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GLOBAL FINANCIAL CRISIS AND INDIA'S CRISIS RESPONSES AND CHALLENGES

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ABSTRACT: Financial performance is measuring the results of a firm's policies & operations in monetary terms. These results are reflected in the firm's return on investment, return on assets, value added etc. It is a subjective measure of how well a firm can use assets from its primary mode of business & generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Financial reporting in govt. can be seen as a summary of the govt. performance, or capacity, in raising, handling and using public money. Governments issue many types of financial reports, but the most encompassing & visible at the state & local level is the Comprehensive Annual Financial Report (CAFR).

INTRODUCTION : Information about variability of performance is important in the respect. Information about performance is useful in predicting the capacity of the enterprise to generate cash flows from its existing resources base. It is also useful in forming judgments about the effectiveness with which the enterprise might employ additional resources. Financial reports/financial statements are fairly exacting in format and provide a quantitative look at the operating success, financial health, and compliance of the Government reporting units. The financial statements are often referred to as the GPFS (General Purpose Financial Statements) and can occasionally be taken out of the CAFR and shown separately. The form of these statements & the definitions of what they seek to assess are evolving. One form or definition may make success, health, and compliance appear adequate while another, less so. Financial statements are prepared primarily for decision-making. They play a dominant role in setting the framework of managerial decisions. But the information provided in the financial statements is not an end in itself as no meaningful conclusions can be drawn from these statements alone. They present a mass of complex data in absolute monetary terms & reveal little about the liquidity, solvency & profitability of the business. Actually the figures given in financial statements do not speak anything themselves. The process of giving tongue to these mute heaps of figures is known as financial analysis. The financial statements of an organization give an idea about the actual profit it has made during a particular period & its financial position as at the end of the period. These by themselves will not help a person to conclude whether the financial performance of the organization has been good or not. The statements give only the figures & further analysis & interpretation of these figures is required if one is to understand the organization's performance better.

BOOM IN WORLD ECONOMY AND THRIVING ASSET PRICES : The years that preceded the recent turbulence saw an exceptionally strong performance of the world economy - another phase of what has come to be known as the "Great Moderation". Following the global slowdown of 2001, the world economy had recovered rather rapidly, posting record growth rates in 2004, 2005 and 2006. The long period of abundant liquidity and low interest rates prior to the crisis led to a global search for yield and a general under-pricing of risk by investors. Lending volumes increased substantially in many countries, due to a decline in lending standards and increased leverage, contributing to bubbles in asset prices and commodities. The strong performance in financial markets was fortified by the strength of asset prices. Globally, property prices had been rising rapidly acting as acritical support for household spending.

THE BEGINNING OF THE CRISIS : The Global Financial Crisis, which started in 2008, is considered to be the latest in the series of economic crises to adversely affect world economies. Unlike the past few crises, the current crisis has not spared any of the countries or market sectors, and has devastated economies that were traditionally strong. It is stated that an excessively loose monetary policy in the 1990s in major developed economies transformed into global imbalances and a full-blown financial and economic crisis for all the economies of the world (Mohan, Rakesh, 2009). The economic world heard about the recent crisis with the striking news of the collapse of an American bank, Leman Brothers, which was traditionally well experienced and financially very strong. The crisis in the financial sector had already started in the latter half of 2007 and finally burst out on 23rd September 2008 in the form of the collapse of the bank. As we learn, the current financial crisis in United States originated due to the indiscriminate lending of housing loans in the country's sub-prime mortgage market. The investment in real estate and the housing sector had started in the US from the early 2000s and by 2007 there was a kind of housing boom in the US economy which led to mismatch between supply and demand.

FINANCIAL CRISIS AND THE WORLD ECONOMIES : The financial crisis of 2008 affected almost all economies of the world. However, the impact on the financial and real sectors was not uniform across the countries. While some economies that were structurally strong were able to better withstand the crisis, others had to be bailed out with extensive and multiple stimulus packages to overcome the adverse effects on the domestic economies. The impact on the world economies in terms of indicators like GDP growth rate, volume of trade, unemployment rate etc. have been analyzed using IMF data from 2005 to 2010.

INDIAN ECONOMY DURING FINANCIAL CRISIS : The global financial crisis which originated in the advanced economies spread rapidly to India and other Emerging Market Economies through various channels. Indian economy could withstand the adverse effects of the financial crisis and thereby avoid the long term consequences with the help of the strength it already achieved. However, it is wrong to say that it is free of adverse impacts. India's increasing dependence on bilateral trade with other countries and its financial relationship with the advanced economies somehow transferred the economic shocks to the nationaleconomy.

The macroeconomic and financial indicators predominantly pointed to a strong and vibrant Indian economy prior to the financial crisis. Table 7 presents the Gross Domestic Product *(GDP- stands for the money value of all final goods and services produced within the domestic territory of a country during a fiscal year)* growth rateof Indian economy for the fiscal years from 2003-04 to 2010-11. (*The fiscal year for India starts in April and ends in the following March*). The GDP was growing at the rate of 8.5%, 7.5%, 9.5%, 9.6% and 9.3%, respectively, for the five years leading up to the crisis. However, the crisis affected external as well as internal sectors of the national economy led to a reduced growth of the domestic economy. That is the GDP growth rate declined from 9.3 per cent to 6.8 per cent during 2008-09. It can be noted from the recent GDP figures that the Indian economy has emerged with remarkable rapidity from the slow down caused by the financial crisis of 2007-09. During the last two fiscal years, the economy registered a growth of 8% and 8.6% showing a quick recovery from the symptoms of financial crisis.

VARIED DIMENSIONS OF THE CRISIS :

(i) **Global spread of the crisis :**Experts have held that the nature of US economy has contributed to the globalization of the crisis. America's financial system failed in its two crucial responsibilities: managing risk and allocating capital. It is viewed that a massive set of microfailures rise to a massive macro-failure. Not only had the US financial sector made bad loans, they had engaged in multi-billion dollar gambles with each other through derivatives, credit default swaps, and a host of new instruments, with such opacity and complexity that the banks couldn't even ascertain their own balance sheets, let alone that of any other bank to whom they might lend. Credit markets froze.

(ii) **Financial globalization :**It has been viewed that the process of financial globalization has undermined the demand management in the capitalist countries and removed a host of regulatory measures, which were advocated by John Maynard Keynes. It is a fact that currently the demand generation is coming from the stimulation of private expenditure, often associated with creation of bubbles in asset prices rather than from the public expenditure, associated with maintaining stability in asset prices. With the free global mobility of finance, the autonomy of the State to intervene meaningfully in the national economy has been significantly undermined.

(iii) **Decline in the Credibility of International Financial Organizations :**The financial crisis has brought international financial organizations and institutions into sharp focus. These include the International Monetary Fund, the Financial Stability Board, the Bank for International Settlements, the World Bank, the Group of Seven (G-7), Group of Twenty (G-20), and other organizations that play a role in coordinating policy among nations, provide early warning of impending crises, orassist countries as a lender of last resort. The architecture of any international financial structure with oversight, regulatory, or supervisory authority is yet to be determined.

(iv) **State Capitalism and Protectionism :**The basic economic philosophy of free-market capitalism has come under considerable strain. The crisis has generated doubt about the basic idea of deregulation, non-governmental intervention in the private sector, and free and open markets for goods, services and capitals. In the aftermath of the crisis, the need has been felt for greater regulation for financial products, increased government intervention in the oversight and management of banks, financial institutions. Trends towards state capitalism, in which governments either nationalize or own shares of companies, are rising, even in the west.

(v) **Credit Crunch :**Usually, economic downturns have resulted in panics due to sudden changes in financial market sentiment. People literally panicked when something went wrong such as a failure by a borrower to meet the payment obligations.The result was that people withdrew money from banks and banks failed to lend. In such a situation, maintaining sufficient liquidity in the financial system has remained a formidable problem. Therefore, injection of capital into banks has been widely viewed as an enabling measure to provide additional liquidity and improve solvency.

(vi) **Crisis of Confidence and Credibility in the Financial Market :**When a few leading institutions failed, the entire financial system got enveloped in an acute crisis. In the mood of pervasive fear, banks stopped lending to each other in the financial centres. Banks were not interested in proactive lending. The financial markets in the West have frozen in panic. The whole episode has exposed unbridled greed and pervasive corruption enabled by governments that lost sight of their responsibility to protect their citizens. The credibility of the dominant stakeholders has been shattered.

(vii) **Failure in addressing global issues such as Climate Change :**The global economic crisis in the developed countries and elsewhere also has contributed towards the limited global efforts in reaching agreement on international issues such as climate change. Global economic growth rate is slowing. Budgets of national economies are also tightening. In this scenario, there is a greater possibility of fewer resources to address the global problem of climate change. With the severity of economic crisis, the agenda for concerted global action for substantial reduction in Green House gases has been accorded less priority. But in order to ensure sustainable development, the issues concerning climate change must receive due priority in the scheme of development, especially while creating jobs, ensuring energy supplies, inducting new technologies, etc. Clearly, the world today is faced with two crises.

NEED FOR FINANCIAL PERFORMANCE :

Investment Decision

Different persons tend to analyze financial statements in different ways depending upon their particular standpoint and perspective. A person may want to evaluate the performance of a business to find out whether it offers a good means of investment for him. If the business being analyzed is a public limited company, he has to look at it from the point of view of a potential shareholding investor. His perspective and interest are very different from other groups of people who may be using the financial statements of the same business for a different type of analysis.

Efficiency of the business

Another person may want to evaluate the performance in order to assess whether the business has been managed efficiently- in other words his interest would be to evaluate the performance of the management as indicated by the performance of the firm. His focus would therefore be the efficiency or otherwise of the management.

Theperspective of the present and potential creditor

Yet another group, such as an institution to which the firm has applied for long-term loan, may want to analyze the performance from the perspective of the potential creditor. For him the items of interest would be the debt capacity of the firm, the ability of the firm to service the debt, the creditworthiness of the firm, the promptness with which it repays its liabilities as and when they arise, etc. Yet another perspective with which the performance could be evaluated would be that of a creditor supplying goods to the organization. Thus the focus of the analysis would depend upon the standpoint and perspective of the person analyzing the performance and will vary from group to group.

CONCLUSION : The purpose of financial analysis is to diagnose the information contained in financial statements so as to judge the profitability & financial soundness of the firm. Just like a doctor examines his patient by recording his body temperature, blood pressure, etc. before making his conclusion regarding the illness & before giving his treatment, a financial analyst analyses the financial statements with various tools of analysis before commenting upon the financial health or weaknesses of an enterprise. The analysis & interpretation of financial statements is essential to bring out the mystery behind the figures in financial statements. Information about financial performance is primarily provided in a Statement of Profit and loss (also known as Income Statement). Information about the performance of an enterprise, in particular its profitability, is required in order to assess potential changes in the economic resources that it is likely to control in the future.

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