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RESPONSE OF INDIAN MONETARY POLICY AGAINST GLOBAL FINANCIAL CRISIS

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Abstract

In my Article, I will try to address the following set of questions: How and why was India impacted by the global financial crisis? How did monetary policy respond to the crisis? How did monetary transmission work? I will conclude by highlighting the challenges of exit from monetary easing. The subprime crisis that emerged in the US housing mortgage market in 2007 snowballed into a global financial crisis, leading to a global economic recession. The financial landscape has changed significantly after the collapse of Lehman Brothers in September 2008. An important lesson learnt, post-September 2008, is that irrespective of the degree of globalization of a country and the Soundness of its domestic policies, a financial crisis could spread to every economy. The international transmission of liquidity shocks was fast and unprecedented. While falling asset prices and uncertainty about valuation of the traded instruments affected market liquidity, failure of leading global financial institutions and the deleveraging process tightened the market for funding liquidity. Given the growing risk of illiquidity cascading into solvency problems, credit and quantitative easing acquired priority in most central banks. The contagion from the global financial crisis warranted swift monetary and fiscal policy responses with a view to ensuring orderly functioning of markets, preserving financial stability, and moderating its adverse effects on growth. While the global financial markets have since started showing signs of stabilization, credit flow in advanced markets is yet to recover.

Key Words : Monetary, Liquidity Shocks, stabilization

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