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**ARTICLE**

## **Global Financial Crisis: Causes, Emerging Trends and Strategy**

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### **ABSTRACT**

*Global financial crisis is the biggest threat to the survival of the world in years to come. It has far reaching consequences for both developed and developing economies of the world. There is only a difference of the degree of impact. This crisis is resulting into recession which is also a most dangerous thing for the global economy. Hence, these days, global attention has now shifting from concern in regard to dimensions of the financial crisis to assessing how deep the real economy recession it has triggered will be and how long the crisis would last. No one can say how long it would last or when recovery would start. With the recession intensifying and estimates becoming more pessimistic, there are reasons to fear that a possible recovery that is being expected by 2010 may not be realized or materialized. The present paper would deal with these issues and would also suggest a strategy to overcome the existing most chronic problem.*

**Keywords :** Global Economy, Financial Crises, Emerging Economies, Developing Economies.

### **INTRODUCTION**

The world financial crisis is not only an economic crisis but also an end of an economic model that trumpeted the lack of controls as a concept. Not long ago, analysts were of the opinion that the world may see financial crisis as they realized that what they were hiding was the real possibility of their own bankruptcy, as it indeed happened.

Most of the humanity is watching the international financial crisis deepening and increasingly jeopardizing the precarious living conditions of billions of the people world over. Meanwhile, a fast processing of mergers and acquisitions is underway, and a huge amount of taxpayers' money is pouring into the financial markets.

As in other historical experiences, the most vulnerable ones would end up paying for the excesses of others, unless a viable and technically well designed roadmap is created to defend their interest.

While the global financial crisis originates in the developed economies, it perpetuated a sudden and sharp rise in the borrowing costs of developing countries and in many cases their currencies have fallen dramatically too. The Millennium Development

Goals are among the first casualties of this crisis. These goals have been set back by about seven years ago, precisely because there's slowdown.

Developing countries are in a peculiar situation, they are not the cause of this crisis, but are amongst the worst affected. The contraction of exports, a credit crunch, and lower flows of capital and foreign direct investment would slow down their economic growth push millions of people back to poverty, with adverse effects on nutrition, health and education levels.

For the first time the problems are not in the developing countries, they are in developed countries. It doesn't help to look for palliative measures if you don't resolve chronic problems of economic policy of the USA and of the EU.

### **When Does it Originate?**

Whereas year 2008 was the year of persisting crisis, the origins of this crisis dates back to the mid of 2007, wherein home owners had borrowed to finance the property which these owners purchased had begun defaulting on their borrowings. Thereafter it had become clear that so many persons having limited or poor creditworthiness had been induced to take substantial amount from banks eager to exploit the considerable amount of liquidity and the low level of interest rates in the system.

An unbearable percentage of defaulters have become inevitable. What is the most significant in the events which has to follow was that this 'sub-prime' problem soon dispersed and created a systematic crisis that soon bankrupted a host of mortgage finance firms, banks, investment banks and insurance firms that include globally dominated players namely, Bear Sterns, Lehman Brothers and AIG.

### **Why Does it Happen?**

Noble Laureate in economics Prof. Amartya Sen. has stated that the present global financial crisis 'has come about from an over-reliance on markets and not enough regulation'. Similarly another Noble Laureate Prof. Joseph Stiglitz has opined that the US is responsible for this crisis and was very critical about the role of the US in this economic crisis. According to Prof. Stiglitz "the US has exported its toxic mortgages.

If this had not happened we would be even worse off. We have also exported our deregulation policy. Decoupling was a myth and the US was now exporting its recession. September 15, 2008 the day when Lehman Brothers filed for bankruptcy was a black day in the history of capitalism"

September 15, 2008 would be to free market economics as Berlin wall is to fall of communism. Market fundamentalism does not work. The idea that markets are self-correcting is flawed. There were several inferences that could be drawn from this very economic crisis: Wall Street has made several bad decisions and has repeatedly

failed; prices are bad signal for resource allocation; and though the G-7 has been expanded to G-20 old paradigms were still at work.

Global financial crisis is not just a crisis of capitalism but a crisis in how we mean and approach economics. Prof. Stiglitz has rightly emphasized that Prof. Amartya Sen.'s work which is all about increasing the well-being of human beings is more important and relevant here. The new financial order must be built up on this proposition.

### **Major Contributory Factors**

There are many contributory factors that are responsible for present global financial crisis resulting further into a recession.

The rise in sub-prime credit took place due to the complex nature and contents of the present financial structure that is in practice worldwide. The existing finance system allows an array of agents to earn lucrative returns even while transferring the risk. Mortgage brokers seek out and find willing borrowers for a fee, taking on excess risk in search of volumes. On the other side of it, mortgage lenders or financiers extend credit to the mortgages not with the intention of garnering the interest and amortization flows associated with such lending but that they can sell these mortgages to Wall Street banks. The Wall Street banks buy these mortgages because they can bundle assets with varying returns in order to create securities with differing probabilities of default that are then sold to a range of investors namely- banks, mutual funds, pension funds and insurance companies.

Another important and very relevant contributing factor to this crisis is that institutions involved therein at every possible level do not fully rid of risk but those risks were shared in significant measures by the rest of the investors lying in the distribution chain. The most unfortunate fact about this transfer was that all players were exposed to each other and ultimately to the toxic assets themselves. When sub-prime defaults started then the whole existing financial structure collapsed resulting into financial crisis of such a great magnitude.

### **Magnitude of the Crisis**

The impact of this financial crisis can be imagined by looking at what kind of losses were to be realized by the investors. Morgan Stanley marked down the value of mortgages and leveraged loans estimating the total cost of credit losses and write downs to over US \$ 1 trillion.

The largest credit losses and write downs are reported in which contributes the US as much as 67 per cent of the total losses while Europe accounted for 29.5 per cent Asia contributed the lowest possible losses There share of the estimated global loss was just 3.5 per cent

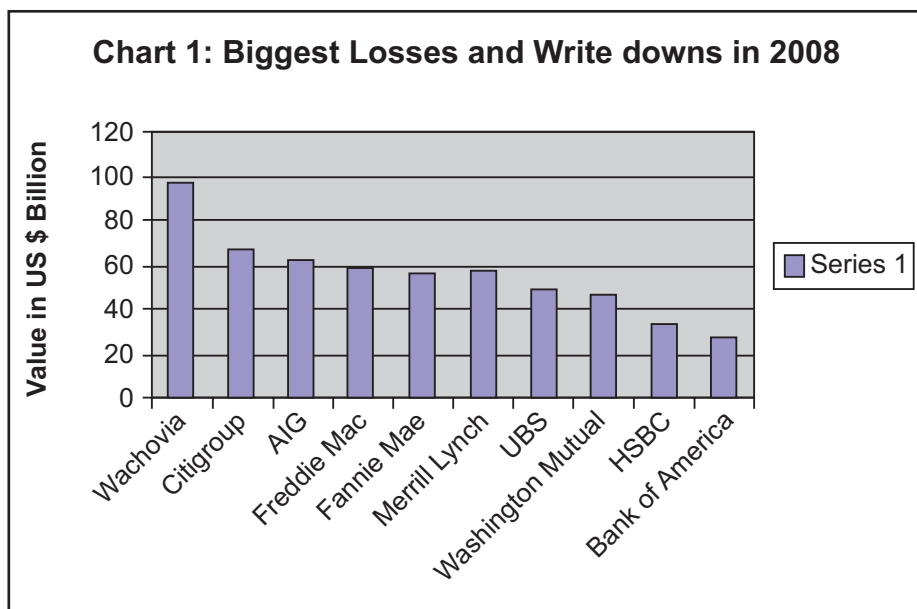
(Table I).  
**Credit Crisis Cost Crosses US \$ 1 Trillion**

US	\$678.40 Billion	67.0 %
Europe	\$302.10 Billion	29.5 %
Asia	\$31.50 Billion	3.5 %
Total	\$1,011.00 Billion	100.0 %

Source: John Mack; CEO, Morgan Stanley; the Financial Express; New Delhi; December 19, 2008.

### Biggest Loser

Biggest losses and write downs in terms of individual organizations can be seen from Chart 1. The largest losses are registered in case of Wachovia as high as \$96.5 billion and the lowest possible losses are attributed to Bank of America with as low as \$27.4 billion.



Source: Same as Table I.

### Major consequences

The following are the major consequences of this crisis to the people of developed economies:

- a) This crisis has made households whose houses were now worth much less more careful in their spending and borrowing behavior leading to collapse of consumption.
- b) This crisis has made institutions namely, banks and other financial firms more cautious in extending credit. This has resulted in to a paucity of credit which may have caused some businesses to go bankrupt.
- c) This crisis has caused substantial downward trend in respect of value of assets held by banks and financial institutions resulting into a situation of insolvency.
- d) This crisis has led to a situation where there is an enormous pull out of capital from the emerging markets namely, China, India, Brazil, South Africa and Mexico.
- e) This crisis has resulted into a decline of capital flows to developing countries making it difficult for them to finance their development needs. It is estimated that capital flows to developing countries are likely to go down to a level of US \$ 530 billion in 2009 from an all time record figure of US \$ 1 trillion in the year 2007.
- f) This crisis has affected the availability of credit and demand for credit, leading to fall in exports. This has resulted in recession in developing economies.
- g) These emerging trends would lead to decline in demand which means a crisis in real terms to global economy in general and developing world in particular. These trends would also result in a decline in output on one hand and an increase in unemployment on the other.
- h) The existing crisis situation would worsen further in years to come.

### Vicious Cycles

The global financial crisis has created four vicious cycles that are affecting world economy badly and these vicious cycles are also currently working their own way and spreading their tentacles to other regions of the world.

- a) Falling asset prices- leading to sale by holders, driving prices further lower;
- b) Losses at financial institutions- which are eroding their ability and capacity to finance investment through reduced asset values culminating in further losses;
- c) Weakness of financial system- adversely impacting economic growth that further weakens the financial systems; and
- d) Falling output affects- employment that in turn results in reduced demand for output.

### **The US Contribution**

The present world financial crisis has been caused by the wrong policies and perceptions of the people responsible for managing financial markets in the US. Therefore, the US is the biggest contributor to this crisis. It is to be noted that there were very few people who predicted the coming crisis. Those few who saw the upcoming crisis based their forecast on the assertion that the United States economy would crash because of years of over consumption. They contended that the lower saving rate would lead the US economy downwards and with it the stock market, the bond market and the dollar. The result was that the doers got 1 out of 3 markets right. These people were of the firm opinion that US bond yields will increase to 8 per cent or more. But what happened was that these yields had recorded just 2 per cent rise that is the lowest yields recorded in the post-war history. Since August 2007, bond prices have appreciated by nearly 23 per cent. And the dollar instead of crashing has appreciated by 5 per cent. The expectations went wrong resulted into severe sub-prime crisis and the starting of bankruptcy and insolvency of big resulted into severe sub-prime crisis and the starting of bankruptcies of large financial institutions.

The US sub-prime crisis has had three phases. The first phase was August 2007 to March 2008, i.e. an eight month time for markets to adapt to a new world order. The second phase was from the bankruptcies of Bear Stearns to Lehman Brothers in September 2008 or 13 months duration which the crisis of sub-prime started. The third phase started s from September 2008 and may still be continuing.

It would be logically right to realize that the bankruptcy of Lehman Brothers changed the world financial order, at least for a few quarters or years. It is a bit questionable to assume that for 13 months the financial markets had not anticipated the severity of the crisis. Once Lehman Brothers went bankrupt, every one reacted as if the sky was falling. It would not be correct to argue against the fact that Lehman Brothers bankruptcy was just incidental to the inevitable global crisis.

It is said that when the US sneezes the whole world catches the flu. But this time the US starting sneezing in August 2007 and got the flu when Bear Stearns collapsed seven months later in March 2008. All through that period, trade and purchasing were frozen, inventories rose and production fell sharply.

It was in July 2009 when Barack Obama's Treasury started their effort to revive the economy. This simply means that the current recession lasting about 19 months is the longest post-war recession.

### **An Emerging Dimension**

The financial crisis and the resulting recession has made the American people embrace the virtues of thrift. Stores are now showing a substantial increase in "Piggy

Banks'. These Piggy Banks are used to save coins. The US savings levels have risen considerably in recent months as households adjust to a year-long recession and the worst ever financial crisis since the Great Depression.

The downturn has palyed havoc with house prices and the value of individual retirement accounts(IRA) which, in turn, has reinforced the necessity to systematically put funds aside for the future. A symbol of this changed attitude is the increase in the sale of Piggy Banks that people now give to each other.. As a result, personal savings as a proportion of the US disposable income went up to 2.8 per cent in November 2008 compared with zero during April 2008. But they are still well below the 10 per cent range it recorded back in the early decade of 1980s.

In fact, the shift from consumption to saving would be a crucial factor in determining the pace of the US economic recovery, which many economists saw gradually taking shape in the second half of 2009.

### **The European Contribution**

The economy of Europe is facing its worst ever slump in decades . The most astonishing and unfortunate thing is that policy measures such as cutting interest rates is not working or responsive to economic downturn. Therefore, large scale government aid seems to be the only way to end the economic downturn.

The most worrisome trend is that conservative politicians still cling to the so called an out-of-date ideology of non-interference and believe that their constituents are relatively well positioned to overcome the economic nosedive. They are in affect standing in the way of action.

Surprisingly, the German Chancellor and her economic advisors are being considered as the major constraint to much required European rescue plan because the European economies are focusing on their own problems. Whereas the other global economic super powers namely, the US and the EU are facing troubles of their own. The most delicate financial problems are lying at the periphery of Europe wherein small nations are experiencing a financial crisis strongly reminiscent of past crises experienced by Latin America and Asia. Accordingly, the economists are saying that Latvia is the new Argentina. Similarly, Ukraine is being compared with Indonesia.

The effect of the global financial crisis is also being felt in bigger economies of Europe namely, UK, France, Italy and Germany. Consequently every one now realizes the need for a IPan-European fiscal stimulus.



### **Emerging trends in Developing World**

The present financial crisis has created a ‘silver lining’ for the developing world as it emerges with a much stronger voice in the affairs of the institutions that are governing economic globalization. As soon as the financial crisis is over, emerging economies namely, China, India, Brazil, South Korea along with other emerging nations would be able to exercise more influence over the way that multilateral economic institutions are being managed, and would be in a better place to push for long awaited reforms that reflects their interest. There are two reasons for this eventuality. First, the global financial crisis has weakened the US and Europe in a big way. Hence, these two are unwilling or hesitant to extend or create the required level of leadership which is essential now to sustain the multilateralism in coming years. Therefore, it is high and right time for the developing world to step in and fill the vacuum. In this direction the role of China and India could be of paramount importance.

In the present scenario, it is presumed that the relative importance and dominance of developing world in the world economy would have risen even more. This is because many of the leading institutions of Western Europe which have not been nationalized along with other industrial corporations would remain at the mercy of capital from China and the Gulf States. Hence, it is imperative on the part of the developing world to show a good sense of their interests and priorities.

### **Meltdown and the Humanitarian Crisis**

If there is one positive result of the global economic crisis, it is probably this that developed countries have realized what it means to be on the other side of the divide. Although this realization has come up too late, anti-hunger campaigners such as Josette Sheeran hope that this would be a wake-up call for every one and that hunger would no longer be looked at and taken as a ‘soft issue’.

Many economists have opined that the food crisis was just a dress rehearsal. But because of this meltdown, millions of people have further become vulnerable. Countries whose economies are greatly based on the remittances have the high degree of feeling of loss as the inflow of the remittances has reduced to pittance. According to an estimate, about 98 million people would have to be provided food during 2009 and this figure does not include all those persons who have been affected by the present financial crisis. This indicates that with the same amount of resources at the disposal, the world would have more people feed.

As a matter of fact, the present global financial crisis has put the clock back in many ways than one. In December 2008, the Food and Agriculture Organization (FAO) has brought to the notice to all that the food and financial crises, which followed each other, have taken away about 30 years of progress on reducing hunger and as a

result, the number of hungry people went up to 963n million in 2008. Put this in other words nearly 17 per cent of the global population is going hungry. These figures are nearly same as back as 1990s. This is despite the fact that the world is now 7 times richer than it was in the decade of 1990s.

### **Financial Crisis Resulting into Recession**

The present global financial crisis has become a three edged weapons resulting into three burning crises and issues namely collapse of global financial system, humanitarian crisis and recession. The biggest challenge before the world is how to avoid recession. As the year 2008 came to an end and the new year 2009 began, projections and forecasts in respect of the global economy turned dire. According to the World Bank estimate the world output grew by a very meager margin of 0.9 per cent in 2009. In the year 2008, world production recorded a rise of 2.5 per cent. World trade grew by a meager 2.1 per cent in 2009 as against a rise of 6.1 per cent during 2008. It is important to note that the World Bank did not bring up any sort of stimulus for the recovery in coming months.

Chapter 1 of the UN's World Economic Situation and Prospects for 2009, has pointed out that the growth rate of world output which was at 2.5 per cent in 2008 would be around 0.5 per cent ( much less than the projection of the World Bank) during 2009.

According to the latest preliminary edition of the OECD's Economic Outlook for the end of the year 2008, the GDP in the OECD's economies which was at 1.4 per cent in 2008 is likely to go down to the lowest possible level of -0.4 per cent during 2009.

Hence, from above mentioned estimates, it is evident that the global output was on the decline and there are rare possibility of recovery in the coming months.

Therefore, this might be true that what was a recession in 2008 could turn into depression during 2009.

The agency known as Business Cycle Dating Committee (BCDC) belonging to National Bureau of Economic Research, USA has opined that the recession in the US economy started as early as December 2007. By November 2008 this recession was 11 months long, equal to the average length of recessions during the post-war period. Now the question is how long the recession would continue? In the opinion of OECD, for most of the nations, a recovery or at least the trend of growth rate is not expected before the second half of 2010 implying that the downturn is likely to be the more severe since early decade of 1980s, leading to a sharp rise in unemployment.

It is an undisputed fact, that differential in the distribution of the impact and consequences of the recession and a possible recovery during 2010 are the only possible silver linings in the eyes and minds of the development economists and analysts world over.

### **Possibility of Recovery**

The views in regard to a possible recovery during 2010 are look optimisti. The most delicate question that is keeping the analysts thinking and searching the possible answer is how long the recession would continue? The predictions made out by the individual analysts or the institutions clearly depend upon the assumptions that the crisis in financial markets would be ove come in coming months and there will not be any negative feedback loops between real sector and financial sector till the positive effects of interventions of the Governments are materialized. Such assumptions are of more hypothetical nature and may lead to uncertainty in the process of recovery. There is no other option before the development economists and analysts just to rely upon the uncertain assumptions.

Now the very pertinent question does arise as to what to do to ease the crisis on the one hand and to bring into operation the process of recovery. This would require a sound and effective strategy which depends upon the more realistic and effective assumptions and guidelines.

### **IMF and Financial Crisis**

No longer do member countries that joined the Fund during the period 1945 -1971, agree to maintain fixed exchange rate between their respective currencies and the US \$. This Bretton Woods system fell apart when a high rate of inflation in the United States and the rising trade deficit prompted the US to allow dollar tro float freely. Since then , IMF members have been free to choose any kind or form of exchange arrangement they wish or like (except pegging their currency to gold); allowing the currency to float freely; pegging it to another currency or a basket of currencies; adopting a currency of another country or participating in a currency block. These trends have further exacerbated financial crisis..

### **Can Financial Crisis be a Calamity for Poor Nations?**

The global financial crisis could become “a human and development calamity” for many poor economies especially African economies. Accordingly, the World Bank is urging donor countries to accelerate the implementation of promises that they made and to pledge further support to overcome the crisis.

Developing nations, its main constituency, face especially serious consequences, impact and implications' with the crisis driving more than 50 million people into extreme poverty, particularly women and children.

The World Bank is responding through its healthy balance sheet to increase lending up to US \$ 100 billion over three years and launch initiatives in social protection, public works and agriculture. No one can say how long it would last or when recovery would start.

### **Role of The World Bank**

In managing the global financial crisis, the role of the World Bank is more positive and constructive. The World Bank is also determining what additional measures are required to counteract the worst Global financial crisis in the decades. The World Bank has also invited G-7 and then G-20 nations group. These groups were of the opinion that more needs to be done as the global financial crisis is of a very serious nature. These groups have also asked all donors to speed up delivery of commitments to increase aid and for all to go beyond their existing commitments. According to these groups, the world economy is stabilizing, but it would take until mid-2010 for the world to emerge from the recession. Stimulus packages, bank recapitalization and other needed measures taken by the governments and central banks to deal with crisis are beginning to show results. Financial markets are trending up and other economic indicators are improving, but there are still downside risks.

### **Recession Worse Than Expected for UK**

Very recently, the Chancellor of the Exchequer has pointed out that UK's economy is contracting more quickly than expected, indicating forecasts would be trimmed in his upcoming budget and that public finances would remain strained resulting into downside of process of development. There is no doubt that the depth of the present recession, here and across the globe, is far greater than people were predicting.

With the UK in its worst recession since 1980, tax revenue is drying up as expenditure on benefits surges. The treasury now expects growth to revive at the very end of this year at the earliest. The fiscal deficit would probably be larger than the 118 billion Sterling Pounds (\$175 billion) predicted in November 2008 pre-budget. Hence, there is an urgent need of balancing the budget to support UK's economy with the fact the government has got to ensure in the medium term all countries live with in their means. There are clear indications that the UK's Government is not going for a new stimulus as the Treasury has failed to attract enough investors for an auction of 40 year Government bonds.

### **Effects of Crisis on Developing Nations**

The most unfortunate thing is that the developing economies are not the real culprits or responsible for the escalating financial crisis which was originated and started from the United States especially in finance sector and thereafter the same has been transformed throughout the globe and affecting badly multiple sectors and areas. This crisis transformed into developing world through the channels of trade and finance. Although, economists have mainly concentrated on how the global financial crisis affected the developed world the picture and situation has been reversed. The effects of global financial crisis are more intensive and extensive in developing world. As a result, ramifications are of more serious nature.

The serious effects of global financial crisis are in terms of plummeting exports, quick and sharp decrease in Gross National Product (GNP); considerable decline in industrial production, substantial decrease in gross capital flows; increasing unemployment; poverty, social development, external debt crisis, trade balance, balance of payments; and foreign exchange reserve depletion.

### **Transformation Through Finance Route**

The economists' world over believe that there are four routes of global financial crisis in developing nations:

- 1) Many economies have global financial crisis due to heavy investment on toxic or depreciated assets. The main countries that have lost substantial funds are Singapore, Middle East oil producing nations who have made huge investment in big, US, Swiss and the UK banks. China has also made investment in toxic assets. Similarly, people from Singapore and Hong Kong have made investment in Lehmann Brothers which has gone in bankruptcy. Likewise, people from Latin America have invested in US based Stanford Bank which is now mired in fraud charges.
- 2) There has been substantial decline in funds that are flowing into developing economies. Accordingly, net capital flows to emerging economies have gone down from US \$ 929 billion in 2007 to US \$ 466 billion in 2008 and thereafter went down further to a level of US \$ 165 billion in 2009. Out of the total capital flows to developing countries, portfolio investment that went up considerably in developing economies has gone out, especially from the sale of shares in the stock markets. In case of bond markets business transactions in emerging markets recorded a decline of US \$ 45 billion i.e. from US \$ 50 billion during the second quarter of 2008 to only US \$ 5 billion during the last quarter of 2008.

- 3) There has been a constant and alarming reverse flow in bank credit the life line of economic development which always based on capital formation. According to Institute of International Finance (IIF), the banks world wide would take out more in debt repayment in emerging markets which they provide or extend in new loans.
- 4) The existing flow of FDI has been slowed down. According to UNCTAD, the FDI flows have gone down by 21 per cent and in absolute terms they stood at US \$ 1.4 trillion during 2008. The degree of effect of DFI is more in case of developed economies. While on the other hand, FDI flows to developing economies have shown a rise of 4 per cent in 2008. But this rise is much lower than the rise recorded during 2007 i.e. 21 per cent.

### **Transformation Through Trade Route**

This is the second most vital route through which the global financial crisis entered into developing world. There are many ways that have affected developing economies.

- 1) One of the major instruments through which the developing economies provide some degree of sustainability to their economies namely exports. The exports of many developing countries have gone down alarmingly and these because of sharp decline in the demand of good in the two biggest regions namely the Europe and the USA. According to the latest data available, export value has declined by 46 per cent in Japan, 44 per cent in Taiwan, 40 per cent in Philippines, 38 per cent in case of Singapore, 34 per cent in case of South Korea and 28 per cent in case of Malaysia. The effect is of worst nature in case of China where hundred of units have closed down and the nearly 20 million people went out of jobs.
- 2) Trade in services also constitutes a significant share in overall trade. This segment of trade also felt a heat due to global financial crisis. One of the major segments of trade in services is tourism which has recorded a decline of 1 per cent in tourist arrivals in the second half of 2008. Similarly, the Caribbean region that heavily depends upon tourism, the decline is estimated at one-third of the present session. The other two vital segments are outsourcing and remittances. On both the counts, developing economies have been much affected, resulting into sharp decline in foreign exchange (6 per cent in 2009) on the one hand and on the other hand increasing unemployment.
- 3) In developing economies banks play a vital and strategic role in the promotion of foreign trade and therefore, always extend finance to traders

so that they could export more. This component is facing a worsening as the banks are tightening the supply of credit for day to day export and import business. According to World Trade Organization (WTO), there is considerable shortfall in trade financing in developing economies and the shortage of funds amounted to US \$ 25 billion. This gap has to be filled in by all means.

- 4) The decline in capital inflows or outflows along with decrease in exports of goods has resulted into deterioration in the balance of payments as well as in forex reserves of so many developing economies. Accordingly, such countries have taken drastic action by devaluating their respective currencies and as a result, these nations are finding difficult to make debt servicing. For example Pakistan and Sri Lanka has approached IMF for funds to avoid debt defaults.

### **Strategy**

The following are the guide posts to face the issues and challenges of the existing financial crisis and save the world from such happening in coming times.

- 1) Changes are required in the existing global financial structure.
- 2) Developed nations must put their house in order especially the US and Europe and must come forward with an amicable solution.
- 3) Stepping up global cooperation in creating and regulating financial markets.
- 4) Globally coordinated and huge fiscal stimulus.
- 5) To take immediate measures in regard to reforms in respect of international financial institutions.
- 6) There should immediate cooperation and coordination with regard to regional blueprint.
- 7) Regional Monetary Agreements are the need of the hour.
- 8) Permanently monitor exchange rate policy.
- 9) Strict vigilance on the working of developed countries financial markets.
- 10) Effective and efficient regionalization of banking and credit structure both in terms of contents and nature.
- 11) Need of a convergence between the US and international accounting standards.
- 12) Creation of more transparent and level playing field.
- 13) Global measures required in respect of risk management, valuation issues, underwriting, due diligence, ratings.
- 14) Principles of conduct and best practices have to be carried out in regard to originators, sponsors, underwriters and distributors.
- 15) Rating agencies should be more careful and transparent in their practices.

- 16) Institutional investors should carry out their own due diligence on structured products and risk appetites not rely solely on ratings in making investment decisions.
- 17) Private sector including financial institutions must have a responsibility to ensure more transparency in their operations with out violation of human rights.
- 18) There should be regeneration of flow of productive rather than speculative credit.

### **Conclusion**

It is very true and certain that the present financial crisis has shaken the confidence of every individual world over. The most pertinent out come is that the crisis has compelled financial analysts' and gurus to start rethinking on the nature and contents of the structure of the global markets. They have to create a more transparent financial system in coming times so that such crisis must not be recurring again. The behavior of the lenders must be more rationalized and they must not go for casual approach in regard to raters. In this regard, the recommendations of the Committee on Market Best Practices (CMBP) appointed by Institute of International Finance must become mandatory for all the persons directly and indirectly concerned with the working and management of the global financial markets. What is most needed is to have a sound, strong, vibrant and transparent financial system that could work as an antidote of such financial crisis so that future shocks of such nature to the global economy could be absorbed effectively and efficiently. The global financial crisis is only part of global worries. Among the list of urgent global challenges faced by the world people, climate, energy and food security are all rank at the top.

Hence, with the right policy initiatives, the globe can overcome the present crisis. With unyielding determination, the world and the people could turn crisis into opportunity. There are many other things the people can do to help address the financial crisis.



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