I.J.E.M.S., VOL.4 (1) 2013: 29-35 ISSN 2229-600X

INTERNATIONAL JOURNAL OF ENGINEERING AND MANAGEMENT SCIENCES

www.scienceandnature.org

# GLOBAL FINANCIAL CRISIS - 2008: IMPACT ON INDIA AND ITS POLICY RESPONSES

**[1]Kulkarni Keerti Gururaj, [2]Kulkarni Gururaj Anand**
[1]Global Business School, Hubli, Karnataka, India
[2]S.D.M.C.E.T., Dharwad, Karnataka, India

**ABSTRACT**
The Global Financial Crisis (GFC) - 2008 has been referred as the worst since the Great Depression of the 1930s. It has contributed to the failure of key businesses; decline in consumer wealth estimated in trillions of U.S. dollars; triggered a significant decline in economic activities; and prompted substantial financial commitments by the governments. 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 hitch-ups (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 the advanced economies, and from some elements of potential financial contagion. In this context, the present paper reviews the aftermath effects of the Global Financial Crisis – 2008 on the Indian economy, and its policy responses.

**KEYWORDS:** Global Financial Crisis, Great Depression, Gross Domestic Product.

## INTRODUCTION

The Global Financial Crisis (GFC) - 2008 has been referred as the worst since the Great Depression of the 1930s. It has contributed to the failure of key businesses; decline in consumer wealth estimated in trillions of U.S. dollars; triggered a significant decline in economic activities; and prompted substantial financial commitments by the governments. The main reasons for these failures were mortgage loans extended to borrowers at highly concessional terms; weak oversight and poor supervision of banks and financial institutions; and excessive relaxation of fundamental rules and regulatory requirements for financial institutions. As a result of the above weaknesses an accumulation of bad loans and business loss amounting to US$ 2.3 trillion (or 17 percent of the USA's Gross Domestic Product (GDP)) were realized. Both market-based and regulatory solutions have been implemented, while significant risks remain for the world economy.

Economies worldwide started slowing down in the late 2008 as credit tightened and international trade declined. Critics argued that the credit rating agencies and investors failed to accurately price the risk involved with mortgage-related financial products, and that the governments did not adjust their regulatory practices to address the 21st century financial markets. Governments and Central Banks responded with an exceptional fiscal stimulus, monetary policy expansion, and institutional bailouts (World Bank, 2009).[1]

To rescue the world economies from this global down turn, the International Monetary Fund (IMF) called for arrangements to provide emergency liquidity, improve financial sector supervision and take a comprehensive approach to financial sector stability assessment that includes all types of institutions.

## UNDERSTANDING THE CRISIS

Understanding the causes of the financial crisis is critical for restoring stability and, to avoid another crisis of this magnitude, through building a sound global financial system. While the postmortem is likely to continue for many years, the IMF's initial analysis pointed to a failure in the global architecture in providing adequate warnings prior to the crisis, especially in the surveillance of systemically important advanced countries, and regulatory failures at a number of levels:

- excessive leverage and risk taking, driven by a long period of low real interest rates and high growth;
- shortcomings in the approach to domestic and international financial regulation;
- fragmented regulatory structures;
- inadequate disclosure of risks; and
- weaknesses in crisis management and bank resolution frameworks.

In general, financial regulators were not equipped to see the risk concentration and flawed incentives behind the financial innovation boom. Neither market discipline nor regulation was able to contain the risks resulting from rapid innovation and increased leverage, which had been building up for years.

With respect to macroeconomic policy, the policymakers failed to take sufficiently into account the growing macroeconomic imbalances that contributed to the buildup of systematic risks in the financial system and in housing markets. Effective policy cooperation at the international level was not achieved, which compounded the risks inherent in the inability to spot growing vulnerabilities and cross-border links. Central Banks focused mainly on inflation, not on risks associated with high asset prices and increased leverage. Financial supervisors were preoccupied with the formal banking sector, not with the risks building in the shadow financial system.

As a consequence, the spreading financial crisis advanced further and faster in the FY2009 than expected, leading to an unprecedented contraction in global output and trade. The ramifications of the credit crunch and the sharp drop in asset prices were quickly passed on through banking systems to all sectors and countries in the global economy, and were magnified by the collapse of consumer and business confidence. Wide-ranging and sometimes unorthodox policy responses made some progress in stabilizing markets in the FY2009, although they were not able to arrest the circle of negative feedback between intensifying financial strains and weakening activity.

Economic activity and merchandise trade plummeted in the last quarter of 2008 across all markets and continued to fall rapidly in the early 2009. Global GDP contracted by over 6 percent (annualized) in the fourth quarter of 2008 and the first quarter of 2009. Advanced economies suffered considerably from the financial strains, and deterioration in the housing markets. In the emerging markets, in Europe and the Commonwealth of Independent States (CIS), which had been relying heavily on capital inflows to fuel growth, significant damage was inflicted early through financial channels. Countries that relied heavily on manufacturing exports like those in East Asia, Japan, Germany, and Brazil were battered by falling demand in export markets. Countries in Africa, Latin America, and the Middle East suffered from plummeting commodity prices; drop in demand for exports, lower remittances and foreign capital inflows.

Indeed, a sharp correction in the third quarter of 2008 brought an end to the commodity price boom. The IMF commodity price index declined by almost 55 percent during the second half of 2008. This sharp drop in commodity prices mainly reflected the adverse effect of the global slowdown on the demand for commodities. In particular, the sharper-than-expected downturn in emerging and less-developed economies in mid-2008 which had accounted for most of the incremental demand during the boom was a key factor explaining the drop in commodity prices. Prices broadly stabilized at the end of 2008. Commodities closely tied to manufacturing of capital goods were affected the most, while commodities with a lower income elasticity of demand like food experienced a milder price decline.

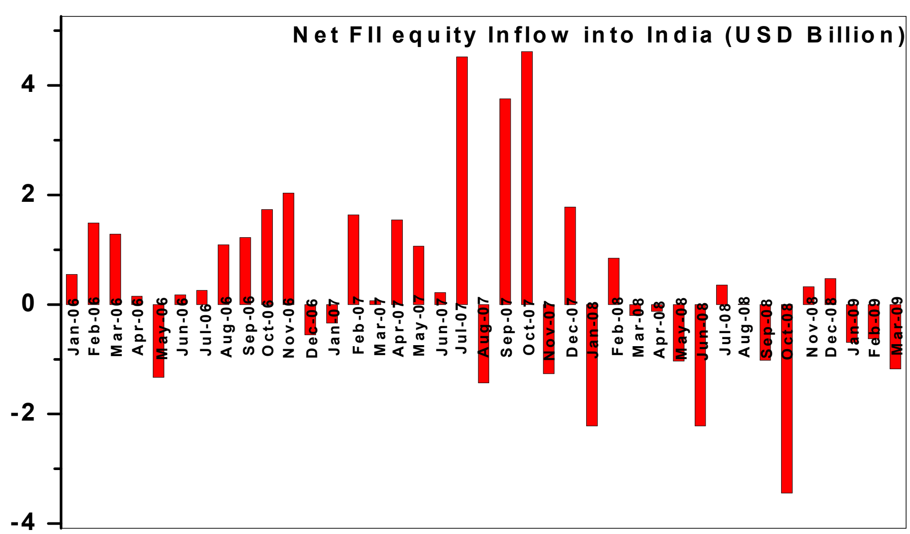
In most areas of the world, inflation pressures subsided rapidly, and rising economic slack contained price pressures. Headline inflation in advanced economies fell below 1 percent in the early 2009. Inflation moderated significantly in the emerging economies, although in some cases, depreciating exchange rates moderated the downward momentum.

Against this background, national and international policy initiatives were undertaken to spur a coordinated policy response to stabilize the financial system. The IMF, together with the World Bank and regional development banks, played a useful role by providing more front-loaded financing and streamlined conditionality. The Fund took actions to modernize its lending toolkit, including instituting the new Flexible Credit Line, to revamp the conditions on program loans and to expand its lending capacity.[2]

## IMPACT OF THE FINANCIAL CRISIS ON INDIA

### INDIA VIS-A-VIS REST OF THE WORLD

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 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 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.[3]



## ASPECTS OF FINANCIAL TURMOIL IN INDIA

### (a) Capital Outflow

The main impact of the global financial turmoil in India has emanated from the significant change experienced in the capital account in 2008-09, relative to the previous year. Total net capital flows fell from US$17.3 billion in April-June 2007 to US$13.2 billion in April-June 2008. Nonetheless, capital flows are expected to be more than sufficient to cover the current account deficit in 2009. While Foreign Direct Investment (FDI) inflows have continued to exhibit accelerated growth (US$ 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 of 2007.[3]

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 turmoil in advanced economies.

### (b) Impact on Stock and Forex Market

With the volatility in portfolio flows having been large during 2007 and 2008, the impact of global financial turmoil has been felt particularly in the equity market. Indian stock prices have been severely affected by foreign institutional investors' (FIIs') withdrawals. FIIs had invested over Rs 10, 00,000 crore between January 2006 and January 2008, driving the Sensex 20,000 over the period. But from January, 2008 to January, 2009, FIIs pulled out from the equity market partly as a flight to safety and partly to meet their redemption obligations at home. These withdrawals drove the Sensex down from over 20,000 to less than 9,000 in a year. It had seriously crippled the liquidity in the stock market. The stock prices have tanked to more than 70 per cent from their peaks in January 2008 and some have even lost to around 90 per cent of their value. This has left with no safe haven for the investors both retail and institutional. The primary market got derailed and secondary market got into the deep abyss.

Equity values being at very low levels and many established companies are unable to complete their rights issues even after fixing offer prices below related market quotations at the time of announcement. Subsequently, market rates went down below issue prices and shareholders are considering purchases from the cheaper open market or deferring fresh investments. This situation naturally has upset the plans of corporates to raise resources in various forms for their ambitious projects involving heavy outlays.[4]

In India, there is serious concern about the likely impact on the economy of the heavy foreign exchange outflows in the wake of sustained selling by FIIs on the bourses and withdrawal of funds will put additional pressure on dollar demand. The availability of dollars is affected by the difficulties faced by Indian firms in raising funds abroad. This, in turn, will put pressure on the domestic financial system for additional credit. Though the initial impact of the financial crisis has been limited to the stock market and the foreign exchange market, it is spreading to the rest of the financial system, and all of these are bound to affect the real sector. Some slowdown in real growth is inevitable.

Dollar purchases by FIIs and Indian corporations, to meet their obligations abroad, have also driven the rupee down to its lowest value in many years. Within the country also there has been a flight to safety. Investors have shifted from stocks and mutual funds to bank deposits and from private to public sector banks. Highly leveraged mutual funds and non-banking finance companies (NBFCs) have been the worst affected.

### (c) 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 emerging economies, particularly in Asia. The Indian banking system also has not experienced any contagion, similar to its peers in the rest of Asia.

The Indian banking system is not directly exposed to the sub-prime mortgage assets. It has very limited indirect exposure to the US mortgage market, or to the failed institutions or stressed assets. Indian banks, both in the public sector and in the private sector, are financially sound, well capitalized and well regulated. The average capital to risk-weighted assets ratio (CRAR) for the Indian banking system, as at the end of March 2008, was 12.6 per cent, as against the regulatory minimum of nine per cent and the Basel norm of eight per cent.

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.[5] Thus, no direct impact on account of direct exposure to the sub-prime market was in evidence.

Consequent upon filling of bankruptcy 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 Brothers Holdings Inc., which are not covered by the bankruptcy proceedings. Overall, these banks' exposure especially to Lehman Brothers Holdings 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.[3]

### (d) Impact on Industrial Sector and Export Prospect

The financial crisis has clearly spilled over to the real world. It has slowed down industrial sector, with industrial growth projected to decline from 8.1 per cent for 2007 to 4.82 per cent for 2008.[6] The service sector, which contributes more than 50 per cent share in the GDP and is the prime growth engine, is slowing down, besides the transport, communication, trade, hotels and restaurants sub-sectors. In manufacturing sector, the growth has come down to 4.0 per cent in April-November, 2008 as compared to 9.8 per cent in the corresponding period of 2007. Sluggish export markets have also very adversely affected export-driven sectors like gems and jewellery, fabrics and leather, to name a few. For the first time in seven years, exports have declined in absolute terms for five months in a row during October 2008 - February 2009.[7]

In a globalised economy, recession in the developed countries would invariably impact the export sector of the emerging economies. Export growth is critical to the growth of Indian economy. Export as a percentage of GDP in India is closer to 20 per cent. Therefore, the adverse impact of the global crisis on our export sector should have been marginal. But, the reality is that export is being and will continue to be adversely affected by the recession in the developed world. Indian merchandise exporters are under extraordinary pressure as global demand is set to slump alarmingly. Export growth has been negative during the last quarter of 2008 and the government has scaled down the export target for the financial year 2009 - 10 to $175 billion from $200 billion.

**(e) Impact on Employment**

Industry is a large employment intensive sector. Once, industrial sector is adversely affected, it has cascading effect on employment scenario. The services sector has been affected because hotel and tourism have significant dependency on high-value foreign tourists. Real estate, construction and transport are also adversely affected. Apart from GDP, the bigger concern is the employment implications.[8] A survey conducted by the Ministry of Labour and Employment states that in the last quarter of 2008, five lakh workers lost jobs. The survey was based on a fairly large sample size across sectors such as Textiles, Automobiles, Gems & Jewellery, Metals, Mining, Construction, Transport and BPO/ IT sectors. Employment in these sectors went down from 16.2 million during September 2008 to 15.7 million during December 2008.[9] Further, in the manual contract category of workers, the employment has declined in all the sectors/ industries covered in the survey.

The most prominent decrease in the manual contract category has been in the Automobiles and Transport sectors where employment has declined by 12.45 per cent and 10.18 per cent respectively. The overall decline in the manual contract category works out to be 5.83 per cent. In the direct category of manual workers, the major employment loss of 9.97 per cent is reported in the Gems & Jewellery, followed by 1.33 per cent in Metals.[10] Continuing job losses in exports and manufacturing, particularly the engineering sector and even the services sector are increasingly worrying. Protecting jobs and ensuring minimum addition to the employment backlog is central for social cohesiveness.

**(f) Impact on poverty**

The economic crisis has a significant bearing on the country's poverty scenario. The increased job losses in the manual contract category in the manufacturing sector and continued layoffs in the export sector have forced many to live in penury. The World Bank has served a warning through its report, "The Global Economic Crisis: Assessing Vulnerability with a Poverty Lens," which counts India among countries that have a "high exposure" to increased risk of poverty due to the global economic downturn.[11] Combined with this is a humanitarian crisis of hunger. The Food and Agriculture Organization said that the financial meltdown has contributed towards the growth of hunger at global level. At present, 17 per cent of the world's population is going hungry. India will be hit hard because even before meltdown, the country had a staggering 230 million undernourished people, the highest number for any one country in the world.[12]

## INDIAN ECONOMIC OUTLOOK

India is experiencing the knock-on effects of the global crisis, through the monetary, financial and real channels – all of which are coming on top of the already expected cyclical moderation in growth. Our financial markets – equity market, money market, forex market and credit market – have all come under pressure mainly because of what we have begun to call 'the substitution effect' of: (i) drying up of overseas financing for Indian banks and Indian corporates; (ii) constraints in raising funds in a bearish domestic capital market; and (iii) decline in the internal accruals of the corporates. All these factors added to the pressure on the domestic credit market. Simultaneously, the reversal of capital flows, caused by the global de-leveraging process, has put pressure on our forex market. The sharp fluctuation in the overnight money market rates in October 2008 and the depreciation of the rupee reflected the combined impact of the global credit crunch and the de-leveraging process underway.[13]

In brief, the impact of the crisis has been deeper than anticipated earlier although less severe than in other emerging market economies. The extent of impact on India should have been far less keeping in view the fact that our financial sector has had no direct exposure to toxic assets outside and its off balance sheet activities have been limited. Besides, India's merchandise exports, at less than 15 per cent of GDP, are relatively modest. Despite these positive factors, the crisis hit India has underscored the rising trade in goods and services, and financial integration with the rest of the world.

Overall, the Indian economic outlook is mixed. There is evidence of economic activity slowing down. Real GDP growth has moderated in the first half of 2008/09. Industrial activity, particularly in the manufacturing and infrastructure sectors, is decelerating. The services sector too, which has been our prime growth engine for the last five years, is slowing mainly in construction, transport, communication, trade, hotels and restaurants subsectors. The financial crisis in the advanced economies and the slowdown in these economies have some adverse impact on the IT sector. According to the latest assessment by the NASSCOM, the software trade association, the developments with respect to the US financial markets are very eventful, and may have a direct impact on the IT industry. About 15 per cent to 18 per cent of the business coming to Indian outsourcers include projects from banking, insurance and the financial services sector which is now uncertain. For the first time in seven years, exports had declined in absolute terms in October 2008. Data indicate that the demand for bank credit is slackening despite comfortable liquidity. Higher input costs and dampened demand have dented corporate margins while the uncertainty surrounding the crisis has affected business confidence.

On the positive side, on a macro basis, with external savings utilization having been low traditionally, between one to two per cent 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 remain healthy.[14] Inflation, as measured by the wholesale price index, has fallen sharply, and the decline has been sustained for the past few months. Clearly, the reduction in prices of petrol and diesel announced in the past months should further ease inflationary pressures.

## INDIA'S CRISIS RESPONSES AND CHALLENGES

### (i) State of Economy in Crisis Time

There have been several comforting factors going into the slowdown. First, our financial markets, particularly our banks, have continued to function normally. Second, 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. Third, headline inflation, as measured by the wholesale price index (WPI), has declined sharply. Consumer price inflation too has begun to moderate. Fourth, because of mandated agricultural lending and social safety-net programmes, rural demand continues to be robust.[15] After averaging nine per cent growth over the last four years, economic activity in India has slowed since the last quarter of 2008. And, the slowdown caused by the painful adjustment to abrupt changes in the international economy had resulted in making changes in the growth projections. The Economic Advisory Council to the Prime Minister in its review of the economy for the year 2008-09 has revised the GDP growth to 7.1 percent. However, the Annual Policy Statement of RBI had projected real GDP growth of 6.0 per cent for 2009 -10. Domestic demand, in the form of both private consumption and investment expenditure, has slackened although government final consumption rose on account of discretionary fiscal stimulus measures. The global crisis brought to the fore the strong interactions between funding liquidity and market conditions. Both the Government and the Reserve Bank responded to the challenge of minimising the impact of the crisis on India in a coordinated and consultative manner.

### (ii) RBI's Crisis Response

On the financial side, the Reserve Bank of India took a series of measures in matching risk management with fiduciary and regulatory actions. The Reserve Bank's policy response was aimed at containing the contagion from the global financial crisis while maintaining comfortable domestic and forex liquidity. 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. Through the Reserve Bank's actions, the cumulative amount of primary liquidity potentially available to the financial system is about 7 per cent of GDP.[16] Taking a cue from the Reserve Bank's monetary easing; most banks have reduced their deposit and lending rates. Besides, a calibrated regulatory framework was put in place by the RBI to address the issue of systemic risk, which included prudential capital requirements, exposure norms, liquidity management, asset liability management, creation of entity profile and reporting requirements, corporate governance and disclosure norms for non banking finance companies defined as systemically important.[17]

### (iii) Government's Crisis Response

The Government launched three fiscal stimulus packages between December 2008 and February 2009. These stimulus packages came on top of an already announced expanded safety-net programme 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 combined impact of these fiscal measures is about 3 per cent of GDP.[14]

There are several challenges in the direction of implementing the fiscal stimulus packages, particularly stepping up public investment; revival of private investment demand; unwinding of fiscal stimulus in an orderly manner; maintaining the flow of credit while ensuring credit quality; preserving financial stability along with provision of adequate liquidity; and ensuring an interest rate environment that supports the return of the economy to a high growth path.

It is believed that the fiscal and monetary stimulus measures initiated during 2008-09 coupled with lower commodity prices will cushion the downturn by stabilizing domestic economic activity. On balance, real GDP growth for 2009-10 is placed at around 6.0 per cent. Inflation, as measured by variations in WPI, is projected to be around 4.0 by end-March, 2010. Consumer price inflation too is declining, albeit less sharply. Notwithstanding several challenges, the Indian economy remains resilient with well functioning markets and sound financial institutions. The macro-economic management has helped in maintaining lower volatility in both financial and real sectors in India relative to several other advanced and emerging market economies. The Government pursued the opening of the economy and globalisation in a way that blends the market and the state in a more judicious way than some of the other economies.

### (iv) The Risks and Challenges

While the risks from the uncertainties in the global financial markets continue to persist, there are risks on the domestic front too. The challenge is how to manage the recovery. The fiscal and monetary responses will have to weigh in the state of the economy going forward in future. If the global recovery takes root and private investment demand revive faster; there could be less of a case for further stimulus. Risk management in the macro-economy is a formidable challenge. Clearly there are no easy ways; however, three aspects: monetary policy, fiscal policy, and financial stability merit special mention to understand the contour of uncertainties.

**(a) Monetary policy**

On the monetary policy front, managing the risk calls for maintaining ample liquidity in the system. The RBI has done so through a variety of instruments and facilities. And in the April 2009 policy review, it has extended the tenure of many of these facilities. Some will argue, and rightly so, that this might be sowing the seeds of the next inflationary cycle. And this is exactly the kind of risk one has to grapple with. So while the Reserve Bank will continue to support liquidity in the economy, it will have to ensure that as economic growth gathers momentum, the excess liquidity is rolled back in an orderly manner.[18]

The rise in macroeconomic uncertainty and the financial dislocation of 2008 have raised a related problem. The adjustment in market interest rates in response to changes in policy rates gets reflected with some lag. In India monetary transmission has had a differential impact across different segments of the financial market.

While the transmission has been faster in the money and bond markets, it has been relatively muted in the credit market on account of several structural rigidities. However, the earlier acceleration of inflation coupled with high credit demand appears to have added to these rigidities by prompting banks to raise deposits at higher rates to ensure longer term access to liquidity. High deposit rates in turn have not allowed banks to cut lending rates at a faster pace consistent with the growth and inflation outlook. Although deposit rates are declining and effective lending rates are falling, there is clearly more space to cut rates given declining inflation. Making liquidity available in sufficient quantity, as RBI has done, should also help by giving confidence to banks of the availability of funds.

**(b) Fiscal policy**

The challenge for fiscal policy is to balance immediate support for the economy with the need to get back on track on the medium-term fiscal consolidation process. The fiscal stimulus packages and other measures have led to sharp increase in the revenue and fiscal deficits which, in the face of slowing private investment, have cushioned the pace of economic activity.

Providing stimulus packages may be a short-term help, but sustainability of the recovery requires returning to responsible fiscal consolidation. The borrowing programme of the Government has already expanded rapidly. The Reserve Bank has been able to manage the large borrowing programme in an orderly manner. Large borrowings by the Government run against the low interest rate environment that the Reserve Bank is trying to maintain to spur investment demand in keeping with the stance of monetary policy.

**(c) Financial stability**

Beyond monetary and fiscal policies, preserving financial stability is the key to navigating these uncertain times. A sound and resilient banking sector, well-functioning financial markets, robust liquidity management, payment and settlement infrastructure are the pre-requisites for financial stability. The banking sector in India is sound, adequately capitalized and well-regulated. By all counts, Indian financial markets are capable of withstanding the global shock, perhaps somewhat bruised but definitely not battered.[14]

Amidst the din of the financial turmoil and the all-consuming fixation on rate cuts over the last six months, a seminal report on the health of the Indian financial system has brought encouraging news. In March 2008, the Government and RBI jointly released the report of the Committee on Financial Sector Assessment (CFSA) that was co-chaired by Deputy Governor, RBI and Finance Secretary, Government of India. The report is the culmination of work started in September 2006 to undertake a comprehensive self assessment of India's financial sector, particularly focusing on stability assessment, stress testing, and in compliance with all financial standards and codes.

## CONCLUSIONS

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. The credit derivatives market is in nascent stage; the innovations of the financial sector 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 rabid profit making. 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.

Despite all these, the global economic slowdown has hit the vital sectors of our economy, posing serious threats to economic growth and livelihood security. The crisis is forcing countries around the world to test the limits of their fiscal and monetary tools. India is no exception. A series of fiscal and monetary measures have been taken by the Government and the RBI to minimize the impact of the slowdown as also to restore the economic buoyancy.

## BIBLIOGRAPHY


[1] Global Monitoring Report; A Development Emergency; The International Bank for Reconstruction and Development / The World Bank report, Washington DC (2009).

[2] Taylor John B., "Housing and Monetary Policy," paper presented at the Federal Reserve Bank of Kansas City 31st Economic Policy Symposium, "Housing, Housing Finance and Monetary Policy," Jackson Hole, Wyoming, (August 31 – September 1, 2007).

[3] Dr. Rakesh Mohan, Deputy Governor, RBI, "Global Financial Crisis and Key Risks: Impact on India and Asia" remarks made at IMF-FSF High-Level Meeting on the Recent Financial Turmoil and Policy Responses at Washington D.C. on October 9, 2008

[4] P.A. Seshan, "Concern over impact of U.S. crisis", The Hindu, October 13, 2008

[5] www.rbi.org.in

[6] The Hindu, February 16, 2009

[7] Annual Policy Statement for the Year 2009 – 10, RBI

[8] N.K. Singh, "A matter of trust", The Hindustan Times, October 20, 2008

[9]Report on Effect of Economic Slowdown on Employment in India (October – December 2008), Government of India, Ministry of Labour and Employment, Labour Bureau, Chandigarh, January 2009, p. 10

[10] Ibid, p. 14

[11] The Global Economic Crisis: Assessing Vulnerability with a Poverty Lens", The World Bank Policy Note, Newsletter n. 5, February 2009

[12] Kum Kum Dasgupta, "Less on our plate", The Hindustan Times, December 30, 2008

[13] "The Global Financial Turmoil and Challenges for the Indian Economy" Speech by Dr. D. Subbarao, Governor, Reserve Bank of India at the Bankers' Club, Kolkata on December 10, 2008

[14] Ibid

[15]Speech delivered by Dr. D. Subbarao, Governor, Reserve Bank of India at the Financial Management Summit 2009 organized by the Economic Times on May 22, 2009 in Mumbai

[16]Statement by Dr. D. Subbarao, at the International Monetary and Financial Committee, Washington D.C, April 25, 2009

[17]Remarks of Shyamala Gopinath, Deputy Governor RBI, at the Ninth Annual International Seminar on Policy Challenges for the Financial Sector, co-hosted by The Board of Governors of the Federal Reserve System, The IMF, and The World Bank on **"**Emerging from the Crisis – Building a Stronger International Financial System", June 3-5, 2009**,** Washington, D.C.

[18]Speech delivered by Dr. D. Subbarao, Governor, Reserve Bank of India at the Financial Management Summit 2009 organized by the Economic Times on May 22, 2009 in Mumbai