

Global Financial Crisis and Its Impact on India

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ABSTRACT The global financial crisis originated in United States of America. During booming years when interest rates were low and there was great demand for houses, banks advanced housing loans to people with low credit worthiness on the assumption that housing prices would continue to rise. Later, the financial institutions repackaged these debts into financial instruments called Collateralized Debt Obligations and sold them to investors world-wide. In this way the risk was passed on multifold through derivatives trade. Surplus inventory of houses and the subsequent rise in interest rates led to the decline of housing prices in the year 2006-07 which resulted in unaffordable mortgage payments and many people defaulted or undertook foreclosure. The house prices crashed and the mortgage crisis affected many banks, mortgage companies and investment firms world-wide that had invested heavily in sub-prime mortgages. Different views on the reasons of the crisis include boom in the housing market, speculation, high-risk mortgage loans and lending practices, securitization practices, inaccurate credit ratings and poor regulation of the financial institutions. The financial crisis has not only affected United States of America, but also European Union, U.K and Asia. The Indian Economy too has felt the impact of the crisis to some extent. Though it is difficult to quantify the impact of the crisis on India, it is felt that certain sectors of the economy would be affected by the spill-over effects of the financial crisis.