# 2008 global financial crisis

Posted at: 22/09/2018

**Highlights**

- India bounced back from 2008 crisis thanks to stimulus packages, but faltered by letting these continue.
- And it still has a long way to go in ensuring greater coordination between govt and financial regulators.
- In the initial days post the Lehman collapse on September 15, 2008, many in the government did not think much of the crisis.
- The growth euphoria of the previous years had led to a widespread notion that the Indian economy was decoupled from that of the developed world.

### India's growth story not just its own but dependent

- Since the Asian crisis of 1998, India has integrated more and more with the global economy.
- In fact, the high — almost double-digit — growth rates recorded during the four years from 2004-05 to 2007-08 were also a period when the global economy rode a crest, growing an average 4%-plus in calendar years 2004 to 2007.
- India's stellar performance was aided by a boom in exports, which jumped an average 25% every year on the back of robust average global trade growth of 8.6%.
- In 2009, global trade dropped 11%, and India's exports plummeted 16%.
- Over the decade since the crisis, India's dependence on international trade has not waned much.
- We live in a connected world. A credit squeeze or a withdrawal of credit from the global markets will hurt the country irrespective of its credit-worthiness.

### One big mistake: Stimulus went on, with no end year

- India took unprecedented action in the months following September 2008.
- The government announced three stimulus packages in the space of three months between December 2008 and February 2009, totalling Rs 1,86,000 crore or 3.5% of the GDP.
- After doing better than what the Fiscal Responsibility and Budget Management Act had required in 2007-08, India's fiscal deficit touched 6% of the GDP in 2008-09, from being just 2.7% in the previous year.
- Over seven months between October 2008 and April 2009, the RBI eased monetary conditions dramatically.
- The government continued with the stimulus in 2009-10 too, and the fiscal deficit touched 6.4% of the GDP.
- The economy staged an impressive rebound — from 9%-plus in the previous three years,

it dropped to 6.7% in 2008-09, then bounced back to 8.5% in 2009-10.
- This is when India faltered and the fiscal stimulus was never withdrawn.
- On top of it, India let the current account deficit swell, creating a new set of problems.

### One lesson not learnt: Need for regulators to settle disputes

- However much credit India gets for a sharp recovery from the biggest crisis that hit the world since the Great Depression of 1930, a lesson it did not learn was to budget for greater coordination amongst financial sector regulators, and between the regulators and the government.
- The government set up the Financial Stability and Development Council (FSDC) in December 2010 that would settle disputes among regulators and deal with issues including financial stability, financial sector development, inter-regulatory coordination, and macro-prudential supervision of the economy including the functioning of large financial conglomerates.
- The FSDC has met 18 times over eight years, but has little to show in terms of settling inter-regulatory issues, especially when certain financial market products fall in the domain of more than one regulator.
- That FSDC has not meant many shows in the fact that the financial sector has witnessed little product innovation over the years.
- After being notified, the FSDC office should have been housed independently, not in the Finance Ministry, as it is now.
- It should have had an independent research team drawing from global experiences, and aiding regulators in decision-making.
- There have been at least three major crisis-like situations since:
  - One, arising from a ballooning current account deficit in 2013;
  - Two, the non-performing assets that have choked the banking system,
  - Three, the rupee slide triggered again by concerns of rising current account deficit.

The Indian Express