

Economy Bounce-Back Post 2008 Recession In India

Dr. Manjeet Singh

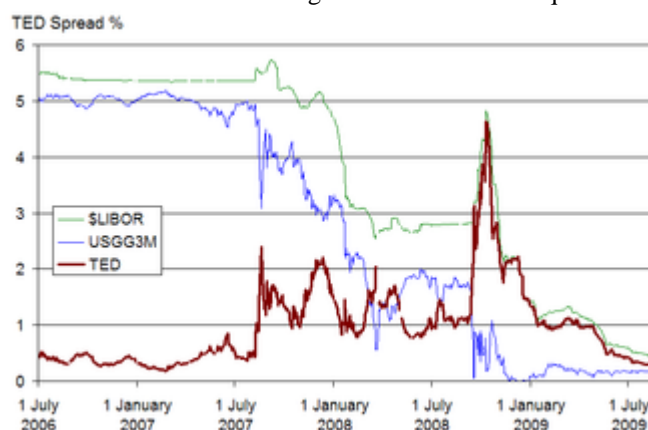
Associate Professor of Economics, Govt. College, Bhiwani, Haryana, India

ABSTRACT: India did not have a rulebook to refer to a decade ago when it was hit by a seismic shock with its epicentre some 12,500 km away. 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. But within a fortnight, then Finance Minister P Chidambaram had to re-engineer an aircraft that was flying high. Manmohan Singh, the Prime Minister then, was to Chidambaram what P V Narasimha Rao had been to him during the 1991-92 crisis. He has not got due credit for steadying the boat, and ensuring a quick recovery. But soon enough, India faltered.

KEYWORDS: India, economy bounce back, recession, finance, minister, recovery, crisis, lehman collapse

I.INTRODUCTION

An economy is best judged not in fair weather but foul. India has successfully weathered the great financial crisis of September 2008. Indian gross domestic product (GDP) has grown around 6% in every quarter of the most difficult 12 months in recent history. Most countries suffered an outright fall in at least one quarter.¹



The TED spread (in red), an indicator of perceived risk in the general economy, increased significantly during the financial crisis, reflecting an increase in perceived credit risk. The TED spread spiked up in July 2007, remained volatile for a year, then spiked even higher in September 2008, reaching a record 4.65% on October 10, 2008.

The global recession started in December 2007. The initial impact on India was muted: GDP growth slowed from 9% in 2007-08 to 7.8% in April-September 2008, still a very high rate. But after Wall Street collapsed in September, India's growth plummeted to 5.8%, 5.8% and 6.1% in the next three quarters. This was a comedown. Yet, it far exceeded the World Bank's forecast of 4% growth in 2009. It exceeded my expectations too. Let's compare India's performances in the Great Recession and Asian financial crisis.² In the latter, India's GDP growth fell to just 4.5% in 1997-98, of which

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(An ISO 3297: 2007 Certified Organization)

Vol. 2, Issue 11, November 2013

1% was a boost from the Pay Commission. Today, the annual rate of growth exceeds 6%, of which 0.5% is a Pay Commission boost. That's a big improvement. In 1997, India's foreign exchange reserves were strained, interest rates went sky-high, companies defaulted on loans and dragged down banks. But in 2008, India's high foreign exchange reserves prevented any panic, even after foreign institutional investors withdrew \$12 billion from the stock market and foreign credit suddenly vanished.

Indian corporates were much less over-borrowed in 2008 than in 1997, and Indian banks were far better capitalized, so they withstood the financial crisis. Companies that had borrowed big for new projects in 1997 collapsed, and many begged for debt forgiveness. In 2008, Tata Steel, Tata Motors and Hindustan Aluminium had raised gargantuan dollar loans for foreign acquisitions, yet managed to weather the storm.

So resilient was India's performance that the very foreign investors who had withdrawn \$12 billion in 2008, flooded back into Indian stock markets at the rate of \$1 billion per week in May 2009. This was in stark contrast with the Asian financial crisis, when foreign institutional money remained a trickle for years.



Share in GDP of U.S. financial sector since 1860¹

Why did India suffer so little in the Great Recession that laid low the biggest economies of the West? First, Indian banks and financial institutions had almost entirely avoided buying the mortgage-backed securities and credit default swaps that turned toxic and felled western financial institutions. Second, India's merchandise exports were indeed hit by the Great Recession - they declined by around 30%. But service exports did not fall - computer software and BPO exports held up well.³ This provided an important cushion to Indian exports.

Third, remittances from overseas Indians continued unabated, hitting a record \$46.4 billion in 2008-09, up from \$43.5 billion the previous year. The 2008-09 flow was 4% of GDP. To put this in perspective, remember that India's entire merchandise exports were barely 5% of GDP in the mid-1980s. So, emigration (including the so-called brain drain) plus policies to eliminate the black market premium on the dollar now provide a huge balance of payments cushion. Back in the 1991 crisis, India turned to the IMF as lender of last resort for a structural adjustment loan of \$4 billion. Remittances now make the IMF (and World Bank) look puny.

Fourth, foreign direct investment remained high at \$27.3 billion in 2008-09 despite the global financial crisis. Financiers reversed flows into India, but long-term investors in plant and factories completed their ongoing projects. Lesson: foreign direct investment is a stabilizing force.⁴

International Journal of Innovative Research in Science, Engineering and Technology

(An ISO 3297: 2007 Certified Organization)

Vol. 2, Issue 11, November 2013



Fifth, monetary policy, which was savagely restrictive in 1998, was accommodating in 2008. In 1998, to check a run on the rupee and penalize banks trying to hoard dollars, the RBI raised the bank rate and cash reserve ratio of banks hugely. This sucked out liquidity, and interest rates skyrocketed. This checked the run on the rupee, but was terrible for industry. By contrast, the RBI in 2008 did not tighten money to save the rupee, which was allowed to fall from Rs 40 to Rs 52 to the dollar. Instead, the RBI lowered interest rates and expanded credit. The government cut excise duties to stoke demand. This combination of easy fiscal and monetary policy cushioned the shock to the economy in ways that were missing in 1997-98.

Some things look much worse in 2009 than in 1997. Politicians look more venal, bureaucrats more callous and corrupt, the police more incompetent (and in Gujarat's case more communal). Maoists are a problem in 160 districts. But even as political management seems to be eroding, economic management has greatly improved. Whether this paradox is sustainable remains to be seen.⁵

II.DISCUSSION

The years since the global financial crisis of 2008 have brought into sharp focus the importance of managing financial stability in the Indian context. Post the crisis, developed economies focused solely on fostering growth, relegating fears around inflation and deficits into the background.

In India's case, however, when we focused on growth, we allowed financial instability from twin deficits, banking stress and inflation to set in. This led to our own economic crisis of 2011.

Even today, our current framework does not pay sufficient attention to the quality of our external and internal balance, and the weaknesses in our financial services ecosystem. This keeps us vulnerable to shocks and stresses.⁶



The Federal Reserve raised the Federal funds rate causing an Inverted yield curve to slow inflation and get prices and commodity prices down, that usually puts the economy into a recession.

30 year mortgage average

International Journal of Innovative Research in Science, Engineering and Technology

(An ISO 3297: 2007 Certified Organization)

Vol. 2, Issue 11, November 2013

30 Year Treasury Bond
10 Year Treasury Bond
2 Year Treasury Bond
3 month Treasury Bond
Effective Federal Funds Rate
CPI inflation year/year

Developed market responses to the global financial crisis

As confidence and inflation collapsed after the global financial crisis of 2008, central banks and governments across the developed world adopted extraordinary policy measures to stave off panic and to bolster growth. Central bank policy rates were slashed to historic lows. The US Fed Funds rate was cut from 5% to 0%. Japan and Switzerland took policy rates below 0%.

Major central banks then undertook large-scale asset purchases, bringing down long-term yields, expanding their balance sheets and flooding markets with liquidity. The Fed balance sheet grew from US\$ 800B pre-crisis to well over US\$ 4 T. The ECB balance sheet rose from EUR 1T pre-crisis, to over EUR 4.5T.

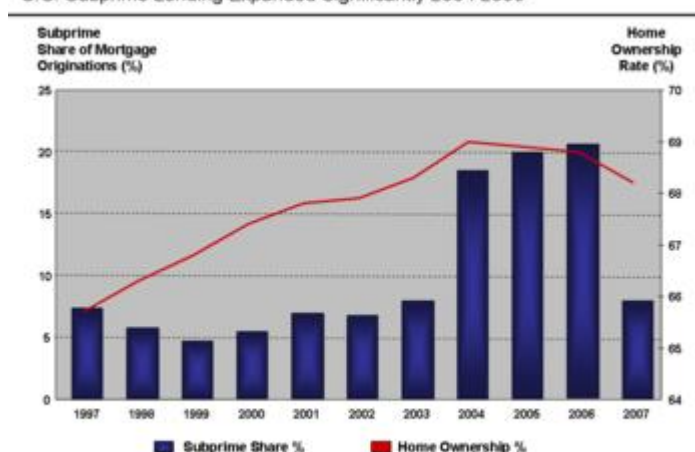
In addition, governments stepped in to spend. The US clocked a federal deficit of 9.8% of GDP in 2009, from 1.1% of GDP in 2007. The Euro area fiscal deficit, likewise, moved from 0.7% of GDP in 2007 to 6.3% of GDP in 2009.

Looking back, on the positive side, global growth has largely returned, without any sign of inflation as yet. On the flip side, much of the excess liquidity has moved into stock markets, emerging markets and other risky assets, leaving the system still vulnerable.⁷

India's policy response post-2008: the focus on growth

Post the 2008 crisis, as India's growth and exports fell sharply, our policymakers stepped in to support growth. The Reserve Bank of India slashed policy interest rates from 7% to an effective low of 3.25%. India's 10y government bond yield dropped from 9% to 5% by end 2008. Moreover, the central government expanded the fiscal deficit from 2.5% of GDP in FY08 to 6% in FY09, and 6.5% in FY10.

U.S. Subprime Lending Expanded Significantly 2004-2006



Sources: U.S. Census Bureau; Harvard University- State of the Nation's Housing Report 2008

US subprime lending expanded dramatically 2004–2006

As a result, India's GDP growth rose to pre-crisis levels in 2010. This brought back portfolio investments, and Rupee, having touched a low of over 50.00 to the US\$ in 2009, recovered to 44.00 by mid-2011.

But this is where the script went awry for India. Our recovery came at a severe cost to financial stability – which in turn sparked a fresh crisis.⁸

International Journal of Innovative Research in Science, Engineering and Technology

(An ISO 3297: 2007 Certified Organization)

Vol. 2, Issue 11, November 2013

Fiscal spending alongside low interest rates stoked inflation and imports. After dipping sharply in 2008, India’s WPI and CPI strayed into double-digits beyond 2010. Likewise, our current account deficit (CAD) deteriorated sharply, from 1% of GDP in FY06, to 4.8% of GDP in FY12. Banking balance sheets grew sharply, with increased financing of long-term infrastructure projects.

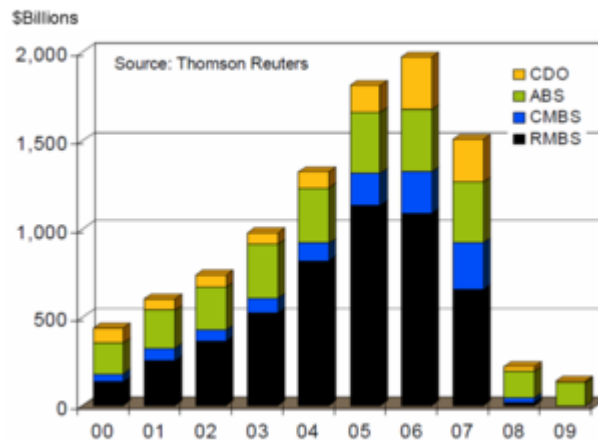
Eventually, rising twin deficits and inflation took a heavy toll. The Rupee fell from 44.00 in August 2011 to 68.80 against the US\$ in August, 2011. India’s 10y government bond yields rose from 5% in late 2008 to 9% in late 2011. India’s economic growth slumped back to pre-crisis level in FY12 through FY14. In many ways, India’s real economic crisis came not in 2008-2009, but in 2012-2012.

While crude oil prices, political scams and policy paralysis complicated matters, all things considered, we still paid a price for neglecting financial stability in our hunt for growth. With the advantage of hindsight, perhaps we should have compromised on short-term growth, and instead controlled our fiscal deficit, inflation and banking system health better.⁹

India’s policy framework now: the focus on inflation

We have now adopted a flexible inflation-targeting framework. Fortunately for us, global crude oil prices subsided from 2012.

Securitization Market Activity



Securitization markets were impaired during the crisis

Yet, we did allow risks to financial stability build up.

First, inflation targeting has impacted our external sector. Real interest rates were kept high in a bid to control inflation, even as our macroeconomic context improved. That brought in reversible, carry-seeking currency inflows across FPI in debt, net exporter hedging, unhedged ECB inflows and other speculative flows. Between FY15 and FY18, \$120B of such opportunistic flows came into the country.¹⁰

This caused INR overvaluation. Alongside, from \$15B in FY17, our CAD rose to \$49B in FY18, and is now projected above \$70B in FY19. This is not only on account of higher crude oil prices. Our exports and manufacturing have struggled, and our imports of electronics and gold have risen. An overvalued rupee also likely contributed to this rising CAD. We are effectively borrowing expensive, fickle foreign exchange to fund our oil, gold and electronics purchases.

International Journal of Innovative Research in Science, Engineering and Technology

(An ISO 3297: 2007 Certified Organization)

Vol. 2, Issue 11, November 2013

Second, our fiscal position remains unhealthy as well. While overall central fiscal deficit was arguably under control at 3.5% in FY17 and FY18, the quality of the deficit deteriorated. Our revenue deficit rose from 2.0% of GDP in FY17 to 2.6% in FY18, and could slip even more in the election year FY19. Our absolute capital spending reduced from INR 2.90T in FY17 to INR 2.64T in FY18. Our government is effectively borrowing money to pay for current expenditures including subsidies and loan waivers.¹¹

Lastly, stressed banking balance sheets remain the soft underbelly of the Indian economy. We continue to kick the can down the road on complete bank recapitalization, resolution of stressed assets, and reform of the banking sector. Relatively high real yields, particularly post demonetization, also added to the banking sector stress.

Oil prices are still well shy of the levels seen in 2012-2012, and yet, our vulnerabilities are already showing up. Inflation control using interest rates is not the lone panacea – we must still consider and balance across all metrics including external balance, internal balance, and health of the banking sector.

Economic policymaking is complex. In our Indian context, each time we try and simplify this by focusing on one metric alone, we risk aggravating overall financial stability.

Post-2008, our over-arching focus on growth allowed the twin deficits and inflation to take hold.

Likewise, inflation targeting using interest rates is no panacea – in fact, it may have actually contributed to the current external imbalance.

We may have no option but to consider financial stability as a whole – across external balance, fiscal health, and health of our financial sector, besides growth and inflation. We also need a coordinated effort from the government and the central bank, to optimize and address financial stability as a whole.¹²

III.RESULTS

The global financial crisis (GFC) refers to the period of extreme stress in global financial markets and banking systems between mid 2007 and early 2009. During the GFC, a downturn in the US housing market was a catalyst for a financial crisis that spread from the United States to the rest of the world through linkages in the global financial system. Many banks around the world incurred large losses and relied on government support to avoid bankruptcy. Millions of people lost their jobs as the major advanced economies experienced their deepest recessions since the Great Depression in the 1930s. Recovery from the crisis was also much slower than past recessions that were not associated with a financial crisis.

Main Causes of the GFC

As for all financial crises, a range of factors explain the GFC and its severity, and people are still debating the relative importance of each factor. Some of the key aspects include:

1. Excessive risk-taking in a favourable macroeconomic environment

In the years leading up to the GFC, economic conditions in the United States and other countries were favourable. Economic growth was strong and stable, and rates of inflation, unemployment and interest were relatively low. In this environment, house prices grew strongly.¹³

Expectations that house prices would continue to rise led households, in the United States especially, to borrow imprudently to purchase and build houses. A similar expectation on house prices also led property developers and households in European countries (such as Iceland, Ireland, Spain and some countries in Eastern Europe) to borrow excessively. Many of the mortgage loans, especially in the United States, were for amounts close to (or even above) the purchase price of a house. A large share of such risky borrowing was done by investors seeking to make short-term profits by ‘flipping’ houses and by ‘subprime’ borrowers (who have higher default risks, mainly because their income and wealth are relatively low and/or they have missed loan repayments in the past).

Banks and other lenders were willing to make increasingly large volumes of risky loans for a range of reasons:

- Competition increased between individual lenders to extend ever-larger amounts of housing loans that, because of the good economic environment, seemed to be very profitable at the time.

International Journal of Innovative Research in Science, Engineering and Technology

(An ISO 3297: 2007 Certified Organization)

Vol. 2, Issue 11, November 2013

- Many lenders providing housing loans did not closely assess borrowers' abilities to make loan repayments. This also reflected the widespread presumption that favourable conditions would continue. Additionally, lenders had little incentive to take care in their lending decisions because they did not expect to bear any losses. Instead, they sold large amounts of loans to investors, usually in the form of loan packages called 'mortgage-backed securities' (MBS), which consisted of thousands of individual mortgage loans of varying quality. Over time, MBS products became increasingly complex and opaque, but continued to be rated by external agencies as if they were very safe.
- Investors who purchased MBS products mistakenly thought that they were buying a very low risk asset: even if some mortgage loans in the package were not repaid, it was assumed that most loans would continue to be repaid. These investors included large US banks, as well as foreign banks from Europe and other economies that sought higher returns than could be achieved in their local markets.¹⁴

2. Increased borrowing by banks and investors

In the lead up to the GFC, banks and other investors in the United States and abroad borrowed increasing amounts to expand their lending and purchase MBS products. Borrowing money to purchase an asset (known as an increase in leverage) magnifies potential profits but also magnifies potential losses.¹¹ As a result, when house prices began to fall, banks and investors incurred large losses because they had borrowed so much.

Additionally, banks and some investors increasingly borrowed money for very short periods, including overnight, to purchase assets that could not be sold quickly. Consequently, they became increasingly reliant on lenders – which included other banks – extending new loans as existing short-term loans were repaid.¹⁵

3. Regulation and policy errors

Regulation of subprime lending and MBS products was too lax. In particular, there was insufficient regulation of the institutions that created and sold the complex and opaque MBS to investors. Not only were many individual borrowers provided with loans so large that they were unlikely to be able to repay them, but fraud was increasingly common – such as overstating a borrower's income and over-promising investors on the safety of the MBS products they were being sold.

In addition, as the crisis unfolded, many central banks and governments did not fully recognise the extent to which bad loans had been extended during the boom and the many ways in which mortgage losses were spreading through the financial system.¹⁵

How the GFC Unfolded

US house prices fell, borrowers missed repayments

The catalysts for the GFC were falling US house prices and a rising number of borrowers unable to repay their loans. House prices in the United States peaked around mid 2006, coinciding with a rapidly rising supply of newly built houses in some areas. As house prices began to fall, the share of borrowers that failed to make their loan repayments began to rise. Loan repayments were particularly sensitive to house prices in the United States because the proportion of US households (both owner-occupiers and investors) with large debts had risen a lot during the boom and was higher than in other countries.

Stresses in the financial system

Stresses in the financial system first emerged clearly around mid 2007. Some lenders and investors began to incur large losses because many of the houses they repossessed after the borrowers missed repayments could only be sold at prices below the loan balance. Relatedly, investors became less willing to purchase MBS products and were actively trying to sell their holdings. As a result, MBS prices declined, which reduced the value of MBS and thus the net worth of MBS investors. In turn, investors who had purchased MBS with short-term loans found it much more difficult to roll over these loans, which further exacerbated MBS selling and declines in MBS prices.¹⁶

Spillovers to other countries

As noted above, foreign banks were active participants in the US housing market during the boom, including purchasing MBS (with short-term US dollar funding). US banks also had substantial operations in other countries.

International Journal of Innovative Research in Science, Engineering and Technology

(An ISO 3297: 2007 Certified Organization)

Vol. 2, Issue 11, November 2013

These interconnections provided a channel for the problems in the US housing market to spill over to financial systems and economies in other countries.

Failure of financial firms, panic in financial markets

Financial stresses peaked following the failure of the US financial firm Lehman Brothers in September 2008. Together with the failure or near failure of a range of other financial firms around that time, this triggered a panic in financial markets globally. Investors began pulling their money out of banks and investment funds around the world as they did not know who might be next to fail and how exposed each institution was to subprime and other distressed loans. Consequently, financial markets became dysfunctional as everyone tried to sell at the same time and many institutions wanting new financing could not obtain it. Businesses also became much less willing to invest and households less willing to spend as confidence collapsed. As a result, the United States and some other economies fell into their deepest recessions since the Great Depression.¹⁷

Policy Responses

Until September 2008, the main policy response to the crisis came from central banks that lowered interest rates to stimulate economic activity, which began to slow in late 2007. However, the policy response ramped up following the collapse of Lehman Brothers and the downturn in global growth.

Lower interest rates

Central banks lowered interest rates rapidly to very low levels (often near zero); lent large amounts of money to banks and other institutions with good assets that could not borrow in financial markets; and purchased a substantial amount of financial securities to support dysfunctional markets and to stimulate economic activity once policy interest rates were near zero (known as 'quantitative easing').

Increased government spending

Governments increased their spending to stimulate demand and support employment throughout the economy; guaranteed deposits and bank bonds to shore up confidence in financial firms; and purchased ownership stakes in some banks and other financial firms to prevent bankruptcies that could have exacerbated the panic in financial markets.

Although the global economy experienced its sharpest slowdown since the Great Depression, the policy response prevented a global depression. Nevertheless, millions of people lost their jobs, their homes and large amounts of their wealth. Many economies also recovered much more slowly from the GFC than previous recessions that were not associated with financial crises. For example, the US unemployment rate only returned to pre-crisis levels in 2009, about nine years after the onset of the crisis.¹⁸

Stronger oversight of financial firms

In response to the crisis, regulators strengthened their oversight of banks and other financial institutions. Among many new global regulations, banks must now assess more closely the risk of the loans they are providing and use more resilient funding sources. For example, banks must now operate with lower leverage and can't use as many short-term loans to fund the loans that they make to their customers. Regulators are also more vigilant about the ways in which risks can spread throughout the financial system, and require actions to prevent the spreading of risks.

Australia and the GFC

Relatively strong economic performance

Australia did not experience a large economic downturn or a financial crisis during the GFC. However, the pace of economic growth did slow significantly, the unemployment rate rose sharply and there was a period of heightened uncertainty. The relatively strong performance of the Australian economy and financial system during the GFC, compared with other countries, reflected a range of factors, including:

- Australian banks had very small exposures to the US housing market and US banks, partly because domestic lending was very profitable.
- Subprime and other high-risk loans were only a small share of lending in Australia, partly because of the historical focus on lending standards by the Australian banking regulator (the Australian Prudential Regulation Authority (APRA)).¹⁹

International Journal of Innovative Research in Science, Engineering and Technology

(An ISO 3297: 2007 Certified Organization)

Vol. 2, Issue 11, November 2013

- Australia's economy was buoyed by large resource exports to China, whose economy rebounded quickly after the initial GFC shock (mainly due to expansionary fiscal policy).

Also a large policy response

Despite the Australian financial system being in a much better position before the GFC, given the magnitude of the shock to the global economy and to confidence more broadly, there was also a large policy response in Australia to ensure that the economy did not suffer a major downturn. In particular, the Reserve Bank lowered the cash rate significantly, and the Australian Government undertook expansionary fiscal policy and provided guarantees on deposits at and bonds issued by Australian banks.

Following the crisis, APRA implemented the stronger global banking regulations in Australia. Together, APRA and the financial market and corporate regulator, the Australian Securities and Investments Commission, have also strengthened lending standards to make the financial and private sectors more resilient.²⁰

IV. CONCLUSIONS

The gold prices are falling, and the markets are crashing! While the statement is absolutely unreal, just the thought of it would have been enough to you a heart attack, wouldn't it? We would prefer to be destroyed by the snap of Thanos than getting stuck in such a situation, right? Would you believe if someone were to say that a similar situation challenged some of the top global economies in 2008? Yes, we are talking about the financial crisis of 2008, an event which took the financial system of America and other major economies by storm, sparing none. The recent economic crisis caused by the COVID-19 pandemic, brought the topic back to discussions, with major economists and professionals comparing the current scene with the financial crisis 2008. Hence, navigating through the various reasons and aftermath effects triggered by the financial crisis becomes crucial and demanding. Let's get into it.

1) The Start of the Grave Fall

Loans are a crucial part of any financial system. However, you need a specific credit rating to acquire them. As far as India is concerned, you need a CIBIL score of 700 or more to get your loan sanctioned without any hassle. Similarly, in the USA, you need the FICO rating of more than 640 to acquire a loan. So what was the problem here? The problem started with the action of subprime loans. The US banks came up with an idea of lending housing loans to those individuals whose ratings were below the benchmark rating of 640. However, to compensate for the risk taken, they charged a higher rate of interest. These loans were then bundled with good ones and were issued as mortgage-backed securities (MBS). To be precise, it's like mixing good vegetables with the rotten ones. The rating agencies like MOODY'S rated them with a AAA, which ultimately made them an attractive investment for investors who assumed it to be free from the risk of default. Further, the housing sector was at its peak during early 2005, making investors move huge amounts of money into these derivatives. This included a large number of banks, private lending institutions and other world-wide financial institutions investing in them. Hedge funds institutions, mutual fund companies and various other pension fund institutions also invested in these swaps. And the ownership of houses rose to more than 69%. However, no one could predict that great destruction was in process.²¹

2) What was the cause of the 2008 financial crisis?

As banks could pass on the risk to the investors, they were happily sanctioning loans to people without proper documentation and adequate ratings. No one worried about the consequences. While all seemed like rainbows and unicorns for a while, soon reality demanded its way back. The prices of the housing sector saw a fall at the beginning of 2005, and the banks witnessed a lot of their borrowers defaulting the repayment.

Would you give poison to an already dying person? But what the banks did was something like that. Rather than coming up with some reliable solution, they decided to increase the interest rates further. They thought that they could offset the losses by charging higher rates on the ones that make regular payments or at least make a conscious effort to pay. The rates were increased from 2.25% to 5.25%. Burdened by massive interest rates, the defaults only increased. While the banks promised safety and security with a higher return, their action did not project the same. And by the end of 2007, the American economy officially entered the recession.²²

International Journal of Innovative Research in Science, Engineering and Technology

(An ISO 3297: 2007 Certified Organization)

Vol. 2, Issue 11, November 2013

3) The Domino Effect

The books of the banks showed huge lending and falling repayment. Following which the banks witnessed a severe liquidity crunch and a lot of them filed for bankruptcy. As the fear brewed up, the banks stopped lending to one another, thus affecting the interbank money market. They all searched for funds outside, and the Northern bank of London came to their rescue. But it did not last long as the bank was nationalized by the British government, chopping off the help offered. This caused the collapse of some of the major financial institutions of Wall Street. The Swiss bank UBS was one of the first to declare bankruptcy and showed a loss of more than 3 billion dollars. The lack of liquidity and huge losses pushed Bear Stearns, Fannie Mae and Freddie Mac to the edge of the cliff. However, the government of America was swift and rescued them from the brink of death. Following this, the Lehman Brothers declared bankruptcy leaving the stock markets to fall drastically. For investors who believed that the US government would rescue them, it was nothing more than a false belief. The crisis kick-started with investors selling their stakes in huge amounts. And by the end of 2008, the entire financial system of America was in utter chaos.

4) Cost of the 2008 Financial Crisis

The financial crisis 2008, as expected, affected after everything that was even remotely dependent upon the US economy. Financial crisis 2008, caused the US economy roughly around \$22.8 trillion. In other words, it was approximately \$72000 per American citizen. It's impacted the output of the country by \$13 trillion. The country lost about \$5 trillion in terms of GDP over the next few years. About 20 million people were affected directly or indirectly by the crisis. British banks lost approximately £90 billion in just a single day. And the ill-effects can be added to this list. Hence, the government was forced to interfere in the matter and to sort the situation out. Want to know how the American government reacted? Read further to find out.²³

5) The Troubled Asset Relief Program

The American treasury came forward to address the crisis. They did this by purchasing the mortgage-backed security (MBS) from the companies, in a view to reduce their losses. Drafted by Henry Paulson and brought into effect by George W. Bush, the plan aimed to stabilize the money market and secondary market by injecting liquidity into the system.

The program spent more than \$247 billion to stabilize the banking systems. They bought shares of JP Morgan, Citi Group, Wells Fargo at an interest of 5%. Also, \$79.2 billion was spent on bailing out the auto sector, whose stock went on a free fall and \$67.8 billion was spent on nationalizing the AIG sector. The policy did a huge deal in reducing the burden that was placed on the economy. But critics still argue upon its efficiency and claim that it failed to shed light upon the housing sector.²⁴

6) The Aftermath of the Financial Crisis 2008

The housing prices saw a steep fall of more than 31.8%. Though the US economy came out of recession after 2 years, the impact was still prevalent. The unemployment saw an all-time high and stayed more than 9% even after two years. A huge part of the population lost their money, homes and livelihood. Most of them even lost their pension money. In short, this crisis proved to be worse than the great depression. India, at that time, was less dependent on the US economy and therefore was less exposed to its negative side. However, it wasn't completely guarded against the huge bomb that took the entire financial market of the US into dust.

The GDP of India fell from 9% to 7.8% in 2008. Approximately \$12 billion worth of investors withdrew from the stock markets, and there's a huge fall was witnessed. Also, the trade and fiscal deficit were hurt badly. But the then-Indian government was prompt in answering the crisis.²⁵ For more information on Financial crisis 2008. History is a good teacher. And the financial crisis 2008 was good in teaching the world how bad a situation can get if even a small thing goes wrong. Such a situation is unlikely to happen again, as various countries have tried to formulate their financial planning based on the lessons which were taught by the 2008 crisis. However, there are predictions that the student loan sector might be the next big financial bubble in process. Will, it really burst or is it just a myth? We will have to wait and watch, and of course, be prepared.²⁶

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Vol. 2, Issue 11, November 2013

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