

“COMPARATIVE ANALYSIS OF GLOBAL CRISIS ON INDIAN AND FOREIGN BANKS”

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Abstract

Finance is considered to be the lifeline of the economy. India has adopted the policy of LPG i.e. liberalization, privatization, and globalization, as a result of it the doors of trade and commerce became broadened and today the veins of Indian economy is strongly connected with the structure of global economy. Finance is the most important medium to float the goods and service in the form of trade and commerce and these two elements are highly affected with trade and commerce. Banks are the significant medium to exchange the finance and let the flow of liquidity to be floated from surplus sector to the deficit one. Indian business is highly influenced by global business and trade that a small change of a global market leads to a significant impact on Indian economy. Global crisis took place in the year 2007-2008 in the US economy highly influenced Indian trade at large.

Key words: RBI, Global crisis, Banking sector, stock market, financial system.

INTRODUCTION

In current scenario market is one of the most significant part of economy and it is truly said that trade and commerce are the indicators of the health of an economy. Either a country is developed or not it is highly depend upon the market of the concern country. Whether it is positive or negative economic condition will bring definite change in the trade and finance of the country.

So far the definition of trade and commerce is changed now a days and information communication is boomed to the extent, the whole world now became a global village. Nationalized and international banks have achieved the peak level of the funding and foreign money transfer so far the import exports are concern. Over and above this, liberalization, privatization, and globalization have created a strong bond of domestic country with the international market.

So far the finance is concern, the highest number of financial transaction are carried out by the prominent stock exchanges of India. The stock exchanges are;

- 1) NSE (National stock exchange)
- 2) BSE (Bombay stock exchange)

The above mentioned stock market are the sum total of all the commodities which are listed on stock market. These commodities represent the health of particular sector or industry they belongs to. In India there is a huge channel of an import-export of international goods and services. If one country suffers with the market instability will definitely shake up the Indian market today or tomorrow.

So far the money supply is concern; the short term money requirement is fulfilled by banking industry. Banks are considered to bridge the gap between deficit sector and surplus sector. The two basic functions of banking sector are,

- 1) Accepting deposits
- 2) Providing loans

Banks collect the deposits from the people with excess of savings over expenditure and keeps the funds in three basic accounts, i.e. SAVING ACCOUNT, CURRENT ACCOUNT, and FIXED DEPOSITS. Banks are considered as the lifeline of financial industry and velocity of money helps to increase the value of money.

On the basis of geographical boundaries banks are classified on two types, i.e. Indian banks and foreign banks. Those banks which are typically originated and managed by India are known as Indian banks, whereas the banks originated and managed by foreign country is known as foreign banks. Though, the origin of both the banks are different but still the basic functions of all the banks remain same irrespective to the working area or region. But one thing we have to accept that domestic disturbance in economy will affect more to the concerned domestic bank and its impact also be observed in foreign bank as well.

But the present paper is confined to focus that the particular disturbance in the economy, up to which extent affect the Indian banks as compared to foreign banks. For that we have to pick out the historical event occurred in the past in the global economy.

The present paper attempts to correlate the historical event took place in The United States (USA), there was a great economic meltdown took place which is commonly remembered as "GLOBAL RECESSION." The recession was all about the NPA (non-performing assets) of Housing Banks in the year 2007-2008. Bank considerably started providing the Housing Loans so far it was estimated that it would bring a definite return for the banks in future with handsome amount of interest.

So far the housing industry was not doing well and the prices of houses swooped down. Banks estimates could not last for a long, and within a small span of time it was the flow of defaults started streaming. One after another almost all the banks experienced the crisis of getting the amount of loan back. Finally banks were needed to accept that it was an NPA (Non-Performing Asset). Banks were failed to collect the landed amount of money and almost all the housing bank goes Bankrupt.

As directly or indirectly India also linked with the US market, within a small span of time India had to face the strong wind of this tornado. Finally in the year 2008, India experienced the effect of global crisis so far the trade, stock market, and financial system is concerned. And banks are considered as the main channel which caught the fire of global crisis considerably.

LITERATURE REVIEW

Goel Shobhit and Bajpai Avinash (2013) Worked on An analysis of global recession on the Indian banking sector. The objective of the study was to empirically find out the impact of recession on the Indian banking sector. The paper attempts to analyze the liquidity position of the banks during the recession period and to assess whether the management of the banks is successful in maintaining the performance of banks due to the onslaught of recession. The paper is based on secondary data analysis of the banks. Analysis is made at group level-State Bank of India and its associates, nationalized banks, Private Banks and Foreign banks are analysed for the time period 2006-2009. This period has been chosen taking into consideration the recession in the US starts from the year 2006, India felt heat of recession in the year 2007-08, In order to analyse the after effect of recession on Indian Banking sector, the period 2008-09 is taken. Finally it is found though the Indian stock market have plunged to more than half of its value but the Indian Banking sector has managed to show profits in their balance sheets. The banks are in a comfortable position to absorb losses occurred due to the destructive attack of recession.

P.D. Saini AND Arun Kumar (2014) presented Impact of Global Recession in Banking Industry (A Comparative Study Of SBI And ICICI Bank). The paper aimed on the objective to analyze the impact of recession on Financial Performance of both the selected banks and to study the comparison. This study is based on secondary data which have been collected from annual reports of the selected companies and related websites. To test the hypothesis statistical techniques: Ratios, paired t-test have been used. It is found from the study that According to the analysis of Indian Banks i.e. SBI and ICICI the results show that except R1, R3, R5 and R6 there is no impact of recession on SBI Bank. Whereas in ICICI Bank the results show that except R1, R5 and R6 there is no impact of recession on ICICI Bank Therefore, researcher can say that in Indian banking industry public and private banks are equally affected by recession.

Gevit Duca (2007) discussed regarding "The Relationship between the Stock Market and the Economy: Experience from International Financial Markets". Objective of the paper is to employ the Granger causality test in order to examine causality direction. The focus of the paper is on long-term trends and the evidence presented is garnered from five of the top ten stock markets in the world in terms of market capitalisation. Two variables are considered in this study, namely nominal GDP and stock market indices, with the relationship between them being tested by the Granger Causality test. The study based on the secondary data. F-test technique is used here. GDP quarterly data was obtained from the IMF International Financial Statistics (IFS) for all 5 countries under scrutiny. For the US, the stock market index used in the analysis was the Dow Jones Industrial Average, whilst the FTSE 100 was used in the case of the UK. The relative smallness of the market may result in a lack of causality between the stock market and the economy since a small stock market implies that stock price movements have a potentially smaller impact on aggregate household wealth, than is the case in other countries where the ratio of market capitalization to GDP is higher.

Prabir De, Chiranjib Neogi (2010) Global Financial Crisis: Implications for Trade and Industrial Restructuring in India. The broad objectives of this study are to understand India's emerging trade and industrial development scenario in view of the change in international demand from advanced economies, and the remedies in order to strengthen and enhance the trade and industry in India. Duration of this study was from 2007 till 2009. The help of a panel data modelling (PDM) is taken in order to understand the impact of trade, Vector Auto

regression (VAR) technique to find the impact of the global crisis shocks on industrial composition and trade openness and other exogenous variables on India's industrial composition. Least square method is used in this paper to analyse the data. The estimated results show that changes in trade composition are positively associated with changes in manufacturing composition in India, controlling for other variables. While analysing its dynamic effects, compositional change in industry has responded significantly to the export to USA, Japan and EU in the crisis period. However, there is no strong indication to conclude that Indian industry has been severely affected by the fall in demand in crisis-affected advanced economies such as US, EU and Japan, holding other things constant.

Dr.A.Muthusamy (2012) presented Impact of the Global Meltdown on the Indian Economy. The objective of the study is to find out the frame work of both the concepts of Global Recession and Indian economy, to analyze the implication of Recession occurred during the period 2007-2009, and to analyze the causes and effects of Recession in India. This study is made in order to find out the contribution of the impact of global recession on Indian economy from 2006-2007 to 2010-2011. The recession period was December 2007-July 2009 i.e. 19 months. Index of Industrial production growth, GDP, Import, and Export were the main variables used in the study. The period of the study is six years from 2005 to 2010. Data had been collected from the major stock exchange BSE and NSE. From the study it's found that the Indian economy also affected by the spill- over effects of the global financial meltdown. The Indian economy not affected much more due to great saving habit among the people, strong fundamentals ,strong regulatory regime .The other direct impact of the global financial crisis has occurred in the area of credit availability to the small-scale agriculture and other rural livelihoods.

Ramesh Chand, S.S. Raju (2010) Effect of Global Recession on Indian Agriculture. Aim of the study was to assess the impact of the global economic slowdown and financial crisis on India's agricultural sector, Agricultural advances by institutional sources, Public and private investment in agriculture, Subsidies on farm inputs, Agricultural exports and agricultural imports, Terms of trade for agriculture, and Fertiliser production and prices. Paper purely based on the secondary data of the concern annual reports and magazines. The global financial crisis started impacting the Western economies in the third quarter of year 2007. In India till mid 2008 it was perceived as a problem of rich countries and it was widely felt that India was decoupled from the slowdown in advanced economies. Till Q2 of year 2008-09 India's GDP was showing a robust growth of 7.5 per cent. After several quarters of high performance, India's GDP growth decelerated to reach a level of 6.2 per cent in Q3 of the year 2008-09. This was the first major worrying impact of global slowdown on the Indian economy. Terms of trade in Indian agriculture, performance of India's agricultural exports and imports, quarterly growth rates of different sectors and resource flow in Indian agriculture are the main variables taken in this study. It is concluded that the apprehension about impact of the global recession on Indian agriculture was not well founded and the anticipated effect was overstated.

HYPOTHESES

H1: There is a significant difference of global crisis between Indian banks and foreign banks.

H2: There is no significant difference of global crisis between Indian banks and foreign banks.

RESEARCH METHODOLOGY

RESEARCH DESIGN

The present study is based on descriptive and causal research designs.

OBJECTIVES

- To compare the trend of bank performance for the period under study, and especially for the global recessionary period i.e. from 2007 till 2012.
- To identify the core factors affecting banking and finance for Indian and foreign banks.
- To evaluate the impact of global meltdown on the savings and deposits of major banking sector through macro-economic indicators.
- To suggest the factors responsible (if any) for the difference in the saving and deposits of both the banks.

SAMPLING DESIGN

In the present study the data from 2000 to 2015 has been taken in order to study the impact of global recession on Indian financial system and especially banks. The pre and post condition of Indian banks has been evaluated using the data on various macro-economic indicators drawn from Hand book of statistics available from RBI website and Indian financial system. The data of public and private banks has been drawn from the handbook so statistics published by RBI for the given time interval.

Table 1 VARIABLE DEFINITIONS

NAME	DEFINITION
Bank rate	Lending and borrowing interest rate by banks
Indian banks	Banks originated in India
Foreign bank	Banks originated in foreign
Bank Deposit	Quantum of money deposited in banks
GDP (GDP)	Gross Domestic Product
Reserve bank of india	Liabilities and assets
Exchange rate (us dollar)	Exchange rate between Indian and US currency

STATISTICAL TECHNIQUES APPLIED

- Trend Analysis
- Descriptive Analysis

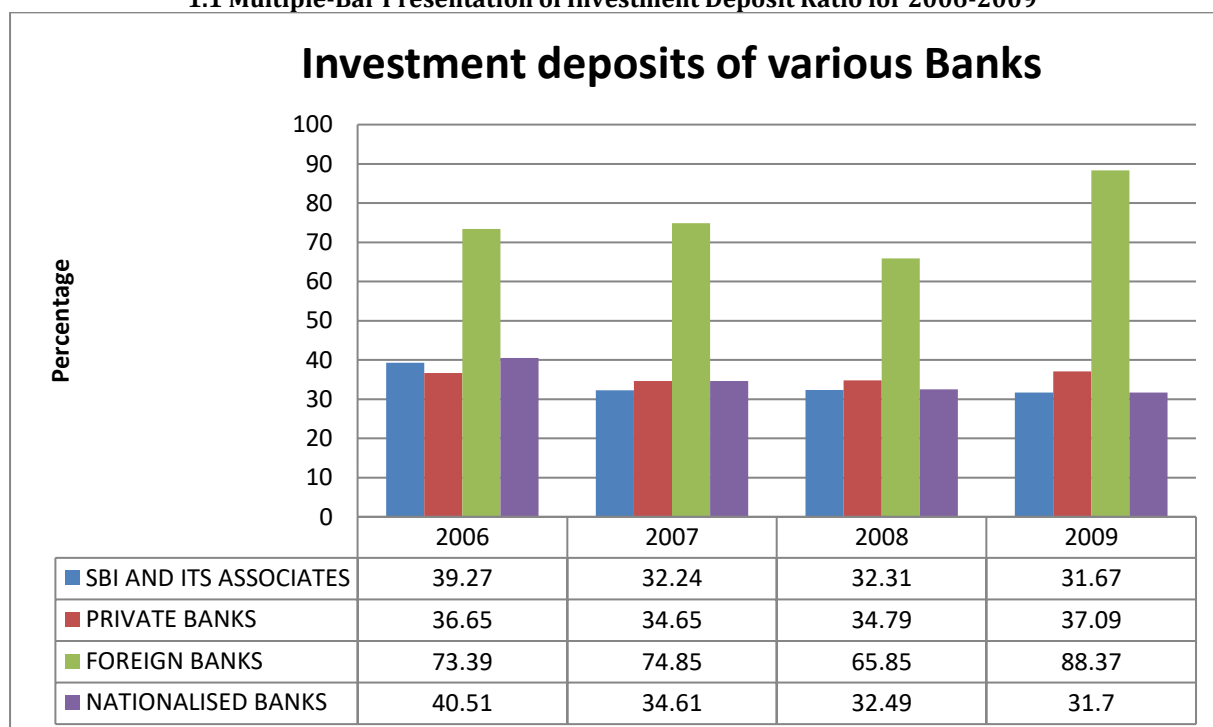
DATA ANALYSIS AND INTERPRETATION

1. Investment Deposit Ratio

Table-2 Investment Deposits

GROUPS OF BANKS	2006	2007	2008	2009
SBI and its Associates	39.27	32.24	32.31	31.67
Private Banks	36.65	34.65	34.79	37.09
Foreign Banks	73.39	74.85	65.85	88.37
Nationalised Banks	40.51	34.61	32.49	31.70

1.1 Multiple-Bar Presentation of Investment Deposit Ratio for 2006-2009

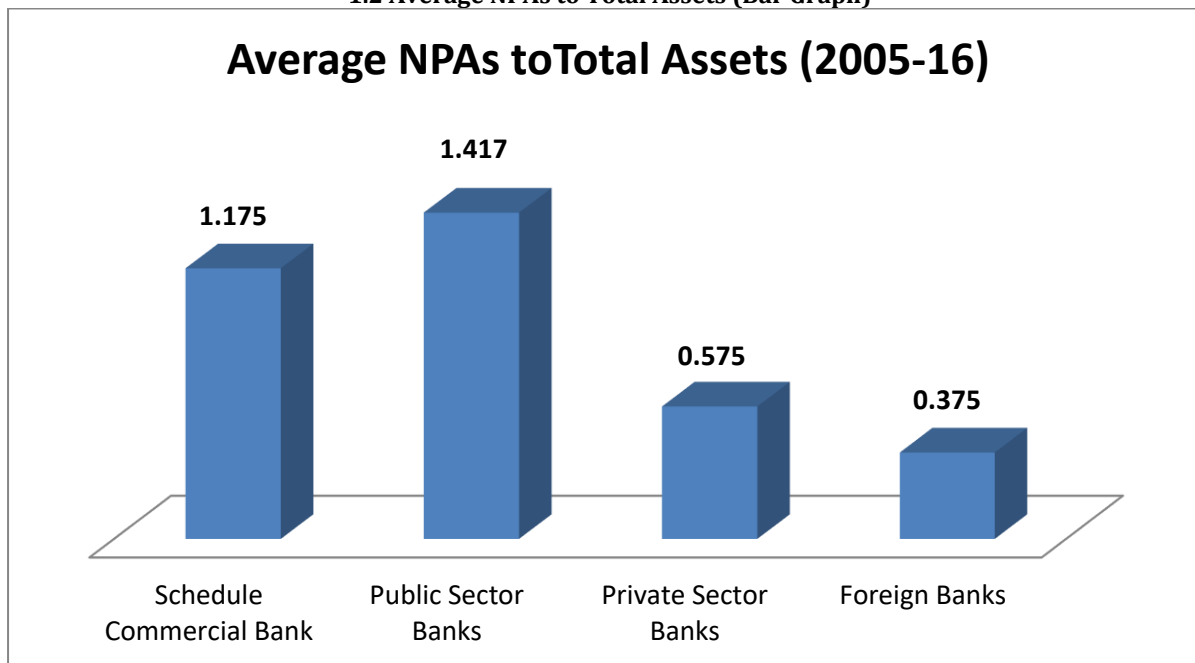


Interpretation of Data

Chart 1.1 indicates the deposit ratio of investment with different perspectives. The statistics given in above chart is of four years that is pre-recession period of 2006, recessionary period 2007 and post recessionary period 2008-09. The table includes the banks like, State Bank of India, Private Banks, Foreign Banks, and Nationalised banks. As shown in the figure the investments of SBI and associates was 39.27% in 2006 which was disinvested up to 32.24% and further it reduced to 31.67%. As compared to this the investment by private banks was 36.65% which was reduced to 34.65% but having genuine peak in the year 2008 with 34.79 and 37.09% in the year 2009. So far the foreign banks are concerned, in the year 2006 it was 73.39% and the rate of investment increased to 74.85% in the year 2007 but there was great fall of investment by foreign bank in the

year 2008. The global recession create the fear in the public to disinvest in foreign banks. Surprisingly in the year 2009 the investment reached to peak and goes up to 88.37%, which indicated that investors wanted to invest at cheaper rate in this market at the recessionary period to gain extraordinary returns. Nationalised banks present a clear picture of pre and post recessionary environment. In Pre-recession time the investment deposit ratio in nationalised bank was 40.51%, which reduced to 34.61% in the year 2007 and followed by 32.49%. The investment was lowest in the year 2009 which was 31.70%. The recessionary effect of global turmoil it is clearly seen in all the kinds of banks in India.

1.2 Average NPAs to Total Assets (Bar Graph)



The given Chart 1.2 is the output of Non-Performing Asset (NPA) made by various banks in India. The graph plots percentage average of NPAs of banks from the year 2005 till 2016. From the above chart it is clear to predict that the proportion of non-performing asset was the highest in public sector banks i.e. 1.417% whereas, the non-performing asset of foreign banks were the lowest by 0.375%. While comparing public banks with foreign banks it's a clear cut that the NPAs of public sector bank was almost three times from the foreign banks. Even if there is a comparison of private banks NPAs with public banks, yet the NPAs of public sectors were almost double. Form the above chart it is clearly said that, due to the recessionary environment of 2007-08 the public banks reported highest degree of NPAs.

FINDINGS

- Trend analysis is used to identify the investment deposit ratio by SBI and associates, Private Banks, Foreign banks, and Nationalised banks from 2006 till 2009. It is found that almost all the banks indicate a considerable downfall at the recessionary period of 2008. The graphs clearly present the decline in the investments due to global recessionary environment.
- Due to global recession the investors seemed out of the capacity to repay the due loan payment. The bar diagram prepared to identify the average NPA to the assets of various banks. It is found that public sector banks faced the highest NPA among the other banks for the given time period, whereas the foreign banks with the lowest amount of NPA.
- While making the comparison of pre and post recessionary environment of Public bank (SBI) with Private bank (ICICI) it is found that the output of t-test of SBI Return on Net worth having the significant difference which clearly indicates the effect of recession. As far as ICICI bank is concern, the t-value of the variable Return on long term funds, Return on Capital Employed and Return were less than 0.05 which indicates there was significant difference between pre recessionary and post recessionary environment. This means the discussed variables were highly affected due to global recession.
- Trend analysis with Repo Rate, Reverse Repo Rate, and Exchange Rate likely to fall down during recession especially repo and reverse repo found the lowest of the ten year during the year 2008-09. The declines in the rates were due to the shortage of money supply in the market and avoidance of investors to rely on banks in the recessionary scenario.

CONCLUSION

From the above study it is clear cut result that Indian financial system literally crunched down due to the global meltdown of the year 2008. Irrespective to be Indian bank or the foreign bank both the banks adversely affected due to global recession. As far as the comparison is concern and we compare the data of the year 2007-08 with 2008-09 its clear to observe that foreign banks are highly suffered comparatively. Reason being that is the foreign banks had the major funds parked in United States Banks and the investment these banks received from the same country.

On the other hand if we talk about NPAs (Non-Performing Assets), the proportion of non-performing asset was the highest in public sector banks i.e. 1.417% whereas, the non-performing asset of foreign banks were the lowest by 0.375%. While comparing public banks with foreign banks it's a clear cut that the NPAs of public sector bank was almost three times from the foreign banks.

At the end of the crises, hardly any country would remain unaffected with the flame of the recessionary fire, but as far as the investments banking sectors are concern; yes, foreign banks were more affected as compared to Domestic banks.

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