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Global Financial Crisis and in Indian Scenario

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ABSTRACT: The adoption of globalization in the financial sector creates integration into global economy. This provides an opportunity for the nations to reap fruits from free Trade, foreign capital and technology transfer. The access of vast capital and consumer market in the developed world can be powerful tools for economic growth. The Indian financial market scenario was critically analyzed under two sections. The first section aims to give bird's eye view about the beginning of globalization and liberalization in Indian Financial market followed by Indian Financial Market road map 2020 which explains the opportunities and challenges of Indian Financial Market. A characteristic of the latest financial sub-prime mortgage in US crisis is the collapse of short term commercial paper market. In conclusion it can be emphasized that there needs to be well defined frame work which will withstand disruptions and lead the financial market towards growth and progression. Core elements like efficiency, stability, transparency, inclusion and sustainability will play a vital role in determining the growth. Standardizing and harmonizing the regulatory norms will help India position itself prominently on the global pedestal.

I.INTRODUCTION

The adoption of globalization in the financial sector creates integration into the global economy which provides an opportunity for the nations to reap fruits of free, foreign capital and technology transfer. The access of vast capital and consumer market in the developed world can be powerful impetus for economic growth to the developing countries. In this globalized scenario, upto a certain point the relationship between the market forces and nations can be mutually beneficial, but distinctly different nature of the two nations dictates a clash which is inevitable. It is also important to the governments to maintain certain values, institutions and most importantly the political autonomy of their nation. Besides the traditional avenue of the banking system, a wide variety of sources, such as private equity capital, sovereign wealth funds, hedge funds and investment banks served as the tool for transferring capital from one region to another through their participation in global investments. These non-traditional sources is referred as "Shadow banking System". All these innovations in the global finance have created a new source of crises. Deepening the global integration has increased the fragility of economies. The current paper aims to list out various global financial crises and also interested in evaluating the Indian Financial Market with the backdrop of these financial crises.

The current paper is given in four sections, initially, it starts with emphasizing the various milestone achievements related to global financial market followed by explaining the subprime crisis of USA in detail. The Indian financial market scenario was critically analyzed under two sections. The first sections aim to give a bird's eye view about the beginning of globalization and liberalization in Indian financial market followed by Indian Financial market – Roadmap 2020 which explains the opportunities and challenges of Indian financial market.

Ideal Currency or Impossible Trinity:

For any country the ideal currency existed in today's world, would possess three main attributes, often referred to as the Impossible Trinity they are: 1) Exchange rate stability, (2) Full financial integration and (3) Monetary independence.
Full Integration means: The value of the currency would be fixed in relationship to other major currencies so traders and investors could be relatively certain of the foreign exchange value of each currency in the present and into the near future.

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Full financial integration refers, Complete freedom of monetary flows would be allowed, so traders and investors could willingly and easily move funds from one country to another in response to perceived economic opportunities or risks.
Monetary independence aims, Domestic monetary and interest rate policies would be set by each individual country to pursue desired national economic policies, especially as they might relate to limiting inflation, combating recessions, and fostering prosperity and full employment.

Economic and financial theory clearly states that a country be on all three sides of the triangle at once, it must give up one of the three "attributes" if it is to achieve one of the states described as Full capital controls, Pure Float and Monetary union. This concept is called "The Impossible Trinity". This can be clearly explained in the following lines.

- With floating rate regimes can maintain monetary independence and financial integration but must sacrifice exchange rate stability.
- Countries with tight control over inflows and outflows can retain their monetary independence and stable exchange rate, but surrender being integrated with the world's capital markets.
- Countries that maintain exchange rate stability by having fixed rates give up the ability to have an independent monetary policy.

The Right Choice: The experience with implementation of the exchange rate regime allows us to make some generalizations about the conditions under which various regimes would function reasonably well – though there are many exceptions. The floating regimes would be an appropriate choice for medium and large industrialized countries and some emerging market economies that have import and export sectors that are relatively small compared to GDP, but are fully integrated in the global capital markets and have diversified production and trade, a deep and broad financial sector, and strong prudential standards. The hard peg regimes are more appropriate for countries satisfying the optimum currency area criteria (countries in the European Economic and Monetary Union), small countries already integrated in a larger neighboring country (dollarization in Panama), or countries with a history of monetary disorder, high inflation, and low credibility of policymakers to maintain stability that need a strong anchor for monetary stabilization (currency board in Argentina and Bulgaria). The soft peg regimes would be best for countries with limited links to international capital markets, less diversified production and exports, and shallow financial markets, as well as countries stabilizing from high and protracted inflation under an exchange rate-based stabilization program (Turkey). These are largely but not exclusively non-emerging market developing countgries4. The intermediate regimes, a middle road between floating rates and soft pegs, aim to incorporate the benefits of floating and pegged regimes while avoiding their shortcomings. They are better suited for emerging market economies and some other developing countries with relatively stronger financial sector and track record for disciplined macroeconomic policy.

II.HISTORY OF THE INTERNATIONAL MONETARY SYSTEM

The Gold Standard (1876 – 1913)

During this period of gold standard, Gold has been a medium of exchange. It was followed since 3000 BC. The "Rules of the game" were simple, each country set the rate at which its currency unit could be converted to a weight of gold. Hence, the Currency exchange rates were in effect "fixed" and expansionary monetary policy was limited to a government's supply of gold. This was followed by most countries until the outbreak of WWI as the free movement of gold was interrupted.

The Inter-War Years & WWII (1914-1944)

During this period, currencies were allowed to fluctuate over a fairly wide range in terms of gold and each other. Due to this higher level of fluctuations in currency values became realized as speculators sold short weak currencies and hence, The US adopted a modified gold standard in 1934. Gold at $35/oz. During WWll and its chaotic aftermath the US dollar was the only major trading currency that continued to be convertible.

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Bretton Woods and the International Monetary Fund (IMF) (1944)

As WWll drew to a close, the Allied Powers met at Bretton Woods, New Hampshire to create post-war international monetary system. The Bretton Woods Agreement established a US dollar based international monetary system and created two new institutions the International Monetary Fund (IMF) and the World Bank. The International Monetary Fund is a key institution in the new international monetary system and was created to:

- Help countries defend their currencies against cyclical, seasonal, or random occurrences.
- Assist countries having structural trade problems if they promise to take adequate steps to correct these problems.
- The International Bank for Reconstruction and Development (World Bank) helped fund post-war reconstruction and has since then supported general economic development.

Fixed Exchange Rates (1945 -1973)

The currency arrangement negotiated at Bretton Woods and monitored by the IMF worked fairly well during the post-WWll era of reconstruction and growth in world trade. However, widely diverging monetary and fiscal policies, differential rates of inflation and various currency shocks resulted in the system's demise. The US dollar became the main reserve currency held by central banks, resulting in a consistent and growing balance of payments deficit which required a heavy capital outflow of dollars to finance these deficits and meet the growing demand for dollars from investors and businesses.

Eventually, the heavy overhang of dollars held by foreigners resulted in a lack of confidence in the ability of the US to meet its commitment to convert dollars to gold. The lack of confidence forced President Richard Nixon to suspend official purchases or sales of gold by the US Treasury on August 15, 1971 this resulted in subsequent devaluations of the dollars. Most currencies were allowed to float to levels determined by market forces as of March, 1973.

An Eclectic Currency Arrangement (1973 - Present)

Since March 1973, exchange rates have become much more volatile and less predictable than they were during the "fixed" period. There have been numerous, significant world currency events over the past 30 years. The various major currency events which occurred during this period is given in the following table:

TABLE 1: WORLD MAJOR CURRENCY EVENTS FROM 1971-2007

DATE	EVENT	IMPACT
August 1971	Dollar Floated	Nixon closes the US gold window, suspending Purchase or sales of gold by US Treasury, temporary imposition of 10% import surcharge.
December 1971	Smithsonian Agreement	Group of Ten reaches compromise whereby the Us $ is devalued to $38/0z of gold, most other major currencies are appreciated versus US$.
February 1973	US Dollar devalued	Devaluation pressure increases on US$ forcing further devaluation $42.22/0z of gold.
February–March 1973	Currency markets in crisis	Fixed exchanges rates no longer considered defensible speculative pressures force closure of international foreign exchange markets for nearly two weeks, markets reopen on floating rates for major industrial currencies.
June 1973	US Dollarz depreciation	Floating rates continue to drive the now freely floating "US$ down by about 10%.
Fall 1973-1974	OPEC Oil embargo	Organization of Petroleum Exporting Countries (OPEC) impose oil embargo, eventually quadrupling the world price of oil;

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		because world oil prices are stated in US$, value of US$ recovers some former strength.
January 1976	Jamaica Agreement	IMF meeting Jamaica results in the “legalization” of the floating exchange rate system already in effect; gold is demonetized as the reserve asset.
1977-78	US inflation rate rises	Carter administration reduces unemployment at the expense of inflation increases; rising US inflation causes continued depreciation of the US$
March 1979	EMS created	The European Monetary System (EMS) is created, established a co-operative exchange rate system for participating members of the European Economic Community (EEC).
Summer 1979	OPEC raises prices	OPEC nations raises price of oil again
Spring 1980	US dollar begins rise	Worldwide inflation and early signs of recession coupled with real interest differential advantages for dollar denominated assets contributes to increased demand for dollar.
August 1982	Latin America Debt Crisis	Mexico informs US Treasure on Friday, 13, 1982 that it will be unable to make debt service payments; Brazil and Argentina follow within months.
February 1985	US Dollar Peaks	The US dollar peaks against most of the major industrial currencies hitting record highs against deutsche mark and other European currencies.
September 1985	Plaza Agreement	Group of Ten members meet at the Plaza Hotel in New York City to sign an international co-operative agreement to control the volatility of world currency markets and to establish target zones.
February 1987	Louvre Accords	Group of six members state they will “intensify” economic policy co-ordination to promote growth and reduce external imbalances.
December 1991	Maastricht Treaty	European Union concludes a treaty to replace all individual currencies with a single currency – The euro.
September 1992	EMS crisis	High German interest rates induce massive capital flows into deutsche mark denominated assets, causing the withdrawal of the Italian lira and British Pound from the EMS’s common float.
June 31, 1993	EM S realignment	EMS adjust allowable deviation band to $\pm$ 15% for all member countries (except the Dutch Guilder); US dollar continues to weaken, Japanese Yen reaches 100.25 yen/USD.
1994	EMI founded	European Monetary Institute the predecessor to the European Central Bank is founded in Frankfurt, Germany.
Dec .1994	Peso Collapse	Mexican peso suffers major devaluation as a result of increasing pressure on the managed devaluation policy, peso falls from ps3.46/$ to Ps5.50/$ within days; the peso’s collapse results in a fall in most major Latin American Exchanges in a contagion process – the “tequila effect”
August 1995	Yen Peaks	Japanese Yen reaches an all time high versus the USD of 79 yen/$ slowly depreciates over the following two year period, rising to over 130 yen/$
June 1997	Asian crisis	The Thai baht is devalued in July, followed soon after by the Indonesian rupiah, Korean won, Malaysian ringgit and Philippine

IJIRSET

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		peso; following the initial exchange rate devaluations, the Asian economy plummets into recession.
August 1998	Russian crisis	On Monday, August 17, the Russian Central Bank devalues the ruble by 34% the ruble continues to deteriorate in the following days, sending the already weak Russian Economy into recession.
January 1999	Euro launched	Official launch date for the euro the single European currency; 11 European Union members states elect to participate in the system, which irrevocably locks their individual currencies rates among them.
January 1999	Brazilian reals crisis	The reals, initially devalued 8.3% by the Brazilian government to January 12, is allowed to float against the world currencies.
January 1, 2002	Euro Coinage	Euro coins and notes are introduced in parallel with home currencies; National currencies are phased out during the six month period beginning January 1.
January 8, 2002	Argentine Peso Crisis	The Argentina Peso its value fixed to the US dollar at 1:! Since 1991 through currency board, is devalued to Ps1.4/$ then floated.
February 13, 2002	Venezuelan Bolivar floated	The Venezuelan bolivar fixed to the dollar since 1996 is floated as a result of increasing economic crisis.
February 14, 2004	Venezuelan Bolivar devalued	Venezuela devalues the Bolivar by 17% versus the USD in an attempt to deal with its growing fiscal deficit.
May 1, 2004	EU Enlargement	The more countries join the European Union thereby enlarging it to 25 members in the future when they quality most of these countries are expected to adopt the euro.
July 21, 2005	Yuan reform	The Chinese government and the People's Bank of China abandon the peg of the Chinese yuan to the USD announcing that it will be instantly revalued from Yuan 8.28/$ to Yuan 8.11/$ and reform the exchange rate regime to a managed float in the future; Malaysia announces a similar change to its exchange rate regime.

III.GLOBAL FINANCIAL RISKS

Risks global financial stability has declined since the October 2010 Global Financial Stability Report, helped in part by improving macroeconomic conditions. Many advanced economies are struggling with the legacy of high debt and excessive leverage. High debt levels are evidence in many parts of the global economy, in complete policy action and reform has left segments of the global banking system vulnerable to further shocks. Elevated household leverage in the United States poses downside risks to housing markets. More structural policies may be needed to reduce this debt burden. Capital inflows to emerging markets have rebounded but volatile. Policymakers face three key challenges in putting the recovery onto a durable path. They need to

- Address the legacy problems of high burdens and weakened balance sheets in advanced economies;
- Develop a stronger, more robust financial system that is subject to greater market discipline; and
- Guard against risks of overheating and the buildup of financial imb alances in emerging markets.

The Causes for Financial Crises:

Financial crises are recurring phenomena which can have significant impact on the economy. Depending on how one defines a financial crisis, there are various ways in which these can be classified. In practice, financial crises could involve either bank or currency crises or indeed both of them could take place at the same time.

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Vol. 3, Issue 1, January 2014

The causes for financial crises are multiple, standard classification of currency crises revolves around one of the three generational models.

The first generation model deal with crises that are mainly caused by macroeconomic vulnerabilities. The origin is the government's need to finance constantly with higher deficits. Classic examples are recent crises in Russia (199*0 and Argentina (2001) . Because of improved macroeconomic policies are the global level the frequency of these crises tend to be more rare now a days.

The second generation crises models focused on macroeconomic trade – offs and decisions. They emphasize non financial conditions that may abruptly turn adverse in such a way that would present the authorities with a range of policy choices. An example of the second generation crisis is the series of attacks on some European currencies within the European monetary system in 1992-93.

The third generation crises address the balance sheet problems. A distinctive feature of those is that their causes reside in the financial sector vulnerabilities. The root cause of these vulnerabilities is mismatch between assets and liabilities. Maturity mismatches leaves an institution incapable to pledge its contractual commitments and currency mismatches; where sudden change in exchange leads to a capital loss.

Most of the recent financial crises are within the third generation models. A characteristic of the latest financial sub-prime crisis is the collapse of short term commercial paper market, thus, impeding the attraction of new financing or rolling over existing short term liabilities.

Table 2 below provides a succinct explanation of the causes and consequences in recent crises.

CRISES	CAUSES	CONSEQUENCES
The Enron Scandal, 2001	Conflicts of interest; complex structured finance transactions rolled via through off books financial entities; fraudulent activities.	Systemic effects – on creditors, banks and other energy trading companies.
The DotCom crash,2000	Limited investment knowledge of individual market participants.	Temporary closure of the financial markets; business invest falling and the US economy slowing.
LTCM Crisis 1998	High Leverage factor; sophisticated computer models to assess investment strategies.	Threatening systemic failure in international financial markets.
Asian Crisis 1997	Indiscriminate investments due to cheap credit availability and premature opening of capital accounts	Credit crunch and widespread bankruptcies slower global growth.
The "Black Monday" Crash of 1987.	Programme trading strategies and market perception.	The US stock market suffered its largest one day fall.

The subprime crisis – root cause

The first signs subprime crisis was signals the emergence of the current financial crisis first surfaced in June 2007 when two hedge funds run by the investment Bank Stearns got into difficulty. The subprime financial crisis is so severe and many sided and its implications can hardly be underplayed. Policies and market structures supervision and regulatory frameworks have to be re-examined.

The root causes of the subprime financial market turmoil are to be found at both macro and micro level. These can be grouped under structural and cyclical factors.

Structural Factors include:

- A dramatic rise in the role of capital markets in the financial intermediation process.

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Vol. 3, Issue 1, January 2014

- An increasing use of new financial instrument (securitization) which have spread out risk across nation borders, which have made markets more opaque.
- Rising opacity of financial markets has emphasized systematic risks.
- The pressure of globalization and rise in cross border operations reduced the transaction costs constantly over the years led to large volume of transactions is short amount of time.
- An excess of saving in a number of countries – notably China – and the global redistribution of wealth and income towards commodities exporting countries.
- And most importantly, inadequate and obsolete worldwide regulatory frameworks; regulatory and supervisory failure have compounded the magnitude of the debt and credit risk.
- An over reliance on the self regulatory virtues of markets.

Cyclical Factors:

- Excessively low risk free interest rates at all maturities in major economies.
- An unreasonable low credit risk spread across all instruments.

Structural factors create the general conditions favorable for potentially generating the crisis while cyclical factors are those which help triggering it.

Features of the current subprime crisis.

The "Shadow Banking System": Over the past 10-15 years the financial market model has changed substantially. On the one hand, banks have increasingly started to sell their credit risk to other investment groups either via direct loan sales or by repackaging loans into bonds. This process is known as securitization. Because of this the resulting 'shadow banking system' – as it is often called is exempt to a large extent to regulation and supervision as undergone by the banking system.

The High Levels of Concentration: According to a report Autorite des Marches Financiers (AMF 2007) concentration has been one of the main characteristics of the structured finance market. In Europe the structured finance market grew by impressive 25% in 2005 reaching Euro 450 billion. Over 70% of these deals are structured by 12 banks and three rating agencies. This aspect raises liquidity issues because of the way in which market players are interconnected.

The Breadth of the Crisis: Another salient feature of the current crisis is its extensive breadth across a large spectrum of financial market products. Consumer confidence has already been affected beyond the home loan sector. The trend on losses on credit card and auto loan is going up.

Hedge Fund: Preferred investment choice for hedge funds seems to be an important driver of cross border bank lending. This magnifies their exposure to exchange rate fluctuations. This is one of the reasons why hedge funds decisions could have strong impact of financial markets.

Rating Agencies Deficiencies: One of the criticism addressed to the rating agencies is the fact that they have been notoriously slow in spotting the signs of the crisis. This situation resembles once again that of Enron, were credit agencies failed to signal company's huge exposure.

How to respond to the crisis? Numerous recommendations have been made by various working groups, supervisory committees, etc. but the decisive measures have so far, been limited. The policy actions which are mentioned below are aimed at dealing mainly with the structural factors identified in the previous section. The roots of cyclical factors are an inherent part of the business cycles and therefore more difficult to dealt with.

Improved Transparency: There are certain market players such as hedge funds, and private equity funds have minimum disclosure requirements. It would make sense to strengthen their disclosure requirements. Increased transparency of highly leveraged institutions has the potential to reduce market volatility when market conditions become adverse.

IJIRSET

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Vol. 3, Issue 1, January 2014

Resolving conflicts of interest among market participants:
Credit rating agencies have inherently, conflicts of interest. They act on behalf of investors but, often they are being paid by the issuers. Being paid by those they rate and not by the investors, the common view is that credit rating agencies are under pressure to give their clients a favorable rating. In several cases the Conflict of interest between individual and company objectives have been proved, where individual managers engaged in fraudulent behavior for their own benefit.

Improving the Existing Regulatory and Supervisory Framework
Coordinating supervision and regulation activities. Currently there are an increasing number of financial institutions which operate across many different nation jurisdictions. Supervision and regulation are often organized at the national level, although in several instances national models share a large number of similarities. However, coordination attempts among national jurisdictions are difficult to achieve due to the ongoing creation of new institutions and new instruments. Co-operation between public and private institutions need to be enhanced and redesigned to account for recent developments in the financial market innovations.

IV.OVERVIEW OF SOME MAJOR POLICY RESPONSES TO THIS CRISIS

The financial industry as well policy makers have been struggling with the fallout of the turmoil. Many actions have been taken so far, often ad-hoc, to deal with problems that have arisen along the way. Hey include financial support to subprime lenders, central bank actions to enhance liquidity, rescues of individual major financial institutions, and – dropping the case-by-case approach - the establishment of more general and co-ordinated government guarantees and capital injections for the financial industry are given in the following table.

Main Areas of Policy measures by G7 Countries and EU in response to the Subprime crisis.

	USA	**Japan**	**Germany**	**United kingdom**	**France**	**Italy**	**Canada**	**EU/EMU**
Monetary Policies								
Liquidity enhancing operations	•	•	•	•	•	•	•	•
Unsecured lending	•							
Regulatory interventions								
Increase / Introduce deposit insurance	•		•	•	•	•		•
Political guarantee of all deposits	•		•	•	•	•	•	
Further liability guarantees	•		•	•	•	•		•
Bank recapitalization	•		•	•	•			
General guarantee to banks								
Asset purchases	•							
Prudential pversignt surveillance	•	•	•	•	•	•	•	•
(other) Fiscal Policies								
Support for homeowners	•							
Rescue loans to non financial sector			•		•			
Other fiscal measures(fiscal easing)	•		•		•			

Legend Policy being implemented Policy being Planned or envisaged

Sources: OECD, ECB, EC and National sources

V.THE INDIAN FINANCIAL MARKET

The Beginnings of Financial Reform: With the opening up of its economy under the structural adjustment program since 1991, there has been a significant shift in several policies and programs of the Indian government. This shift is more pronounced in the arena of capital flows, from earlier policy regime of official and commercial borrowings to private capital flows – in the form of foreign direct investment (FDI) and portfolio investment (P1). Since then, various measures have been undertaken to open India's economy to foreign investment and earlier restrictions have been relaxed. In 1993 -94 and 1994-95, the portfolio inflows outnumbered the FDI, contributing over 70 per cent of the total capital inflows during this period. This trend continued until 1997. It was only in the wake of Asian financial crisis in 1997, which enhanced emerging market risk perception among the foreign investors, that the P1 suffered decline in comparison with the FDI in India.

Unlike Chile and Japan, India did not follow the "Big Bang" approach of financial deregulation and liberalization. But, the content of financial linearization in India is similar – deregulation, privatization, and pro-market oriented policies. Given the fact that Indian financial markets are fragmented and even not integrated domestically, the critics argue that the rapid global integration of financial markets seems to be too early and premature. In 1992, the Indian government began the process of integration of its financial markets with global finance capital in two major ways. Firstly, by permitting foreign institutional investors to enter its capital markets and secondly, by allowing domestic companies to raise capital from abroad through the issuance of equity, Global Depository Receipts (GDRs), and other debt instruments.

In the initial years, portfolio investments were strictly regulated by the regulatory bodies such as the Reserve Bank of India (RB) and the Securities and Exchange Board of India (SEBI). Given the fact that portfolio investment is essentially short-term, quick to move in and move out and tend to be extremely volatile, the Indian authorities initially imposed taxes to attract only genuine investors and keep off fly-by-night operators in the Indian markets. These tax-based restrictions coupled with other measures were helpful in keeping off the speculators, for some time, but, the foreign investors, over the years, found several loopholes in the system.

In an attempt towards achieving capital account liberalization, the government appointed a committee headed by S.S. Tarapore in February 1997 to examine the issues related to capital account liberalization in India. In its report submitted to the government in June 1997 the committee has called for full linearization by the year 1999-2000, provided that a few preconditions, like a lowering of the fiscal deficit, a low inflation rate, adequate level of , owned" forex reserves, and reduction in non-performing assets of the banking sector are met Except for rethinking on capital account liberalization in the wake of Asia financial crisis, the Indian authorities have, by and large , moved ahead with their plans of financial liberalization, which became very evident when India accepted the new WTO accord on financial services in December 1997. In a major development, the government announced the opening of the insurance sector to the domestics private sector in the Union Budget of 1998-99. Within a couple of months, the government suddenly reversed its stand and decided to allow foreign investment in the Indian insurance sector.

The Southeast Asian financial crisis has affected the exchange and interest rates, an d thereby threaten macroeconomic management and economic and economic stability not only in one country but several others. India was able to insulate itself from many of these international currency and financial crises. Many experts have rightly pointed out that slower deregulation of the financial sector in India has proved to be the saving factor. If India had adopted capital account liberalization; it would have been difficult to protect its economy from getting severely affected by the Asian turmoil.

Additional measures liberalized credit allocation, improved regulation and supervision, liberalized the capital account, and introduced more competition over the post-1992 period. These additional measures included:

- Reduced Cash Reserve and Statutory Liquidity Requirements.
- The 40% priority sector lending requirement remained but its burden was eased by freeing rates on loans.

Tightening of Prudential Norms and Improvement of Banking Supervision:

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- Imposed an 8% capital requirement on risk weighted assets by 1995 for Indian banks with foreign branches (by 1996 for other Indian banks).
- Recognition of non-performing assets gradually tightened.
- Imposed a 10% provision on substandard assets, 20-100% on doubtful assets (depending on the collateral) and 100% on loss assets.

Liberalization of the capital account by:

- Easing restriction on foreign direct investment
- Allowing Foreign Institutional Investors to invest in securities (1992) and repatriate capital and earnings; gradually they were allowed to invest in Government and corporate debt.
- Unifying the exchange rate (1993).
- Allowing approved companies to issue bonds and GDRs offshore.
- Capital outflows remained restricted, however, and tight control remained on private off-shore borrowing especially short term debt; private long term debt from $1.2 billion in 1992 to $7.3 billion in 1996, but short term debt remained roughly constant at about $6 bill.
- Increasing competition.
- Entry of 9 new private and 22 new foreign banks and easing of restrictions of foreign banks.
- Phase out of mandatory consortium lending led by development banks and replacing it by syndications.
- Phasing out of restriction on borrowers' switching banks.
- Non-bank financial corporations were allowed to grow under a regime of less directed credit requirement.

VI.INDIAN FINANCIAL MARKETS – ROADMAP 2020.

The financial markets in emerging economies like India have exhibited strength growth momentum, driven by robust economic demand, consumption and saving rate. Although growth of Indian economy suffered some disruption due to the economic downturn, the financial system proved its resilience with time. Asian Development Bank in its 2010 Asian Development Outlook mentions that developing Asia, a diverse group of 45 economies including China and India will grow 8% in 2010 and 7.3% in 2011 like other emerging economies India also has proved an attractive destination for investors, having exhibited a moderate growth even during global downturn.

Indian Capital markets – a fertile ground for growth of the financial sector. The equity markets in India can be appraised with those of the developing nations, in terms of market capitalization, regulatory framework, and turnover and risk management. In 2010 Flls have invested a significant $19.9 billion in Indian equity, while overseas funds have bought $9.9 billion worth of Indian bonds. The Indian economy current size is approximately USD 1 trillion in 2009-10 with the saving rate of Indian Households of 33.4% in 2009-10. In the next decade or so, it is expected that the economy will grow at an average rate of 8%. Also, Indian households have traditionally preferred safety bank deposits and government saving schemes and much less than 10% of their investments in financial assets is in shares, debentures and mutual funds. Which is very low as compared to some of the developed economies. Given the quantum of savings the need to mobilize saving into productive channels and the opportunity for financial intermediation. The next decade will be an opportunity of a lifetime for Indian capital market players. However, as emerging nations face a persistent challenge of volatile capital flows with massive global de-leveraging, reversal of capital flows lingers as a potential threat for the Indian financial markets.

Before diving deep into the 2020 roadmap, it may be useful to pause and better understand the functions of an efficient capital market such functions comprises.

- Mobilize capital from of capital
- Create a platform to facilitate change of capital buying and selling of securities and other asset classes.
- Facilitate settlement of transactions.
- Protect rights of the investors.

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The equity market in India is extremely vibrant, but equity based funding solely cannot lead the economy to growth. The debt market remains underdeveloped with a huge potential for increased activity. A strong bond market is required to drive long term financing of infrastructure, housing and private sector development.

The Indian Banking sector spearheads growth amidst other emerging nations. The Indian banking sector continues to be one of the prime drivers of economic growth. Strong fundamentals in the banking sector, supported by increased credit and growth of assets have resulted in increased profitability. Banks today have increasing realized the need to outgrow plain vanilla offerings and deliver products which are cost effective, flexible and tailored to the needs of the rural customer. Statistics indicate that in emerging markets banking reaches only about 37% of the population compared to over 50% penetration of mobile phones. In India for every 10,000 people have one bank and one ATM, there exists a large unbanked population. This clearly reflects that increasing penetration in unbanked areas is a key challenge for the banking industry. Moreover a focus on inclusive growth has taken centre stage involving huge investments in technology. However, there are some key challenges that are being encountered in the drive to achieve financial inclusion, more particularly the following.

Coverage: The huge population of India makes it cumbersome for any program to be completely inclusive, especially in case of migrant labor, money flows freely through unorganized channels, making it difficult to keep an account.

Infrastructure: Infrastructure development in India has not kept pace with the economic growth in the country and lags behind to a great extent. It is essential to develop road, rail and digital connectivity which are important pre requisites for operation of a banking outlet.

Financial Products: Simplicity and flexibility of products are two basic constituents of financial products. These products should suit the requirements of the masses and be made available at affordable costs.

Technology: Integrating technology in the banking system is essential move a step closer to inclusive growth. There is high transaction cost associated with providing banking services in the rural areas. Technology, if used appropriately can help in reducing the cost of transaction by a considerable extent.

Proposal for New Banking Licenses to help inclusive growth.

The finance minister in his union budget announced that RBI will consider giving additional banking licenses to private sector players and NBFCs. Some of the more important criteria which the RBI will be keeping in view would be:

- Business model for new banks
- Eligibility of Industrial houses to promote banks
- Conversion of NBFCs to banks for NBFCs to promote a bank
- Cap on foreign shareholding.

Development of financial markets cannot be complete without a robust regulatory environment attempting to keep pace with the innovations in market. Regulatory measures mandated by the central authorities act as a safeguard for financial institutions shielding them from vulnerability. A huge challenge for financial institution today is functioning and retaining their efficiency in such uncertain time. Business models are undergoing a structural change to accommodate the changing regulations and foster growth.

VII.CONCLUSION

In conclusion, it can be emphasized that there needs to be well defined framework which will withstand disruptions and lead the financial market towards growth and progression. Core elements like efficiency, stability, transparency, inclusion and sustainability will play a vital role in determining the growth. Standardizing and harmonizing the regulatory norms will help India position itself prominently on the global pedestal.

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