Global Financial Melt-Down: Whither India?

Dr. N. S. Shetty *

The on-going global financial crisis, the worst since the depression of the 1930s, is unlikely to end soon. Though, the epicenter of the crisis is the United States (US), like an epidemic in which an invisible virus infects many people and communities, the financial crisis has also spread rapidly across the world. With interdependence and interconnected markets, globalization has globalised the crisis. The landscape of global financial system has been transformed beyond recognition by bankruptcies, takeovers and state intervention. It has also exposed the glaring weaknesses in financial institutions: - how they are supervised and regulated and how vulnerable they are. Despite the government's interventions to bail out failed financial institutions and central banks' liquidity support and lower interest rate policy, the global financial crisis has deepened and broadened. It is no more a financial crisis; it is now spreading as a general economic crisis world-wide. With the sharp downturn in the global economy, the world is crippled with the fear of recession. The human impacts of recession are severe and likely to persist long.

All these raise a number of questions: How did the crisis become so severe? What are the proximate causes? How long the crisis will continue? How does this impact the real economy? What would be its impact on the country like India? Is India immune to the global financial melt-down because of the "strong fundamentals" of the economy and the supposedly well regulated banking system? What can be done to minimize the likelihood of this type of financial turmoil in future? What are the lessons for policy for ensuring that it does not occur again?

Since the crisis is on-going and spreading rapidly, it is difficult and premature to find the right explanations to all these questions now. Although it is more than a year since the subprime crisis hit the US, its impact is now being felt and likely to be continued for some more time. In this article, an attempt is made to tackle some of these important questions based on the available information. Since the financial crisis erupted in the US first, the proximate causes, which led to the crisis, the magnitude of the problem and policy interventions envisaged to tackle the problem are looked into to provide a backdrop for discussion in the article. In the subsequent sections, the main focus is centered around the implications of the crisis on the global financial system and its impact on the Indian economy. In the concluding section, the lessons to be drawn for India and the steps to be taken to shore up the global financial system to mitigate the risk of this type of crisis are highlighted.

Unraveling Financial Crisis

A sub-prime crisis started in the US in summer 2007[1]. The underlying cause for subprime crisis started with poor underwriting practices, in which risky home loans against sub-mortgage were originated. It then became an asset-backed security that formed part of a collateralized debt obligation (CDO). The CDO was subsequently rated and sold to investors (Dodd and Mills, 2008). Prudent banking dictates that in making subprime loans, lenders must control the risks by more closely evaluating the borrower, setting higher standards for collateral and charging rates commensurate with the greater risks. With the real estate boom and appreciating house prices, the normal banking standards were diluted in sub-prime lending and consequently, many sub-mortgages were *ninja* loans – no income, no job and no assets (Dodd, 2007). The justification for such risky lending was the boom in the real estate. The potential

* Emeritus Professor, JKSH Institute of Management, Nitte.

repayment problems could be mitigated by rapidly appreciating market prices for the collateral houses.

The problem of subprime lending was aggravated by securitization process, in which the CDOs were passed on to investors through trusts[2]. The banks lent to Ninja, sold the loans to investment banks, who, in turn, borrowed from banks. With the real estate boom, the subprime lending spurred competition among financial institutions that took unsafe lending to unprecedented levels. Large number of borrowers, brokers and appraisers inflated house prices and borrowers' income on loan applications. Derivatives, futures, etc., multiplied at an alarming rate with securitization of toxic assets. The investor banks entirely relied on the assessment of credit rating agencies for this process. The subprime mortgage backed securities and CDOs in derivative markets were new to the credit rating agencies[3]. In absence of adequate and reliable information, almost all subprime mortgage loans were rated securities with top rating of AAA (IMF, 2008).

All of the securities and derivatives involved in the current financial crisis were traded in over the counter (OTC) markets, which are less transparent and operate without any regulatory framework. Compounding the problem was the unprecedented leverage. High degrees of leverage, in which investors borrowed heavily from the banks and used derivatives to increase returns to capital, made investment strategies vulnerable to market price fluctuations. Banks like Lehman Brothers borrowed $35 for every dollar of equity (Raj, 2008). During the boom, low capital delivered higher profits, but left them with little cushion, when asset prices started falling. When investment banks went broke, it endangered the banking system itself. Initially, when there was crash in asset prices, the problem was simply liquidity. No one was willing to lend against subprime mortgage backed securities and banks were unwilling to sell them at a loss. Ultimately, the problem has led to solvency, as most of the banks are grossly undercapitalized. Banks have virtually stopped lending to each other. There was a breakdown in interbank market. Credit derivatives, commercial papers, municipal bonds and securitized student loans also were traded in OTC markets and faced problems of illiquidity and dysfunctional (Dodd and Mills, 2008), which further aggravated the crisis.

Globalization of the Virus

Historically, the financial and economic crisis, whenever occurred, impacted only in the country of origin and its spread to other countries was only limited. Now the world's economy is far more interdependent and interconnected than ever before. With globalization, financial institutions and financial markets around the world are closely tied together. Shrinking space, shrinking time and costs and disappearing borders are linking people's lives more deeply, more intensely and more immediately than ever before (UNDP, 1999). Consequently, shocks in one part of the global financial system can have immediate effects on other parts of the system. Globalization has, thus, globalized the spillover effects of crisis. The financial crisis has gone global like a virus.

The US, being the largest economy in the world, has tremendous influence over financial markets all over the globe. By virtue of their position, they managed to sell highly rated securitized package mortgages to their low-credit quality buyers to foreign banks and investors particularly in European countries and Japan. Many foreign investors were induced to take on more risks. Investment in riskier assets and strategies in search of higher yield became the norm in the global financial market. The financial institutions in the US started adopting aggressive practices to enlarge their business all over globe. Innovation and new products such as securitization, derivatives, junk bonds, stock options, futures etc. became the buzzwords and proliferated at an alarming scale. When greed became the driving force, zeal replaced professionalism. Instead of recovering advances lent, outstanding debts were securitized and sold away to foreign investors. The financial crisis triggered by US subprime mortgage lending crisis has, thus, been transmitted through connected markets and inancial institutions

Once the asset price boom busts in the US, many of their borrowers began defaulting. Securities issued against mortgage packages fell dramatically in price. With the collapse of house market and falling prices of houses in the US, loan delinquencies and foreclosures have risen sharply. The virus has spread widely and deeply. The financial institutions from other countries were not surprisingly caught in the web of this virus. It spread first to G-7 developed countries, and thereafter, to other countries. It has now a global reach. When the US and developed countries sink, they will definitely take the rest of the world with them, thanks to globalization. The global financial market, thus, became an easy prey to the US subprime crisis.

Gravity of Crisis

It is almost impossible to determine the magnitude of the spillover effects of the US subprime financial crisis. Although the subprime crisis has started in 2007, it is still causing crisis that spread across the world. According to the information available, the major banks of US had created debts to the tune of 30-40 times of their equity against the prudential norm of not exceeding ten times. Over $6 trillion of mortgage securities were created by Wall Street firms by packaging individual loans made in the US (Chithelen, 2008). The size of credit default swaps (CDS) market is estimated at $62 trillion, four times the GDP of the US. The derivatives trade had grown five times during the last three years and exceeded $500 trillion, thus making this shadow economy almost ten times bigger than the real economy of the world (Naik, 2008). This will mean more corporate and banking defaults. Some experts predicted that at least 4000 US banks will go bust.

International Monetary Fund (IMF), in its April 2008 Global Financial Stability Report has estimated that the global losses as a result of subprime crisis could reach $945 billion. Iceland bank's toxic assets are estimated at ten times more than its GDP. Its government clearly cannot afford to bail out its banks. In UK, four major banks were bankrupt. The gravity of financial crisis can be also gauged from the fact that the cost of the rescue of these failed financial institutions has been estimated at an amount close to 2 trillion dollars, equivalent to twice of India's national income. In spite of bailout packages by the governments, both in US and Europe, the stock markets world over have plunged further as the feeling of uncertainty continues. It is the fear of the magnitude of losses and its spillover impact that is crippling financial markets world-wide.

The gravity of the crisis can be also gauged from the multi-billion dollars bail out packages announced by the various governments all over the world to shore up the confidence in tottering global financial system. The bailout packages announced have mainly focused on: infusion of liquidity into markets, purchase of distressed assets, providing guarantee to the inter-bank markets and injection of public capital directly into the banks by purchase of their shares[4]. The US has committed $700 billion as a bailout package, besides nationalizing some failed banks. European nations have committed more than $2.4 billion for fighting the crisis by buying bank shares and providing loan guarantees to keep credit markets moving.

Fear of Recession

The main area of concern is now the onset of severe recession – the fear of the fallout of the financial crisis on real economy and life of people. No body can predict how long and how serious the financial crisis will be. The crisis in the credit market has far reaching implications on the real sectors, since finance is the lubricant that facilitates transactions among different players in the economy. With the monetary melt down, consumer and business spending collapse. A slowdown in consumer spending would reduce the demand for the goods and services of developing countries. The goods will pile up waiting for buyers and prices will fall, suffocating investments and worsening joblessness for years. The downturn in economic activities will hit severely remittances, investment flows, employment and world trade. Virtually, every major sectors of the economy will be hit by the financial turmoil. Financial crisis has to therefore ultimately mutate into a recession.

In the US, it is estimated that nearly two trillion credit loss due to subprime lending is plaguing the consumers' demand and private investment. If one takes into account massive current account deficit, budgetary deficit of $ 455 billion during the current fiscal year and more than $10 trillion debt burden that the US has, implications for global economy becomes grimmer. The economic downturn in the US economy would trigger loss of jobs and steep fall in demand. Being the largest economy in the world, if the US demand shrinks, global demand will be hit. IMF has predicted zero growth in the US in the next two years. Industrial production has fallen steeply and the unemployment is already above 6 percent and expected to reach above 8 percent by the end of this year. With unemployment of 6 percent, underemployment in double digits and zero growth, the US is witnessing the worst recession since Great Depression (Krugman, 2008). The recession in the US economy is bound to make severe tremors, if not a quake in the global economy.

Another source of spillover is no growth in European countries and Japan. The financial institutions in Europe and Japan hold substantial quantities of toxic US securities. The resultant financial crisis in Europe will severely impact slow-down in economic activities in these countries, which will further aggravate global economic downturn. International Labour Organization (ILO) has projected that world unemployment could increase by 20 million by the end of 2009 – surpassing the 200 million mark of global unemployed for the first time. People working in such sectors as construction, automotive, tourism, finance, services and real estates will be hit the hardest first and thereafter manufacturing sector. It is now increasingly clear that the global financial crisis has its reverberations on both developed and developing world. Rescuing the banking system from financial crisis is just the beginning; the real economy all over the world is now in desperate need of help. What is required now is a global rescue plan for the real economy and working people world over.

Impact on Indian Economy

In the context of global financial meltdown, it is important to know whether Indian economy is immune to the global financial meltdown. If not, what would be its impact? When the financial crisis erupted, there was some premature optimism that India would be immune to the global financial melt down because of the strong economic fundamentals, high growth and well regulated banking system. A decoupling theory was being propagated suggesting that along with China, India would witness high growth and financial crisis have no significant impact[5]. However, this myth of decoupling has been exploded under the tattered illusions of the optimists (Kumar, 2008). The fear of recession and downward spiral of economic activities already set in the India. It is impossible to insulate Indian economy completely from what is happening in the financial systems of the world.

The impact of global financial crisis on India should be viewed from two angles: one, its immediate impact on Indian financial markets and two, its impact on real economy.

Impact on Financial Markets

Indian banks, being traditionally conservative, took good care of their clients' funds and were very strict in observing their lending norms notwithstanding political interference and targeted lending. They were also adequately capitalized and adopted prudential norms for lending after the economic reforms. Even when total deregulation was the order of the day all over the world in the recent past, the Reserve Bank of India (RBI) has not relaxed the regulatory and supervisory surveillance. The RBI has also strictly regulated banks on their exposure to capital market. Moreover, the Indian banking system was not directly exposed to the subprime mortgage assets. Their exposure to the US toxic assets is also minimal. As a result of all these, no doubt India has been spared from the global financial panic.

Due to RBI's cautious policy, Indian banks are not heavily exposed to the more sophisticated types of innovative financial products such as securitization and hedge funds to invest in Indian equities and real estates. Credit also goes to the RBI in delaying capital convertibility and greater FDI in Indian Banking in spite

of pressure both domestically and internationally. The total capital convertibility would have exposed the financial sector to much greater contagion from the current mess (Ghosh, 2008). Above all these, *the most important factor which sustained the public confidence in the banking system is the public sector ownership of major banks.* The public have faith in the government owned banks.

India is, however, not free from its own home-grown potential subprime crisis, which may arise due to sharp increase in the higher risk retail credit exposure of banking system such as housing loans, credit card dues outstanding, auto loans etc. in recent years (Chandrasekar, 2008). Besides risky retail credit exposure, the Indian financial sector also had begun to experiment securitizing loans of all kinds to transfer the risks associated with them to those who could be persuaded to buy them. Tarapore Committee had estimated a little more than Rs. 40,000 crore of credit as subprime quality by November 2007. Adding to this, there is the exposure of the banking system to the sensitive sectors such as capital market, real estate and commodity markets. At the end of financial year 2007, the credit exposure to sensitive sectors was around a fifth of aggregate bank loans. The defaults of these loans could trigger a banking crisis in India.

Notwithstanding this, Indian banks also lost around $2 billion on account of the sub-prime crisis in the US[6]. ICICI Bank has reported market loss of $264.3 million on account of its exposure to overseas credit derivatives and investments in fixed income assets. Even public sector banks like SBI, Bank of Baroda and Bank of India too were hit by such exposure to some extent. The subprime credit exposure of foreign banks is not known and it must be substantial.

Indian capital market has, however, witnessed an unprecedented crash by more than 60 percent during the last three months in line with the falling capital markets across the world. This fall was driven by FIIs, who have been pulling out from the market in a big way. The capital flows in the Indian stock market under FII was on account of the hedge funds and easy liquidity in the US financial system[7]. Total FII investment in the stock market is estimated at $54 billion. With subprime crisis and fear of recession in the US, FIIs are withdrawing from the Indian stock market. Already, a little more than $12 billion were drawn out of the system by FIIs.

Impact on Real Economy

As regards the impact on the real economy, the question to be asked would be whether Indian economy's fundamentals are sound and strong to cope up with the onslaught of the on-going global recession? Till the fiscal year ending 2008, India was in the high growth trajectory of 8 - 9 percent plus per annum and inflation was below 4 percent. Though, the high economic growth was mainly driven by consumer demand, service sector and external trade, industrial sector, which was almost stagnant in the past, witnessed an average growth of 10 percent. However, this rosy picture has undergone a dramatic change and the Indian economy is now experiencing a downturn.

The industrial growth is faltering, inflation has gone up to double digits level, the stock market crashed, the current account deficit is widening, foreign exchange reserves are depleting and the rupee value is depreciating. Agricultural growth is decelerating and below 2 percent. The alarming bell has been sounded already with the industrial output data exhibiting dramatic downturns (1.2 percent growth during the last quarter). The future of the IT sector is in doldrums with the recession in the US and European countries. It will not be surprising, if a good number of IT, BPO and export sectors become insolvent in the immediate future. Some manufacturing industries with large exposure to western markets, such as automotive components and textiles will also feel the pinch. This impact is bound to spill over to ancillary industries. With the credit crunch, medium and small sectors will find the going tough.

A widening current account deficit, large capital outflows that funded the equity and bond markets and external currency borrowings (ECB) that the private companies used for their own expansion and acquisitions

exposed India to the reverse capital flows. The corporate borrowings from the global markets are becoming increasingly difficult, raising money for new investment through public issues is on hold and liquidity in the economy is fast drying up. The recession generated by the financial crisis in the developed countries will also adversely affect India's exports and foreign investments. The US accounts for 60 percent of IT revenues of which 40 percent comes from their financial sector. Indian IT companies, therefore may not able to meet the 2010 export target of $60 billion and the potential job losses will be enormous. The same is the case with reference to textile exports, which depend on the growth of the US and European economies. They are the major importing countries of India's textiles and leather products. The worsening economic conditions in these countries will weaken the demand for India's goods and services in general.

The global financial meltdown would, thus, pose immediate and long term challenges to the Indian real economy. The RBI, recognizing slowdown in the economy, has reduced its previous growth estimate of 7.9 percent to 7.5 percent for the fiscal year 2009. Recently, Asian Development Bank (ADB) has also down scaled the growth of Asian economies including India in its half-yearly report[8]. India's GDP has been downgraded from 8 percent to 7.4 percent for 2008-09 and for the next fiscal year from 8.5 percent to 7 percent (2009-10). As pointed out by ADB, very large fiscal imbalance created by the current level of subsidization of oil, fertilizers and food as well as oil budget items sets a daunting task for economic management in the context of recession. With the financial turmoil in the US and Europe showing signs of further worsening, it will not be surprising if GDP growth in India turns out to be even lower than that projected by ADB and RBI.

To avoid liquidity crisis and instill confidence in the banking sector, the RBI has reduced Cash Reserve Ratio (CRR) from 9 to 5.5 percent and repo rate by 1.5 percent in phases. The RBI has injected more than Rs.3,00,000 crore liquidity into the system. So far the impact was very little. The liquidity problem in the economy mainly arose not because of lack of confidence and credit crunch in the banking system, but because of FIIs' capital outflow and the RBI's intervention to maintain the rupee value in the external market. Increasing liquidity without absorbing capacity in the economy will have adverse implication on the real economy. Inflation is already in two digits and there is no hope of significant decline.

With the events unfolding at breakneck speed, fire fighting initiatives have to look beyond the immediate liquidity problem of the economy. The main problem faced by the economy today is the fear of recession. Only a fiscal stance to increase government investment to stimulate demand will help to overcome the present crisis. When the private sector is reluctant, the public investment to stimulate private investment is only the solution. The government can stimulate that confidence by investing in infrastructure, by allowing the small and micro enterprises to expand their output and employment and by increasing the private sector's confidence in the stock market.

However, in India, with the increase in government recurrent expenditure and burgeoning subsidies, the fiscal deficit is already higher than 5 percent. The government is, hence, relying more on the monetary policy to stimulate investment in the private sector. It is doubtful whether infusion of more liquidity through reduction in CRR and decline in interest rate will stimulate private investment, when there is a recession and lack of effective demand for credit. The liquidity trap during recession as envisaged by Keynes is not lack of credit or credit crunch. Indian banks are not faced with liquidity problems or credit crunch. The main problem is lack of absorbing capacity of the economy; unwillingness to invest and spend and reluctance on the part of banks to lend due to economic uncertainty. It is also unfortunate that the government is more preoccupied with stock market crash and the impact on real economy is completely ignored[9]. The Government of India is yet to come up with a coherent policy response to cope with the recession in the economy.

Lessons for India

Though, what is happening is tragic and its implications on the real economy are serious, if the right lessons are drawn from this disaster, the crisis would at least serve a purpose. Some important lessons that India can draw from the future policy perspective can be summarized as under:

1. Financial liberalization and globalization have exposed the vulnerability of the banking and financial institutions world-wide. With the close financial linkages, volatile financial flows, free mobility of capital, fluctuating capital markets driven by speculators and cross border investment and trade, the policy makers and regulators are require to keep a track on behavior of market players and moral hazard and enhance their prudential tool kits to understand and address the recurring problems of intricacies of today's fragile global financial system.
2. The financial crisis triggered by the subprime lending proved the failure of governance in the banking system in the US and other developed countries. India was saved from the financial panic mainly because the banks were all the time adhering to the traditional banking principles and credit standards. Strangely, financial institutions of US and European countries were lecturing to the rest of the world on "best practices" "transparency" Stakeholders interest" and "risk management and coping with risks". All these were missing in these countries.
3. The absence of the central bank's regulatory and supervisory oversight was one of the primary causes of the US subprime crisis. Financial institutions raise money from public directly or indirectly and hence, they need to be regulated and supervised by the central bank of the country to safeguard the interest of depositors.
4. India should watch for the common early warning signs: boom in the stock market, abundant liquidity, increasing inflow of FIIs investment, rapid growth in retail and consumption credits, and sustained asset price inflation in the global financial system. Although it might not be possible to predict where and when the crisis will surface, the onus is on policymakers to monitor and mitigate the risks.
5. The US with unflinching faith in free market policy now bent backwards to intervene in the markets and nationalize some failed banks. The same policy paradigm was followed by other European countries as well as Japan. India should take note of these developments while considering privatization of public sector banks and FDI investment in the banking sector.
6. India should be cautious in adopting financial innovation in security markets and ensure the right balance between progress and prudence and innovation and caution. The subprime crisis has demonstrated that the financial innovations - whether new products, new structures and new market players – do not come without risks. Hence any move away from traditional banking practices towards innovative techniques is accompanied by enhanced management of liquidity risk and effective supervisory oversight. In the context of globalization, the universal banking model with investment and merchant banking also require cautious approach.

Thus, the global financial crisis would help us to bring to light the strengths and weaknesses of the Indian financial system and the need for reorienting the policy and reform to enable it to mitigate risks from the global financial turmoil in future.

A Future Perspective

Financial crisis is not new. History is marked by recurrent bubbles and crashes. Starting with tulip bulb mania in 1630s in Holland, the south sea bubble in the early 1700s, 18th century France stock market crash, Florida real estate bubble in 1920s, stock market crash in 1920s followed by Depression in 1930s and in recent years, South-east Asian crisis, Mexico crisis and Latin

American crisis, all these have a common theme: abundant liquidity arouses euphoria and heightened expectations of higher return leading to excess credit expansion, fraud and collapse (Samuelson and Nordhaus, 2006).

Keynes and Galbraith, long ago warned that such speculative frenzy seizes the market and inevitably leads to bubbles and crashes. A speculative bubble occurs, when prices of assets rise because people think, they are going to rise in the future. But when boom crashes, the impact would be disastrous. They identified the instability of modern capitalism in terms of the drive to accumulate excessive wealth and fragile nature of financial system. As Galbraith pointed out, all stock market bubbles exhibit "seemingly imaginative, currently lucrative and eventually disastrous innovation in financial structures." The abundant liquidity and expansion in business activities feeds speculative behavior, which in turn drives monetary innovation and new forms of financing to enable market players to participate and benefit from the boom. The heightened expectations stimulate a credit boom with banking system keen to cash in on the new situation. While history helps us to understand why financial crisis takes place, it does not do anything to stop them from happening. Now with the globalization, the financial crisis has become almost an inevitable phenomenon.

The present financial crisis has two important implications for the future: one for the policy and other for global financial governance. On the policy front, it demolishes the many cherished economic beliefs based on the free market policy paradigm and the Washington Consensus[10]. It clearly demonstrates that markets are imperfect and often fail and the government has obligation to correct the markets for the benefit of society. An unfettered, competitive capitalist system, operating on pure free-market principles, was inherently cyclical and unstable, requiring robust regulation and active government. The financial crisis ultimately leads to lack of sufficient aggregate demand, which in turn, results in economic downturn. Only government intervention by way of public investments and incentives through tax reduction could help stimulate aggregate demand in the economy. The policies long advocated by Keynes and Galbraith and more recently by Paul Krugman and Joseph Stiglitz will have now more relevance than those of Washington consensus. Faced with the onset of recession, most of the developed countries including the US – the champions of market supremacy policy - have now *reinvented government* and adopted state intervention policies to stimulate demand.

The global financial turmoil has brought out clearly the need for a new global financial order for ensuring the global financial stability. Global Financial system has grown at a much faster pace than the global real economy. The financial globalization with volatile financial flows is, at present, not supported by effective global governance. The present integrated global financial architecture cannot ensure global financial stability unless there is sound global financial governance. The Prime Minister, Dr. Manmohan Singh at the Asem summit in Beijing advocated the creation of a "global monitoring authority to promote global supervision" of cross-border investments, trade and banking[11].

In the background of 1930 Great Depression, IMF, along with the World Bank was originally conceived as an apex world body for collective action at the global level for financial and economic stability. IMF has, however, failed in its mission to arrest the present global financial meltdown, which is threatening the world with an unprecedented economic crisis. There is already a call for complete overhaul of global financial regulations and institutions. IMF is found inadequate to meet the challenges and therefore required to be replaced with a more effective international financial watchdog. The search for better financial regulation and global surveillance mechanism of checks and balance has to take on board the economically damaging role of excessive speculative activity and fragile nature of the global financial system. What is required today is sound and democratic global financial governance.

Footnotes

1 In simple terms, subprime lending meant giving loans to non-credit worthy clients. It is lending to borrowers who do not fulfill any conventional or standard credit criteria.

2 Securitization is a process in which certain types of assets are pooled and repackaged into interest-bearing securities. The interest and principal amount payments are passed on to the purchasers of the securities. Banks employ securitization to transfer the credit risks of the assets; they originate from their balance sheets to those of others such as investor banks, insurance companies and hedge funds.

3 CDOs divide the risks of the underlying assets into several slices, each of which is sold separately in derivative markets.

4 Bailout packages are termed with epithets like "financial socialism" "privatizing profits, socializing losses" and "Partial nationalization of Banks".

5 Finance Minister in his various press conferences till recently and the Prime Minister while addressing the Parliament, emphasized this theme *ad nauseam*.

6 In October last year, the then Economic Advisor to the Finance Minister, Parthsarathi Shome reported that Indian banks had been estimated to have lost around $2 billion on account of the subprime crisis in US.

7 Hedge funds are private investment pools that are typically run on behalf of a limited group of wealthy investors with secrecy and short-selling tactics to obtain lucrative returns in the global financial market.

8 Asian Development Outlook 2008. ADB Half-Yearly Report.

9 When all over the world, the governments are trying to promote government investment to stimulate demand and boost their national economies; the government in India has recently sought supplementary grants in Parliament to meet its prior commitments such as the farm loan waiver, Sixth Pay Commission salary scale, oil bonds and subsidies.

10 Washington Consensus – a consensus between the IMF, The World Bank and The US Treasury about the free market policies, which include *inter alia* privatization, trade liberalization, market friendly policies and financial sector reforms as part of stabilization and structural adjustment policies.

11 HINDU : Business Line Editorial, October 29, 2008.

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