Exploring the impact of economic austerity on financial sector in india.

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ABSTRACT

Along with the beginning of financial reforms underneath new economic policies, India experienced a fundamental change in its monetary and fiscal policies. Under the neoliberalism regime, "good finance" and "discipline" were the defining characteristics of fiscal policy, but "stability" was the only objective of monetary measures. Such monetarist theories and methods have likewise cast a shadow over the global economy. The theoretical shortcomings of monetarism are emphasized in this essay, and the repercussions of such policy reforms in India during in the global recession—are investigated. In addition to impeding the restoration of output and employment, which had an impact on income distribution, such measures failed to achieve stable prices, which was their stated goal. This analysis concludes that these macroeconomic policies have led to stagnation.

Indian banks were largely unscathed by the immediate bad effects of the economic downturn due to Nation's financial sector's minimal connectivity with the global banking system. However, as the financial crisis turned into a filled global economic collapse, India was not able to escape the second-round effects. Indian financial institutions, trade flows, and currency markets have all been affected by the global financial crisis.

Keywords: Austerity; Development Expenditures; Fiscal Deficit; Fiscal Policy; FRBMA; Inflation; Interest Rates; Monetary Policy; Sound Finance

1.INTRODUCTION

FISCAL CONSTRAINTS FOR AUSTERITY

The implementation of reforms in 1991, which came as a result of India's new economic policies, has been associated with a fundamental change in fiscal policy. The FRBMA of 2003 clearly reflected this policy approach, but the fundamental objectives of deficit reduction and sustaining "fiscal restraint" lasted until the 1990s. The budget deficits of the 1990s consequently greatly diminished, with the exception of the final three years of the decade, which marked the execution of the fifth Indian pay commission recommendations. It should be noted that the fiscal deficit's proportion of GDP fell below the average for the 1980s after the pay commission recommendations, with the exception of the brief period between them and the FRBMA. With the exception of the two instances previously mentioned—during the execution of the pay the full amount recommendations and following the start of the global crisis followed by a brief period of excitation—fiscal policy in India has been characterized by a downward trend in fiscal deficits.

AUSTERITY AND MONETARY POLICY

Monetary policy may be the obvious choice for policymakers when pursuing expansionary measures because fiscal policy has a limited ability to create demand through running deficit budgets. However, the indoctrination with monetarism and blind confidence in it that are prevalent in official circles in India are what have shaped policies along the predetermined path by limiting the use of monetary policy to inflation control. So, even though it has been shown to be ineffective in regulating prices, inflation targeting standards have continued to influence monetary policy in India. This frequently required a stop-go rhythm in its credit market actions. In order to finance fiscal deficits, market borrowings were used together with periodic modifications to interest rates and cash reserve ratios.

FINANCIALIZATION MATCHES WITH AUSTERITY

Financialization was made possible by "austerity" policies that limited lending and fiscal deficits while also offering opportunities for investment in financial assets. By defending the true worth of financial resources against fluctuating economic price levels, this was accomplished. The financial industry was deregulated at the same time that the economy was changing more quickly, which increased potential for speculating in an uncertain environment, notably by holding onto financial assets like shares, currency, commodity, or even real estate. The short-term capital flows were dominated by FIIs, who made easy financial inflows that provided the liquidity needed for speculative activity. The effect was seen in the rising stock price indices and elevated turnovers on the secondary stock market. A sizable portion of these transactions involved trading in derivatives, such as swaps, options, futures, and other instruments for risk management. A similar pattern heavily dominated in marketplaces for goods, estate development, and nations where currency reserves were retained as insurance against uncertainty. The secondary stock market's activity and pricing increased at the same time as financial liberalization progressed quickly. As already established, the continuous short-term foreign investment led by FIIs underneath the new system of liberalized capital inflows were a significant contributor to the aforementioned occurrences.

AUSTERITY IN REGIMES OF FREE CAPITAL MOBILITY

Finally, we highlight the connection between austerity in a deregulated financial environment and free capital movement. According to money is being spent, monetary authorities must control the rise in prices that is allegedly caused by capital inflows. They can do this by limiting market credit, sterilizing credit by means of open market policy initiatives, and finally by directly purchasing foreign currency off the industry. The latter, however, boosts reserve along with equivalent M3 expansions, which is viewed as inflationary under monetarist principles and calls for greater austerity measures. The RBI and the Finance Ministry (MoF) have been at odds over whether growth or price should be the stated goals of official policy in India for some time. A dispute reportedly arose here between Ministry of Finance and the RBI demand – between and inflation-targeting for the economy after the government was notified at the end of December 2012 that the expected Growth rate may drop to a low of 5% or even lower. Despite the continued decrease in rates of growth, which in 2014 fell below 5%, the RBI has decided to keep inflation targeting in place by keeping the bank rate high. The administration continues to adhere to fiscal restraints that were also implemented with inflation in mind. (Sen, 2012)!

2.REVIEW OF LITERATURE

Olson and Nord (2015) investigate the role that the Swedish media had in defending the government's reaction to the financial crisis of 2008. They claim that the typical styles and practices of descriptive journalism were to blame for representations that "portrayed political participants as believable practitioners rather than strategy politicians, with the consequence that they seem more trustworthy and capable." Additionally, they claim that because of the inconsistent coverage, "actors who are regarded as effective emergency managers succeeded in further cementing their positions." Berry states in his analysis of the UK press that because City sources dominated BBC Radio 4's coverage of the banking crisis, "listeners were presented with a preset range of debate on the UK govt's bank rescue plan and planned reforms to the financial system," (2013, p. 253).

Studies of this nature are essential because they address the conceptual foundations and media production of the economic meltdown. They demonstrate how journalists and media sources participate in a deeply politicized system that influences how money is addressed and the varieties of economic measures that are considered suitable as a result. However, concerns about how the financial crisis has been covered by the media transcend beyond the specific financial reporting reporting.

The financial crisis became a hot topic that was frequently played out as a moral freak show in mainstream media, going beyond the typical limitations of financial reporting (Kelsey, 2014). In a relatively short period of time since the financial crisis, the UK press has altered substantially in how it covers the city. According to Kelsey's (2012) analysis of (precrisis) media coverage in 2005, British bankers were seen as heroic figures, symbolizing British national identity after the July 7th explosions when the economy recovered after a brief decline. Kelsey explains how references to terrorism resistance and resiliency in debates of the City were spurred by wartime mythology (2012). However, a few years later, following the banking crisis, bankers were vilified and held accountable for the havoc they had brought about due to their avarice (Hargie, Stapleton, & Tourish, 2010; Kelsey, 2015a; Whittle & Mueller, 2012). The public, legislators, and the media questioned their lack of moral convictions and concern for working people. The spectacle of the City banker reflected archetypal symposiums of trickster mythology, as shown by Kelsey (2014), who also showed how, in these objections of the financial sector, these discourses' mythological traits actually operated in more complex and paradoxical contexts than those of archetypal vilification.

Restricting the state's expansionary fiscal policy by reducing budgetary deficits causes businesses that are already facing a shortage of demand to contract. Consequences could include a decline in the demand for bank loans from the private industry (corporates and families), which would diminish those countries' total demand (Koo, 2013).

Because cash reserves held by lenders can be utilized to leverage and speculate during periods of market volatility, the composition of portfolio management maintained by the private sector, and especially by companies, may vary. Even if an investment produces spectacular capital gains on the private markets for shares, currencies, and commodities, it does not immediately result in a rise in activity in the actual economy (Sen, 2003). As was indicated before, the monetarists utilize tightening cycle rather than fiscal policy expansion to monitor and control inflation. Growth, employment, and redistribution goals are frequently ignored or even in conflict with policies intended to attain such purposes. The government intervention that relies on budget deficits is criticized using the "financial view," which is premised on what it believes to be "sound finance." This viewpoint maintains that financial stability, despite its adverse effects on slow development, unemployment, and underutilized capacity, is the primary goal of monetary policy.

3.RESEARCH OBJECTIVE

The primary goal of the current study is to investigate the variables that affect how economic austerity affects India's financial industry.

RESEARCH METHODOLOGY

The Study: The nature of research is exploratory and based on a study of economic austerity in the financial sector in India. It aims to explore the factors that impact economic austerity on the financial sector in India.

The Sample: The population under investigation includes an existing individual who understands the impact of economic austerity on the financial sector in India. In the absence of a sampling frame non-probability, judgmental sampling has been used in the present study to select a sample from the population. E-mail invitations were sent to a number of well-judged respondents for filling up the questionnaire and they were also requested to forward the same to others with the same kind of profiles. Social media platforms were also used for filling up the questionnaire. The sample of the study was drawn from various cities in India. Finally, a total of 165 respondents completed the survey successfully out of 200 targeted respondents.

Tools for Data Collection: 25 valid items from a self-structured, self-administered questionnaire were used to gather the study's main sources of data. After a rigorous literature review initially, 28 items were finalized by the researchers and sent to 6 judges/experts of industry and academia for the face validity process. Out of 28 items, 25 were finalized by the judges. A sample of 165 respondents were asked to reply on these questions, which were presented on a five-point Likert scale from Strongly Agree (5) to Strongly Disagree (1). Using a different component of the questionnaire, general demographic data about the respondents was also gathered.

Tools for Data Analysis: To get a relevant conclusion, collected data were examined using the Statistical Package of Social Science (SPSS 21.0) and MS Excel 2007.

The reliability of the 25 items of the scale was determined by Cronbach's alpha method. The reliability coefficient alpha (α) was found to be 0.834 showing high reliability of the 25-item scale Table (1).

TABLE 1 – RELIABILITY STATISTICS

Cronbach's Alpha	No. of items
0.834	25

The Principal Component method of factor analysis using Varimax rotation with Eigen value greater than one was applied to 25 items/variables to explore the factors. The extraction values of communalities for 25 variables were found greater than 0.4 (i.e., 40%).

TABLE – 2 COMMUNALITIES

	Initial	Extraction
Affected set of economic policies	1.000	.733
Consistent impact of tax increases	1.000	.854
Spending cuts	1.000	.825
Reduced government budget deficits	1.000	.848
Defaulting on bonds	1.000	.813
an increase in VAT	1.000	.824
Reductions in welfare spending	1.000	.728
Cancellation of building Infrastructure programs	1.000	.759
Reductions in local government funding	1.000	.850
Contributing to deterioration of human capital	1.000	.835
Viability in Small businesses	1.000	.755
Long term damage to economy	1.000	.769
Higher taxes to fund spending	1.000	.761
Raising taxes while cutting spending	1.000	.801
Lower government spending	1.000	.803
Weakening the mechanisms	1.000	.799
Increasingly unequally distributed income	1.000	.710
Deep socioeconomic impacts	1.000	.822
Leading to higher unemployment	1.000	.738
Slow GDP growth	1.000	.596
Loss to social security	1.000	.711

Discriminatory economic policies	1.000	.697
Cutting down social sector programmes	1.000	.876
Impacted public health due to cuts on health expenditure	1.000	.711
Public dependency on debt increased	1.000	.803
Extraction Method: Principal Component Analysis.		

The Kaiser-Meyer Olkin (KMO) measure of sample adequacy was found to be 0.985 at the factor analysis's final stage, which is adequate (>0.5). Bartlett's test of sphericity was performed to ensure substantial correlations among the input variables, and the P value (sig.) was determined to be 0.000 (less than 0.05), showing that there is a significant connection among the chosen variables.. Finally, the seven factors were explored and discussed in the next section.

TABLE – 3 KMO & BARTLETT'S TESTS OF SPHERICITY

Kaiser-Meyer-Olkin Measure of Sampling Adequacy	.985
Bartlett's Test of Sphericity Approx. Chi Square	7581.919
df	561
Sig.	.000

4.RESULTS AND DISCUSSIONS

As a result of the factor analysis, 25 items were finally classified into seven factors these factors further explain 65.739% of the total variance. The study empirically explored these seven factors of which impacts of economic austerity on the financial sector in India keeping track of the literature for providing better criteria of viewers to watch movies in India. All these factors are individually discussed as under. The first factor entitled consists of 5 items. The total load of this factor is 3.472. The factor explained highest 15.636 percent of variance. Table-4 summarizes the details of this factor.

TABLE -4 DETAILS OF FIRST FACTOR

Factors	Name of the Factor	Statements	Items Load	Factor Load
Factor1	IMPACTFUL	Impacted public health due to cuts on health expenditure	.782	3.472
		Affected set of economic policies	.763	
		Public dependency on debt increased	.683	
		Slow GDP growth	.647	
		Cancellation of building Infrastructure programs	.597	

This factor is an important factor that impacts economic austerity on the financial sector in India. It is important because Impacted public health due to cuts on health expenditure, Cancellation of building Infrastructure programs and affected set of economic policies.

There are four things in the second factor. This factor has a 2.755 total burden. The variable accounted for 11.054 percent of the variation. The information about the factor is described in Table 5.

TABLE -5 DETAILS OF SECOND FACTOR

Factors	Name of the Factor	Statements	Items Load	Factor Load
Factor2	DRENCHING	Reduced government budget deficits	.779	2.755
		Contributing to deterioration of human capital	.770	
		Defaulting on bonds	.712	
		Viability in Small businesses	.494	

This is also a strong indicator for impact of economic austerity on the financial sector in India as it reduced government budget deficits, contributing to deterioration of human capital and viability in small businesses.

The third factor consists of three items. The total load of this factor is 2.14. The factor explained 10.057 percent of variance. Table-6 summarizes the details of this factor.

TABLE -6 DETAILS OF THIRD FACTOR

Factor	Name of the Factor	Statements	Item Load	Factor Load
Factor 3	DROP AND TRIM	Cutting down social sector programmes	.759	2.14
		An increase in VAT	.704	
		Long term damage to economy	.677	

Third factor plays a crucial role in the impact of economic austerity on the financial sector in India cutting down social sector programs long term damage the economy.

The fourth factor consists of three items. The total load of this factor is 2.654. The factor explained 9.272% of variance. Table-7 summarizes the details of this factor.

TABLE – 7 DETAILS OF FOURTH FACTOR

Factor	Name of the Factor	Statements	Item Load	Factor Load
Factor4	STRIKING IMPACT	Increasingly unequally distributed income	.789	
		Consistent impact of tax increases	.733	

		Higher taxes to fund spending	.635	2.654
		Reductions in welfare spending	.497	

Another important factor that impacts of economic austerity on the financial sector in India because increasingly unequally distributed income, consistent impact of tax increases, higher taxes to fund spending and reductions in welfare spending.

The fifth factor entitled consists of three items. The total load of this factor is 1.882. The factor explained 8.628 percent of variance. Table-8 summarizes the details of this factor.

TABLE – 8 DETAILS OF FIFTH FACTOR

Factor	Name of the Factor	Statements	Item Load	Factor Load
Factor 5	INCAPACITATE	Weakening the mechanisms	.859	1.882
		Discriminatory economic policies	.559	
		Loss to social security	.464	

Fifth factor also plays a major role that impact of economic austerity on the financial sector in India through weakening the mechanisms, discriminatory economic policies, loss to social security.

Three different things make up the sixth factor. This factor has a 1.921 total load. The variable accounted for 7.679 percent of the variation. The information on this factor is compiled in Table-9.

TABLE – 9 DETAILS OF SIXTH FACTOR

Factor	Name of the Factor	Statements	Item Load	Factor Load
Factor 6	PULL DOWN	Leading to higher unemployment	.758	1.921
		Raising taxes while cutting spending	.635	
		Spending cuts	.528	

Sixth factor also plays a major role that impact of economic austerity on the financial sector in India through leading to higher unemployment, raising taxes while cutting spending, spending cuts.

Three things make up the seventh factor, entitled. This factor has a total load of 2.203. The variable accounted for 6.325 percent of the variation. The information about this factor is presented in Table 10.

TABLE – 10 DETAILS OF SEVENTH FACTOR

Factor	Name of the Factor	Statements	Item Load	Factor Load
Factor7	DIMINISHING	Deep socioeconomic impacts	.824	2.203
		Lower government spending	.754	
		Reductions in local government funding	.625	

Seventh factor also plays a major role that impact of economic austerity on the financial sector in India through Deep socioeconomic impacts, Lower government spending and Reductions in local government funding.

5.CONCLUSION AND SUGGESTIONS

The seven factors that economic austerity has on India's banking industry were examined in the current study. The path taken by India's experience with financial-driven austerity and its desire to implement the monetarism package has been distinct. India has stopped being a high external debtor nation since the IMF's conditional loan package of 1991, hence there is no longer a need to impose fiscal and monetary discipline. Therefore, a change in the mindset of those in control of making decisions, with a turn toward neoliberal approaches that provided free rein to global finance, can be blamed for the progressive change in policies that transpired over the course of the next two decades.

Thus, the latter possessed total control over economic policies, such as limitations on fiscal deficits, toughening credit (with high interest rates and other tools), simple receipts of brief capital (often used to profit from speculation), and tax deductions both for corporate and household capital gains. Thus, it was found that the Indian state was cooperative, if not predatory, and willing to support the aforementioned transformations. Little was done to prevent the negative effects on the economy, which included sharp declines in state capital spending (and every once in a while, even social spending), a lower percentage of capital markets in industrial securities compared to financial securities, and the use of brief financing provided by FIIs for theorizing in commodities, stocks, and real estate, and a loss of wealth.

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