receive the payments on the mortgages they issue, through a process called securitization. The resulting securities are called mortgage backed securities (MBS). When the homeowners default, the payments received by MBS investors decline and the perceived credit risk increased. Finally, the risks associated with American mortgage lending had global impacts, because a major consequence of MBS is a closer integration of USA housing and mortgage markets with global financial markets.

S.Ganesan M.Phil Research Scholar in Economics, National College, Tirucirappalli.

Speculation

Specialization in residential real estate has also been a contributing factor. A record level of nearly 40 per cent of homes purchases were not intended as primary residences rather for reinvestment purposes. Since the market was not showing optimism, speculators left the market, which caused investment sales to fall much faster than the primary market.

Liberal Government Policies

II – Impact on Indian Economy

Ever since the current crisis began in the West, official-type Indians expressed the view that India was special and would not be affected because of superior Indian Financial regulation. Impact on GDP growth rate India's economy is expected to grow about 5.1 % in 2009 and 6.5 % in 2010 according to the IMF. India's economy grew at an annual rate of 7% to 8% or more in the past three years, second only to China among the major economies, and the projections for FY2008 indicates that India's economic growth has been affected by the economic crisis.

Impact of Financial Crisis on Indian Financial Markets

The Indian financial markets are in the grip of the bearish trend posing a threat to the investors. The key to successfully trading bear markets is to understand their primary driver and sentiment.

The global meltdown has impacted the interest rates (i.e., repo rates, reverse repo rate, CSR). The Indian Government has reduced the repo rate (rate at which it lends to banks) by 1% from 7.5% to 6.5% and the reverse repo (rate at which banks lend to RBI) by 1% from 6% to 5%.

Falling Rupee

In addition, this withdrawal by the FIIs led to a sharp depreciation of the rupee. Between January 1 and October 16, 2008, the RBI reference rate for the rupee fell by nearly 25 per cent, even relative to a weak currency like the dollar from Rs 48.86, this was despite the sale of dollars by the RBI, which was reflected in a decline of 425.8 billion in its foreign currency assets between the end of march 2008 and October 3, 2008.

Exposure of Banks

According to reports, the RBI had estimated that as a result of exposure to collateralized debt obligations and credit default swaps, the combined mark to market (MTM) losses of Indian banks at the end of July was around \$ 450 million. Given the aggressive strategies adopted by the private sector banks, the MTM losses incurred by public sector banks were estimated at \$ 90 million, while that for private banks was around \$ 3610 million.

Suggestions:

- ⊗ Domestic liquidity shortage
- ⊗ Exchange rate volatility and reduction in access to foreign currency funds
- ⊗ Inadequate credit availability and slow-down in demand
- ⊗ Decline in business and investor confidence and optimism.

Conclusion

The global financial crisis, caused by an excess of liquidity and inadequate regulation of a highly integrated international financial system, has pushed the world's economy to the verges of recession. Global growth projections have fallen, stock markets have plummeted, and currencies have lost value against the dollar. Meanwhile, the call has increased for coordinated monetary policy intervention, bank bailouts, and fiscal stimulus packages. Least developed countries look on with concern as necessary expansions in development assistance are threatened. Options for these countries are running out, but the costs of inaction could be even more catastrophic.

GLOBALISATION AND MSMES PROBLEMS AND PROSPECTS

INTRODUCTION

It can be argued that the central role for government in MSME development, other than that of creating economic and social stability conducive to growth, is to provide a regulatory environment that maximizes the potential of the sector to survive and grow. In general, regulatory policy should aim at creating a 'level playing field' for all types of businesses. In practice, however, there is an imbalance in both economic and political power which enables larger firms to influence the environment more substantially in their favour; and there are particular difficulties for MSMEs in accessing information.

Regulation affect MSMES in a number of ways. They impact upon the processes of establishing a business (registration and licensing). They affect the way In which transactions with customers, suppliers and intermediaries and carried out, for example via law of contract and technical standards for the performance of goods. They impact upon relationships with labour within the firm, for example by setting employment and health and safety standards. They govern the firm's relationships with the community, for example by the setting of standards for the disposal of waste and effluent. They set the 'rules of the game' for dealing with consumers in general by giving rights relating to quality and description of products and services.

Main Activities:

Main activities proposed under this programme are proposed as under:

Pilot Studies for selected SME Clusters/Group of Industries:

This scheme will be focused on further strengthening the IP needs of the MSEs Clusters taken up under the Micro & Small Enterprises Cluster Development Programme (MSE-CDP) of the Ministry of MSME and would also be open to other need-based units/ enterprises.

R. Dhanasamy M.Phil Research Scholar in Economics
Urumu Dhanalakshmi College Tiruchirappalli.

Following pilot studies are proposed to be undertaken.

Interactive seminars/workshops on specific Issues like patents, trademarks, copyrights, industrial design, trade secrets and geographical indications, etc.

These programmes are designed for MSMEs to protect their intellectual property rights and will be product specific and cluster based. The group of industries proposed to be covered under these programmes will in the area of biotechnology, automobile components manufacturers, bulk drugs and formulation industry, basic chemicals, leather products, herbal cosmetics and drugs, pharmaceuticals industry, electronic products, sports goods etc.

Setting up of Intellectual Property Advisory Cell:

As most of the micro Small & Medium Enterprises do not have adequate resources to develop their own IP assets whereas there exists a huge potential in developing and safeguarding their ideas/inventions. Among all types of Intellectual Properties, patent is particularly important in terms of its linkages for technology up gradation and transfer of technology. The information given in a particular patent publication is one of the most well-classified and updated collections of technical specifications on new and innovative technologies.

These IP Advisory Cells will assist in developing the data-base of high-tech MSME which have significant potential of benefiting through updating other knowledge on the patents granted in the areas of their working. It will also assist MSME for developing system for international patent search.

RURAL MARKET, THE ECONOMY'S NEXT GROWTH DRIVER

INTRODUCTION:

A big question in the minds of senior govt. officials as well as corporate bosses is: what will be the next big driver for India's growth story? The govt. is hoping that by fiscal 2011-12, India would have 9% growth rate or somewhere close to that. But what will help achieve these growth rates? Will it be the same drivers that pushed India into the super growth so far or new set of drivers? There is a growing feeling in certain circles of the government that the big trigger in the next couple of years will be the growth of the rural economy and a rapid increase in rural consumption.

OBJECTIVES:

1. To know how far the rural market is going to help attain economic growth.
2. To find out which segments of the rural market will be outperforming.

Rural market as the economy's next growth driver:

A recent study by the Rural Marketing Association of India (RMAI) commissioned MART to conduct a study using both secondary data and a dipstick study covering the four regions of the country. The study, says Pradeep Kashyap of MART, attempts to assess the macro economic scenario in rural India and examines major sectors – agriculture, non-farm, housing, telecom, health, education and other services. Interviews were conducted with consumers, retailers, building contractors and Insurance agents to understand how the recent meltdown has affected rural incomes and the demand for FMCGs, durables and services and whether the savings, investments and spending habits of people have undergone any change, particularly spending on weddings and other occasions. The study also tries to assess their plans for future spending.

N. Renganayaki, Assistant Professor Department of Economics,
National College, Tiruchirappalli

Presenting the findings recently, KASHYAP, Vice-president of RMAI & CEO of MART, emphasized that 'there has been no impact of the economic slowdown on the rural economy. On the other hand, rural markets offer greater opportunities to marketers trying to find a way out of the current economic crisis.'

FINDINGS:

1. The rural incomes are on the rise driven largely by continuous growth in agriculture for four consecutive years, a feat achieved for the first time in the last 40 years. A record harvest of 230 million ton food grains last year coupled with a sharp increase of 40% in minimum support price of wheat and paddy over a two-year period has resulted in farmer incomes rising sharply. The rural economy, the study says, has got a further boost with the farmer loan waiver of Rs. 71,600 crores: wage payout of Rs. 30,000 crores under the NREGA and the Bharat Nirman Programme with an outlay of Rs. 1.8 trillion for improving rural infrastructure for better road connectivity and digital access to villages for marketers. Kashyap points out that usually a good year in agriculture is followed by a bad one, thus wiping out the gains for farmers but four years of sustained growth has helped rural incomes, even though last year the growth was lower at 2.2%.
2. The rural and small town economy (locations with less than 50,000 population) which accounts for 60% of India's income has remained insulated from the economic slowdown as employment opportunity and income streams are intact and growing steadily with consistent demand for goods and services. The percentage of salaried workers in rural India is a third of urban and that too mostly in govt. service. In this context, Kashyap points out that there is hardly any impact of job layoffs except in select pockets of the country.
3. As rural people save in post office or bank deposits their wealth has not been eroded unlike people in urban areas who have lost large sums of money in the stock market.

4. Higher disposable surplus among consumers in these markets is leading to smart buying at rock bottom prices and advancing of purchase in many countries including house construction materials, apparel and durables.
5. The FMCG sector continues to grow at 20% (urban growth 17%) with no downgrading of brands despite the price increase in some categories, durables at around 15% with upgrading from regular to flat screen colour TVs and a sharp rise in DVD sales and DTH connections. Telecom growth has been at Over 30% while insurance and housing has also not shown any signs of slowdown. Marketers always like to keep a finger on the pulse of the rural markets. While 57% of sales of consumer goods come from rural areas and small towns, 59% of durables sales come from rural markets as well. Our cabinet secretary K. M. Chandrasekhar had said, "In the past few years, the position of our rural economy has considerably improved and India has a strong rural market that will act as a bulwark against the external forces."

SUGGESTIONS:

1. New roads connecting villages to cities will help villagers find better markets and better price for their produce
2. Proper electrification of rural areas will improve productivity and incomes.

CONCLUSION:

There is, no doubt, rural India remains strong and it is considered to be a good driver of growth. But some of the measures that the govt. is taking today will pay back only in the long term. The promise of rural India is immense. It is on the part of the Govt. to tap it successfully.

RECESSION LEADS TO REDUCTION IN EMPLOYMENT

Introduction

The paper is highlighting recession and its impacts on the economy. And review the adverse effect upon the employment (Reduction in employment) There is drastic slowing economy in different quarters are the significant factor reduced the income level and reduction of economic spending. The First part of the paper elucidates recession and its features. The second part is identifying various adverse impact and suggest appropriate measure to face and over come the effect of recession.

Genesis of Recession

Global economic recession awaken in the U.S during 2007-08 where there are corporate and financial institution in trouble. Failure of sub-prime mortgage and non-returnable credit from the housing finance or the major responsible factor for global recession. According to U.S.A's National Bureau of Economic research agency officially in change of declaring a recession, it defines "A recession as a significant decaling in economic activity. Recession is the result of reduction in demand of the product in global market.

A popular distinction between recession and depression recession is when your neighbour loses his job; depression is when you lose yours. Many professional and experts around the world believe that a true economic recession can only be confirmed if GDP growth is negative for a period of two or more consecutive quarters. The roots of recession and its true starting point actually rest in the several quarters of positive but slowing growth before the recession cycle really begins. Often in the milled recession the first quarter of negative growth is followed by slight positive growth, then negative growth returns and the recession trend continues. For instance, current national unemployment rates or consumer confidence and spending levels are all part of the economic system and must be taken into account when defining the recession and its attributes.

Dr.D.Kumar Reader, Department of Economics
Jamal Mohamed college (Autonomous), Tiruchirappalli.

Foundation of Recession

Recessions are the result of reduction in the demand of the products in the global market. Recession can also associates with fall in price known as deflation due to lack of demand for products. Again could be the result of inflation or a combination of increasing prices and stagnant economic growth in the west.

The main causes for recession are by the declining the GDP growth, bad investment by firms, by the stock market crashes, by slow down in manufacturing and by drop off in the business investment. Recession first in U.S economy because the bank share in U.S give credit without any consideration and most of the housing loan are not getting repaid, and many banks are not able to get back recovery with government support

A recession normally takes place when consumer loses confidence in the growth of the economy and spent less. This leads to a decreased demand for goods and services which in turn leads to decreases in production, lay-offs and a sharp raise in unemployment. Investment spend less as they fear stocks value will fall and thus stock market fall as negative side is that it will help to cure inflation companies in the private and government sectors are hesitant to take up new projects. And they are undertaking existing projects only. The project indicates that at one crorer person lose their job in current fiscal ending. The one crorer figure has been compiling by federation of Indian export organization (FIEO), which says that it has carried out intensive survey. The textile, garments and handicrafts industry are worse affected.

Together, they are going to lose of 4 million jobs. IT industries, financial sectors, level estate owners, car industry, investment banking and industries as well are confronting heavy lose. Due to the fall down of the global economy. Indian stock markets have crushed around 13%, when recession arises in U.S, Indian economy boom at the time and more of the foreign investor invest their capital in our market. In Europe the GDP rate drop into 2% and the prices of raw material raise, inflation running on 15% at the time. Euro manufacturing loses 3 million jobs in the past few years. Business is expanding

more slowly. The economy of U.S global growth was 3.7%. On the other hand U.S growth was going to remain very sluggish. i.e., less than 1%. And the shopping mall 5% reduces their sales. Retailers are cutting back holiday staff. Hotel room is empty and restaurant of half filled, planes are fly with out passengers, employees are in slight danger signal. the following areas in the unstable situation such as liquidity reduction, industrial output, job opportunities, stock market inflation increased, GDP has come down the and the GDP forecast of the next two quarters are only average and change in consumer behaviors and purchasing power.

Conclusion:

Reviewing the whole recession process there are several negative incidents have taken place in the world economy. From the analysis it can be concluded that unregulated economy especially in the financial sector is the vital cause for global economic meltdown. Though the world economics are under the clutches of global financial crisis but India has its own feature to prevent the crisis. The Indian economy has immune to the mortgages, crisis, failures of banks in the west and the liquidity crisis; Indian conomy is based on robust fundamental and enjoys the status of one of the most dynamic and growing economy in the world to safeguard in Indian economy. The following measures have to be executed such as deep regulation of financial and banking services and appropriate tax reduction government spending an major project to hike job opportunities to raise finance for incomplete project and regulate oil prices.

IS RECESSION REPLACES EMPLOYMENT

Introduction

The paper is highlighting recession and its impacts on the economy as a whole. It is a review paper examines adverse effect upon the employment i.e. Reduction in employment. A drastic slowing economy in different quarters. Have Been discussed in relation to the economic variables like unemployment, Low income reduction of economic spending.

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Dr.KhaderSherief - Assistant Professor, Dept of Economics,
Jamal Mohamed College, Tiruchirappalli.

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Fiscal policy is usually trying to stimulate in the economy as much as is possible through such things as lowering takes. The project indicates that at one crorer person lose their job in current fiscal ending. The one crorer figure has been compiling by federation of Indian export organization (FIEO), which sags that it has carried but intensive survey. The textile, garments and handicrafts industry are worse affecter. Together, they are going to lose of 4 million jobs. IT industries, financial sectors, level estate owners, car industry, investment banking and industries as well are confronting heavy lose. Due to the fall down of the global economy. Indian stock markets have crusted around 13%, when recession arises in U.S, Indian economy boon at the take and more of the foreign investor invest their capital in as market.

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After receiving global recession in the light of the above objective omitted discussion, it states that global recession is not replacing the employment in absolute term but it cause several ups and downs in the corporate employment opportunities. The suggestive measures are only based on the global economic trend. Particularly in India it is awakening the economy and global recession is a alarming bell to protect the panic situation. The prosperity and security of the Indian economy is safeguarded by the government simulative packager. These packages are significant impact upon during the recession era. In India policy managers and political governance are rendering yeoman service to the economic development.

DUBAI HIT HARD BY FINANCIAL CRISIS

DUBAI CRISIS

There is much about Dubai that is artificial and based on illusion: the man-made islands designed to represent a map of the globe; the indoor ski slope in the midst of desert; the incredible hotel with glass walls looking onto a sea aquarium mimicking the surrounding ocean. And recently, Dubai had also become synonymous with excess: building the tallest tower in the world and the biggest and most expensive luxury hotels, residences, shopping malls and office complexes; providing the market and the sales venue for the most outlandish and flamboyant luxury goods; redefining grandiose expressions of opulence for the world as a whole.

Several real estate properties have already dropped in price by up to 50% and we have not even seen the full extent of the global financial crisis. Analysts forecast much steeper forecasts ahead. Dubai's economy diversified away from oil towards real estate and tourism making it extremely vulnerable to today's market conditions.

THE DUBAI AVERAGE PRICE INDEX

The index provides minimum and maximum property sales prices along with size in square feet to act as a guide to the property size. Prices are based solely on recent transactions in each area and should therefore be used as a guide only. Average price is determined by calculating the total value of recent sales within each area and then dividing that figure by the total number of property sales. Standard Deviation of Price is an average of the prices of sold properties minus the highest and lowest values, to give a more accurate value. This is done because prices in some areas vary so much it can skew results, so extreme values are removed and then the average is recalculated, giving a better reflection of the average price in an area.

Prof.R.Rajkumar, Asst. professor, Department of Commerce,
Mr.R.Arul, Research Scholar, Department of Commerce,
St.Joseph's College, Tiruchirappalli.

PERMANENT SUSPENSION OF WORK

'The current economic climate and the impact on the property sector are unique. Events outside our control have forced us to make difficult decisions. We believe that our proposed course of action will help us meet this target [of delivery in June 2010]. Failing this, we fear that the project will be suspended, possibly permanently.'

DIFFICULT FINANCIAL SITUATION

'We are in an extremely difficult situation'. 'Banks have pulled all the finance, so we have the choice of either sitting, doing nothing and waiting it out, like some of our competitors are doing, or we need to find another solution.' The problems have meant that though most of the units in the seven towers have been sold, and the company's escrow accounts are up to date, the project is no longer financially viable. As an example, MiNC is asking buyers to pay an additional Dhs326,000 on units originally sold to them for Dhs370,000, a mark-up of 88% on the original price. The market is short of new buyers at the moment and as they cannot sell at a higher price, they are in effect re-selling the same apartments back to the original owners at an increased price!'

CONCLUSIONS

1. The Dubai World episode is a very significant local event that affects the premises that underlie our assumptions regarding public support for corporate GRIs.

While we do not rate Dubai World or Nakheel, we have adjusted our support assumptions based on the uncertain nature of policy formulation in Dubai and the difficulty in interpreting the local authorities' pronouncements.
2. These developments and Moody's subsequent downgrades have shifted a good part of Dubai's activities into high-yield territory, and will likely affect Dubai's financing conditions and overall strategy for an extended period.
3. Given our expectations that financing conditions will remain durably hostile for Dubai Inc, a question will be whether asset disposals overseas can realistically help mitigate financing difficulties. Should such a route be taken, we will closely monitor the

repercussions in the countries and sectors where such asset sales take place, and also whether these would weaken the otherwise robust Dubai GRIs that would be stripped of their assets.

4. The direct impact for banks locally and regionally, while significant, should be mitigated by the large-scale support provided by the federal authorities; the impact for international banks meanwhile is discernible but not material.
5. The rating of UAE, which is underpinned by Abu Dhabi's considerable balance sheet strength, is not threatened. Indeed, the "selective support" strategy, while fraught with operational difficulties, somewhat protects Abu Dhabi's finances.
6. The Dubai World default, which is essentially an effort to ring-fence government finances, cannot realistically present a contagion risk for other sovereign states globally. However, the Dubai World episode acts, on the one hand, as a reminder that some governments have stretched their balance sheets beyond comfortable levels during the crisis. And, on the other, presages that 2010 is likely to see more bouts of volatility as governments start implementing exit strategies from their protective policies.

IMPACT OF THE GLOBAL FINANCIAL CRISIS ON INDIA

Introduction

The financial crisis of 2007 -2010 has been called by leading economists the worst financial crisis since the Great Depression of the 1930s – Economist peter Morici has termed it " The Great Recession". It Contributed to the failure of key business, declines in consumers wealth estimated in the trillions of U.S dollars, substantial financial commitments incurred by governments and a significant decline in economic activities.

Global outlook

The Global economic outlook deteriorated sharply over the last quarter. IMF made a marked downward over the last quarter. IMF made a marked downward revision of its estimate for global growth in 2009 in purchasing power parity terms – from its forecast of 3.0 percent made in October 2008 to 0.5 percent in January 2009. With all the advanced economics – the United States, Europe, Japan having firmly gone into recession. Recent evidence suggests that contractionary forces are strong: demand has slumped, Production is plunging, Job losses are rising and credit markets remain in seizure. Most worryingly world trade – the main channel through with the down turn will get transmitted on the way forward is projected to contract by 2.8 percent in 2009.

India too has been impact by the crisis

And by much than it was suspected earlier.

How has india been hit by crisis?

A. Nadhiya & D. Revathi, M.Phil, Research Scholar
Department of Economics AVVM Sri Pushpam College, Poondi.

The contagion of the crisis has spread to India through all the channels the financial channel; the real channel, and importantly, as happens in all financial crisis, the confidence channel.

India's Financial Markets Equity markets, Money markets, Forex Markets and credit markets. Had all come under pressure from a number of directions. First, as a consequence of the global liquidity squeeze. Indian banks and corporate found their overseas financing drying up, forcing corporate to shift their credit demand to domestic banking sector. Also in their frantic search for financing, corporate with few their investments from domestic money market mutual funds putting financial companies where the MFs had invested a significant portion of their funds.

Conclusion

Over the last five years, both the central and state governments in India have made a serious effort to reverse the fiscal excesses of the past. At the heart of these efforts was the fiscal responsibility and budget management (FRBM) Act which mandated a calibrated road map of fiscal sustainability.

**THE ORIGIN OF FINANCIAL CRISIS AND
ITS IMPACT ON INDIAN ECONOMY**

The financial Crisis had its origin in US sub prime market. The sub prime lending involves no financial mortgages and the credit worthiness of the borrower is not properly gauged by the financial institutions. The primary reason for the failure of big financial institutions like Lehmann brothers, Washington Mutual etc. is due to the myopic lending policy of "NINA" No income and No assets. The banks extended their loans on the basis of popular hypothesis that "House Values will double in every five years in US", but this hypothesis is falsified due to recession.

The greedy CEOs of investment banks pushed up their leading to attain more "Umbrella benefits" aggravated the financial crisis. The credit agencies failed miserably to predict the glory side of the institutions. The federal reserve system is ineffective in preventing this contagion. The financial crisis slowly transformed into an economic crisis and has affected the entire globe including India. The brunt of the crisis is felt severely by IT industry of India, which contributes 52.5 percent of GDP. There is a large scale of retrenchment of workers and workers received pink slips.

Indian financial sector is relatively insulated from the global turmoil due to better regulatory mechanism like RBI and SEBI which are playing regulatory and developmental role in India. Besides this Indian Banking structure is dominated by public sector banks and not by private sector. The Indian economy is not export led economy and its strength is "domestic demand".

Another significant factor which protected India from global meltdown is the strong agricultural base and the existence of a big middle income class which fuelled the effective demand to spur the growth. To sum up, the impact of global crisis in India is minimal due to Government regulation and control.

Dr.T.M.Basheer Ahamed Lecturer (SS) in Commerce,
Jamal Mohamed College (Autonomous), Tiruchirappalli.

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