Internationl Research Journal of Agricultural Economics and Statistics
Volume 3 | Issue 2 | September, 2012 | 253-257

Research Paper

Euro debt crisis and its potential implications on Indian Economy

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***Paper History* :**
Received : *27.02.2012;*
Revised : *14.05.2012;*
Accepted : *16.07.2012*

ABSTRACT : A financial crisis is a disturbance to financial markets, associated typically with falling asset prices and insolvency among debtors and intermediaries, which spreads through the financial system, disrupting the market's capacity to allocate capital. The present study mainly aims at identifying root causes for the escalating Euro debt crisis and possible implications on Indian economy. The total amount of debt incurred by governments across the world jumped to a staggering $41.10 trillion last year, accounting for 69 per cent of the global GDP, because of stimulus packages and anaemic economic growth. Results of the study indicated that a major reason for the expanding debt crisis in Euro zone lies with the policymakers themselves especially those from the bigger European countries that have a substantial stake and responsibility for the monetary union. The impact of the global crisis has been transmitted to the Indian economy through three distinct channels namely, the Financial sectors, Exports and Exchange rates. The other significant channel of impact is the slump in the business and consumer confidence leading to decrease in the investment and consumption demand. Hence, the Indian government has to boost the demand, which has announced in the several stimulus packages. However, there is no much space for further fiscal policy action accounts for central and state governments. Any further increase in the fiscal deficit to GDP ratio could invite a sharp downgrading of India's credit rating and a loss of business confidence.

KEY WORDS : Euro debt crisis, Potential implication, Indian economy

HOW TO CITE THIS PAPER : Vijayachandra Reddy, S., Shivaswamy, G.P., Sachin Kumar, T.N. and Patil, Chidanand M. (2012). Euro debt crisis and its potential implications on Indian Economy, *Internat. Res. J. agric. Eco. & Stat.*, **3** (2) : 253-257.

INTRODUCTION

Market economy predominates in most of the countries of the world as globalization round the corner. Market forces play a significant role in running such an economic system where financial crisis is not unusual. Financial crisis, like contagious disease threaten not only the host organism, namely, the financial market, but the entire economic environment in which that host resides. The late-2000s financial crisis was considered as the worst financial crisis since the great depression of the1930's. It resulted in the collapse of large financial institutions; downturns in stock markets around the world leading to a severe global economic recession in 2008 (Dua, 2008). The ongoing financial turmoil triggered by some Euro zone countries had their reverberations on both developed and developing world. Credit markets appear to be drying up in the developed world. Governments around the world are trying to contain the crisis, but many suggest the worst is not yet over. In this regard, it is very much relevant as well as significant to be acquainted with the Euro debt crisis and its potential implications on India. The term financial crisis is applied broadly to a variety of situations in which some financial institutions or assets suddenly lose a large part of their value. In the 19th and early 20th centuries, many financial crises were associated with banking panics, and many recessions coincided with these panics. Other situations that are often called financial crises include stock market crashes and the bursting of other financial bubbles, currency crises, and sovereign defaults. Financial crises directly result in a loss of paper wealth. Stock market crashes are social phenomena