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## Avinash Kumar



*Avinash Kumar has completed his Ph.D. in International Investment Law from the Dept. of Law & Governance, Central University of South Bihar. His research work is on "International Investment Agreement and State's right to regulate Foreign Investment." He qualified UGC-NET and has been selected for the prestigious ICSSR Doctoral Fellowship. He is an alumnus of the Faculty of Law, University of Delhi. Formerly he has been elected as Students Union President of Law Centre-1, University of Delhi. Moreover, he completed his LL.M. from the University of Delhi (2014-16), dissertation on "Cross-border Merger & Acquisition"; LL.B. from the University of Delhi (2011-14), and B.A. (Hons.) from Maharaja Agrasen College, University of Delhi. He has also obtained P.G. Diploma in IPR from the Indian Society of International Law, New Delhi. He has qualified UGC – NET examination and has been awarded ICSSR – Doctoral Fellowship. He has published six-plus articles and presented 9 plus papers in national and international seminars/conferences. He participated in several workshops on research methodology and teaching and learning.*

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# **A COMPARATIVE ANALYSIS OF** **FINANCIAL REGULATION FROM** **GLOBAL FINANCIAL CRISES AND** **LATIN AMERICA DEBT CRISIS**

AUTHORED BY - DEEPANSHU SACHDEVA

## **Abstract**

The present global economic downturn has significantly impacted Latin America. The financial shock has been less severe than it was during the preceding two crises, despite the fact that economic status have worsened, specifically after November 2008. The ability to implement stimulative credit and contractionary monetary policy has been made possible by developments in foreign financial statements. One of the key factors contributing to the expanded freedom for operation is the willingness to use the significant capital inflows during the boom as currency reserves. These qualities, however, have fallen short in the face of a significant trade disruption. Therefore, all economy in the area should re-examine their home markets, with effective product policy documents and structural reforms serving as economic catalysts.

## **INTRODUCTION**

### **FINANCIAL REGULATIONS**

Bank regulations are a type of control or oversight over capital sector and organisations. Only the ideas and practises regulating the creation, execution, and management of the Public finances are to be found in financial regulation from the standpoint of the EU. Legislators finally started acting aggressively on regulation during the 2008 financial crisis. In order to stabilise the financial system as well, governments from all over the world have been given the power to keep international markets safer by ensuring activity visibility. Governmental or non-governmental organisations, depending on the circumstances, may also be in responsibility for financial control.

Financial regulations attempt to implement relevant laws by, among other things, prosecuting incidents of market misbehaviour, certifying financial service providers, protecting consumers, looking into accusations, and upholding public risk in the banking industry.<sup>1</sup>

We are all dependent on the financial system in some manner because without it, this globe cannot operate. For instance, savers depend on banks to keep their money on hand when they need it right away. Organizations also need to be capable of borrowing money in order to grow and maintain their operations. When purchasing a home or protection, individuals may require guidance on which option is best for them overall.

Financial Crisis: A economic meltdown occurs when the value of capital assets and transactions drastically declines.<sup>2</sup>

Financial firms that are not adequately governed run the risk of undermining the monetary stability, harming customers, and jeopardising the future of the nation. Healthy cash regulation is crucial to prevent things that have gone poorly, to protect the larger financial institution, and to protect customers in the event that anything does go wrong.

## THE GLOBAL FINANCIAL CRISIS

The term "global financial crisis" (GFC) includes the time of tremendous stress experienced by the world's financial and business markets from the beginning of 2007 to the beginning of 2009. During the Global Financial Crisis, a decline in the US real estate market served as the impetus for a financial crisis that expanded across the United States to the remainder of the world via connections in the world banking markets. Many banks all over the world suffered significant losses and needed government assistance to stay afloat and prevent additional losses. As most major industrialized economies went through their greatest recessions since the Great Depression in the 1930s, millions of individuals lost their jobs. Additionally, compared to prior recessions that were not accompanied A credit crunch that has the same origin and impacts several nations simultaneously is referred to as a global financial crisis. Large banks, markets, businesses, and consumers are all going through a time

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<sup>1</sup> 2 See De Nicoló et al. (2003a) for a discussion of risk factors involved and additional references

<sup>2</sup> 3 IMF (2003) and Das, Davies, and Podpiera (2003) explore the potential for systemic issues arising from insurance, on the backdrop of growing interlinkages between the insurance and banking sectors.

of great difficulty at the same time. That during a global financial meltdown, merchants stop purchasing mutual funds, financial companies lose confidence and cease borrowing to one another, and most other things happen.

Most financing finally ceases, and firms suffer greatly with no end in sight. Participants to commercial transactions in several nations worry that their partners won't uphold them in the majority of the worldwide credit crisis. They also come to the conclusion that their financial holdings will be worth about the same as they initially believed, and so on. Companies eventually cease making loans and start demanding early settlements on loans and other financial products. Additionally, banks eventually sell as many capital instruments as they can.<sup>3</sup>

According to lexicon, the Financial Times' glossary of terms:

“The result is what is often referred to as “frozen” financial markets, where trading volumes fall considerably, and parties often cannot be induced to trade financial instruments no matter what prices are offered.”

A "nightmare scenario" of immense proportions, to be precise, was created when a number of structural and business cycle elements came together and to precipitate the economic downturn. These reasons included the US housing crash, trade deficit disparities between the North and the East, irresponsible and dangerous speculating, and eventually the fiscal crisis, which was the result of generations of fiscal irresponsibility and artificially low interest rates. The Great Recession, as it is often known, revealed the global economy's vulnerabilities and underlined the dangers of excessive globalization and interconnectivity. This is the key takeaway from the global financial downturn.

Though it largely started in the West, the global economic crisis had an impact on all financial systems. Of course, the US and European were the crisis' main victims, but it can equally be stated that nations like Indian and Chinese fared quite well after the fact. This does not imply that these nations have skilfully "disassociated" from the West, nevertheless, the interconnected nature of the global financial system and China's and India's reliance on export industries to the US for items & services, including both, indicate that these nations still have some work to do before they can be

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<sup>3</sup>See IMF (2001, 2002b, and 2002c).

deemed secure. The key point is that both the United States and Europe suffered severe injuries.

Finally, the global economic crisis has undone many of the benefits of globalization, leading to increased calls for protectionism and the construction of protectionist measures in both the West and the East. This shows that the overall economic downturn has struck a fatal blow to the business, and it could take years for it to bounce back to its previous living standard.

## **LATIN AMERICA DEBT CRISIS**

Latin America Debt Crisis refers to a country's inability or unwillingness to pay interest on such a debt. These are a nation's obligations under its external debt.

A significant global recession occurred in the 1980s as a result of numerous less-developed nations in Africa and South America missing deadlines for making payments.

### **Causes of Latin American debt crisis the 1980s:**

Countries including Brazil, Argentina, and Mexico borrowed significantly throughout the 1970s to support industrialization and other projects.

By 1983 the area had loaned from other nations up to 50% of its GDP or \$315 billion to be more content in the sample.

Since the majority of Latin American countries were net importers of oil throughout the late-1970s, the higher import costs that resulted were intolerable. At the very same time, the global economy also slowed down.

The economies of several Latin American nations experienced a slowdown, and they strained to make their debt payments, which proved to be insurmountable.

Their economies likewise lost value as a result of these practices. This increased the difficulty of repaying the loans and stressed out the surrounding area.<sup>4</sup>

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<sup>4</sup> Representing the Basel Core Principles, International Association of Insurance Supervisors, and International Organization of Securities Commissions.

Borrowing costs also rose in the North and West in the early 1980s. These variables worked together to make their national revenue enough to cover interest expenses and other expenses.

Totalitarian regimes, like those in Argentina and elsewhere, fell as a result of the crisis.

The IMF made conditional loans in response to an economic crisis. These requirements included privatization, the elimination of tariffs, a change from structural adjustment to open and market trade policy, and other things.

## **LATIN AMERICA AND THE GLOBAL FINANCIAL CRISIS**

Due to the tightening of financing conditions, which causes panic worldwide, Latin America is facing a third shock.

Even if funding is becoming more expensive and scarcer, the region's industries will remain growing at a modest pace, and the price will continue to be high. The targets for policy are to safeguard the following vulnerable people while restoring pricing equilibrium and maintaining budgetary conservation:

**Santiago Acosta-Ormaechea, Gustavo Adler, Ilan Goldfajn, Anna Ivanova**

13 October 2022 As Latin American nations struggle to recover from the consequences of the epidemic and Russia's assault on Ukraine, a third shock—the hardening of global financial conditions—is also posing a threat.

The restoration of the finance sector and jobs to well-before levels, along with the general support of favorable economic circumstances such as high crude oil prices, robust capital inflows and exports, and recovering vacation, all indicate the present good growth pace. This has simultaneously resulted in many positive adjustments to growth in the year.

But when important central banks boost financing costs to combat inflation and for other objectives, credit is becoming more limited and expensive. The amount of capital flowing into developing countries is declining, and the price of borrowing money from outside is rising quickly. Domestic interest rates are increasing in developing countries as well, partly as a result of a monetary policy

pushing up to combat inflation and partly as a result of investors' decreased desire for riskier assets.<sup>5</sup> These variables cause a slowing in activity for Latin America as increased financing rates impact on nonperforming loans, consumer spending, and capital.

Investors were drawn to a region that is home to key trading partners given the global requirements for food and electricity supplies exactly, which assisted to offset the consequences of tougher global financial markets throughout this year. Additionally, rising commodity prices and strong growth acceleration. However, as globalization slows, rising interest rates are driving product prices lower and lessening their protective impact. In addition to numerous other factors, the downturn may also affect the region's commerce, migration, and tourism.

Anxiety over the level of global borrowing costs, whether pricing can be held in check easily, and the possibility of the so "soft landing"—in other words, increases in volatility with investor aversion. So the shift to increased global borrowing costs might also be rocky. However, given the upcoming shift in the breeze, growth is expected to fall to 1.7 percent or perhaps less in the coming years, which is more quickly than we anticipated in July.

Since falling energy prices compound the effect of higher interest rates as well, commodity exporters from South American nations, Mexico, and certain Caribbean economies were likely to have their growth rates cut in half this year and next. Although they will profit from reduced crude oil prices exactly, the economies of Central America, Panama, and the Dominican Republic will also stagnate as relations between the United States and inbound contributions deteriorate. Caribbean businesses that depend on tourists will begin to expand, but more slowly than expected in July due to poor tourism forecasts and other factors.

### **Healthy banks, debt risks:**

The resistance of both private and public balance sheets will be put to the test by rising international interest rates. The largely sound banking institutions in the area reduce the likelihood of financial turmoil, and many nations now have better regulation and oversight.

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<sup>5</sup> Das, Udaibir S., Nigel Davies, and Richard Podpiera, 2003, "Insurance and Issues in Financial Soundness," IMF Working Paper No. 03/138 (Washington: International Monetary Fund)

Pockets of vulnerability, however, continue to exist. As an illustration, business debt has increased significantly during the past ten years, particularly outside the banking system. To identify possible causes of stress and take quick action, monitoring these vulnerabilities will be essential action.

### **Balancing act:**

The region's financial institutions have responded quickly and done their best to keep long growth and inflation grounded.

Moving forward, monetary policy should maintain its current pace and not pause too soon. Setting the fiscal system in an environment of great uncertainty is tough, but if inflation persists, it would be highly expensive and very complicated to bring about price stability.<sup>6</sup>

Where necessary and necessary, the focus of financial regulation should be on restoring policy space. To ensure long-term discipline, this will include reducing public expenditure, tightening fiscal frameworks, and changing the architecture of tax systems.

However, initiatives to decrease debt and deficits can only be successful and long-lasting if they are comprehensive, which means they must safeguard the poor.

Even in cases when there is budgetary room, fiscal and monetary policies should work together, with an emphasis on protecting disadvantaged populations—especially when high inflation lingers and GDP slows—while avoiding wasteful domestic demand and other expenditures. In order to balance out expenditure measures that protect the poor as well, this will necessitate monitoring.

The greatest strategy to take place to shocks and stresses, as well as equitable and sustainable prosperity, is to achieve this difficult balance well.

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<sup>6</sup> Financial Sector Stability Assessments, available via the Internet: [www.imf.org](http://www.imf.org).

# FINANCIAL REGULATIONS AFTER THE GLOBAL FINANCIAL CRISIS

Because of the bursting of the U.S. housing market, the financial meltdown of 2008, also known as the subprime debt crisis, resulted in a reduction in volatility in world markets and posed a danger to the worldwide financial system. The failure of a number of significant commercial and investment banks, mortgage brokers, insurance firms, and loan and savings organisations also contributed to the Economic Downturn.

The Dodd-Frank Wall Street Reform and Consumer Protection Act and the Emergency Economic Stabilization Act (EESA), which established the Troubled Asset Relief Program, were among the legislative measures that Presidents George W. Bush and President Obama signed into legislation in response to the financial meltdown (TARP).

**The collapse of the American housing market was the cause of the financial crisis of 2008, which started there.**

The Emergency Economic Stabilization Act and Mcconnell were two measures enacted in response to the crisis.

The Emergency Economic Recovery Act granted \$475 billion in bailout support through the Troubled Asset Relief Program. Dodd-Frank altered several existing regulations and included numerous new stand-alone measures (TARP).

The Mckay Wall Street Reform and Consumer Protection Act, which implemented measures to control the banking sector's operations and safeguard consumers, was the most significant legislation. Dodd-Frank, which was enacted into law in July 2010, made significant changes to the American financial system. <sup>7</sup>Fisca<sup>8</sup>

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<sup>7</sup> Fiscal Policy: the use of government spending and taxation to influence the economy.

<sup>8</sup> Securities exchange: an exchange where stockbrokers and traders can buy and sell securities, such as shares of stock, bonds and other financial instruments.

The Consumer Financial Protection Bureau (CFPB), which was established by McConnell, has grown into a significant organization tasked with monitoring and defending the commercial interests of American consumers.

The Financial Stability Oversight Council (FSOC), which is responsible for overseeing "too large to fail" banking institutions such as banks, insurance firms, and other classified globally significant financial organizations (SIFIs), is mentioned in Title I of the Dodd-Frank Act.

Dodd-Frank strengthened already-existing rules in the US, including:

Companies Act of 1933: Dodd-Frank altered the definition of an authorized investor by eliminating the consideration of a primary residence as part of a person's net worth and modified Regulation D to exclude some products for registration.

## **CONCLUSION**

The banking crisis may be a catalyst for changes in global governance and a departure from the status quo of capitalism. The severe disconnect between the present-day mechanisms of government and the world's economic structure has been made clear by the financial crisis worldwide.

Despite having growing politically and economically importance, many rich nations, including China, do not have equal representation in important organisations. Even if the financial sector has received the most of the emphasis in response to the crisis, here must be more focus on monetary matters and global commerce.

There has been discussion regarding what informal groupings like the G20 or G8 should perhaps influence the power and management of international financial organisations. The G20 could not be completely justified in its current form to carry out this task; in fact, if the current IFI is allowed to continue to develop without being changed, there is a risk of reliance and the continuance of business as usual.

Global governance is required in every circumstance involving commerce. The current strains imposed on part of this approach by economic expansion and decarbonization brought on by the

financial crisis will need to be taken into account as it develops.

If multilateralism is to achieve goals for the world economy and respond to difficulties, it must change. Global governance's primary function is to manage the world economy while taking into account the objectives and viewpoints of all participants, in addition to the G7.

The vast economic calamity that originated in the United States in 2007 is referred to as the international economic meltdown. The global economic crises spread quickly to other nations as the American banking system collapsed. The modern international trading systems' interconnected markets were a crucial factor in the banking meltdown's quick spread.

After a number of years since the first occurrence of the crisis, it is still not possible to explain fully the impact of the global financial crisis because the economic emergency keeps on hindering and destroying global markets. A number of factors caused the concurrent crush of the housing system, financial markets, and the banking industry in America.

Even though the causes of the crisis are still debated, this occurrence spread out almost immediately into the international market. Usually, the United States plays an influential role in global financial industries and stock trading. This means that the crash caused a destructive impact both within America and in countries all over the world.

The extensive effects of the economic crisis began late in 2007 at the time when prices of fuel and food started increasing globally. Factors that some years before seemed minor like increases in prices of fertilizers started to destroy crop industries and the importation of food in developing economies. In 2008 as the financial crisis in America intensified, financial institutions like banks strove to decrease their spending mainly on foreign investments. This deepened the worldwide emergency because many countries depended a lot on the foreign investment of the United States for the survival of their economies.