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Editorial

Impact of Global Financial Crisis

The global financial crisis really started to show its effects in the middle of 2007 and into 2008. The stock markets all over the world have reflected the crisis in its index reaction collapse of large financial institutions. Even the Governments in the wealthiest nations have had to come up with rescue packages to bail out their financial systems. It is true that the recent crash in the Sensex is not simply an indicator of the impact of international contagion. There have been warning signals and signs of fragility in the Indian finance system. These are likely to be compounded by trends in the real economy. The most immediate effect of present crisis on India has been an outflow of foreign institutional investment from the equity market. FII, who need to retrench assets in order to cover losses in their home countries and seek havens of safety in an uncertain environment, have become major sellers in Indian markets. The result of financial crisis has been observed in the sharp depreciation of the Rupee. While this depreciation may be good for India's exports that are adversely affected by the slowdown in global markets, it is not good for those who have accumulated foreign exchange payment commitments. Besides, the global financial crisis could affect India through the exposure of Indian banks or banks operating in India to the impaired assets resulting from the sub-prime crisis. They have been cutting back on credit, especially in the sectors of housing, automobile and retail credit. The indirect fallout of the global crisis and its ripples in India is in the form of losses sustained by non-bank financial institutions (especially mutual funds) and corporates due to their exposure to domestic stock and currency markets. Under these circumstances, what is needed is that the RBI needs to neutralize the outflow of FII money by unwinding the market stabilization securities that it had used to sterilize the inflows when they happened. This will mean drawing down the dollar reserves and that is the logical thing to do. This would prevent a sudden tightening of liquidity and also not allow the credit market to overshoot by taking interest rates up too high. It is heartening to listen to the argument that India would be relatively immune to this crisis because of the "strong fundamentals" of the economy and the supposedly well-regulated banking system.

The ninth issue (Vol.5, No.1) of the SMART Journal of Business Management Studies Comprises of 11 articles, written by authors of repute, on different themes of contemporary relevance. I hope readers would find the journal academically challenging and strategically stimulating.

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