INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS AND MANAGEMENT

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WHAT SAVED INDIA FROM THE GLOBAL ECONOMIC MELTDOWN?

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ABSTRACT
India's cautious approach towards reforms has saved it possibly from disastrous implications. The monetary and fiscal stimulus measures initiated in the wake of the global financial crisis played an important role, first in mitigating the adverse impact from contagion and then in ensuring that the economy recovered quickly. Despite all odds, India has managed to achieve 7.2 per cent economic growth rate in 2009-10. The uptrend in Industrial activity continued. The Indian economy is firmly on its recovery path. The leading indicators which saved India like nationalization of banks, RBI measures, welfare measures by government, stimulus packages, internal demand, savings of the people, high foreign exchange reserves and left parties.

KEYWORDS
Meltdown, Nationalisation, Foreign Exchange and Left Parties.

INTRODUCTION
In the global economic meltdown no country has been spared, be it big or small, developing or developed, relatively insulated or more open. Though the crisis was led by financial sector, the shock has impacted both the financial and real sectors. Many of American, European and Japanese companies are facing severe crisis of liquidity and credit. The impact of the crisis can be gauged from the sharp upward revisions to the estimates of possible write-downs by banks and other financial institutions from about US$ 500 billion in March 2008 to about US$ 3.5 trillion in October 2009. More than the financial cost, the adverse impact on the real economy has been severe: in 2009, the world Gross Domestic Product (GDP) is estimated by the International Monetary Fund (IMF) to have contracted by 0.8 per cent and the world trade volume is estimated to have declined by 12 per cent. The World Bank measured that the global economy was shrink by 2.2% during the year 2009 and global output is projected to grow only 2.7 and 3.2 percent in 2010 and 2011 respectively. The US Bureau of Labour Statistics determined that, the US unemployment has reached the highest level of 9.7 per cent as on February 2010 since 1983. It is a well known fact that governments are apprehensive regarding the future of most of the economies which are greatly dependent on the US for foreign investments. There is no doubt that India is also one of the victims of the global turmoil. The Indian economy, which was on a robust growth up to 2007-08, averaging at 9 per cent during the period 2003-04 to 2007-08, witnessed decline to 6.7 per cent in 2008-09. The impact has been felt by the domestic credit equity and forex markets leading to slowing down in the growth rate and employment generation. Similarly, the world trade does not function in isolation, all countries economies are interlinked to each other and any major fluctuation in trade balance and economic conditions causes numerous problems for all other economies.

Despite all odds, India has managed to achieve 7.2 per cent economic growth rate in 2009-10. The uptrend in Industrial activity continued. The Indian economy is firmly on its recovery path. The improved profitability of the industrial sector is also reflected in the corporate sector. The leading indicators of various sectors such as tourist inflows, commercial vehicles production and traffic flow at major ports showed a significant improvement. A uniform increase in bank credit and the financial resources raised by the commercial sector from non-bank sources also suggest that the recovery is gaining momentum. There are many countries such as Greece, Spain, Portugal etc. which are still struggling to bailout from the global economic turmoil. India is on the right path of development. What is the secret behind this? And what saved India from this recession?

India's cautious approach towards reforms has saved it possibly from a disastrous implications. The monetary and fiscal stimulus measures initiated in the wake of the global financial crisis played an important role, first in mitigating the adverse impact from contagion and then in ensuring that the economy recovered quickly. The following fundamental factors contributed to save India from the recession, they are:

1. NATIONALISATION OF BANKS

The then Prime minister Mrs. Indira Gandhi, with a long vision, nationalized 14 and 6 scheduled commercial banks in 1969 and 1980 respectively with a view that the government has a majority control over the banks for public accountability, Because of nationalisation the banks were not able to take decisions on their own and acted according to the government instructions. This made the banks to work within the purview of the certain limitations. Mr. Pranab Mukherjee, the Finance Minister rightly mentioned that "at the time when banks in the US and Europe needed government support for survival, banks in India were strong enough to sustain on their own. While their banks were open to the private sector and faced the brunt of recession. We have stuck to the policy, even with pressure from all corners and political parties; we have not opened up our banking sector completely to the private sector or market forces. Hence, it can be deduced that this made the country to save from the recession.

2. STEPS TAKEN BY RESERVE BANK OF INDIA (RBI)

The main cause for the financial crisis is the sub-prime crisis and innovative products in financial services sector. This made many banks to announce bankruptcy in America and Europe. But the financial institutions in India were working in healthy condition and in fact it also offered thousands of jobs to the public. The prudent regulatory surveillance and effective supervision by RBI have ensured that the Indian Financial sector has been and continues to be robust. The RBI has taken swift and effective action to make the banks comfortable by substantial reduction in CRR, SLR, Repo rate, etc. The RBI Regional Director, Mr. Joseph, F.R. has stated in an occasion that, for several foreign banks survival was at stake due to existential problems but the banks in India been insulated against the effects of the global meltdown by the foresight and prudential measures taken by the RBI over the past few years. While many foreign banks were announcing lay offs, banks here were still recruiting people.

Mr. Joseph also revealed that the impact of the global meltdown on India's financial system so far has been negligible, and the credits in the last year by banks grew by 18 per cent and that showed that banks have been lending. The RBI too has released adequate funds to the tune of Rs.4 lakh crore into the banking system between September 2008 and April 2009. Similarly, the RBI monetary easing measures such as reduction in Cash Reserve Ratio and key interest rates have helped the banks to reduce the interest rate regime and increase affordability. Further, it was the conservative policies adapted by the Indian Banking system. New York Times louded the tough lending standards imposed by Y.V. Reddy, Governor, RBI, on the Indian banks, for saving the entire Indian banking

system from the massive sub-prime and liquidity crisis of 2008 and beyond. The RBI Governor, made sure that Indian banks too did not get caught up in the bubble mentality. He banned the use of bank loans for the purchase of raw land, and sharply curtailed securitizations and derivatives, and essentially prohibited off-balance sheet financing.

3. WELFARE MEASURES IMPLEMENTED BY GOVERNMENT OF INDIA (GOI)

The GOIs timely actions insulated the Indian Economy from world financial crisis. The Indian economy too was jolted but the social sector schemes aimed to provide employment to the poor suddenly appeared from nowhere to keep consumption and demand for everyday goods and services up. The poor continued to buy his daily quota of bread, oil, lentils and other consumer goods. Naturally the factories kept producing and profits continued to come. The loan waiver for farmers and the Mahatma Gandhi Rural Employment Guarantee Act improved the purchasing power in the agricultural sector. The government also worked on the principle of welfare of the people rather than profit- making. It is this unique element of the Indian culture which could have saved it from the global crisis.

4. STIMULUS PACKAGES ANNOUNCED BY GOVERNMENT

A number of incentives and measures have been announced in economic stimulus package of India. These have been drawn up by government to infuse a sense of optimism in minds of investors and industrialists. Indian economic stimulus package was announced in December 2008 to cushion the impact of global financial crisis. The Central government announced an economic stimulus package of $4 billion to shield its economy from the impact of the recession. A substantial increase in government expenditure coupled with a cut in interest rates by Reserve Bank of India aim towards raising aggregate demand. Incentive schemes in Indian economic stimulus amounting to $70 million have been allocated to boost exports. Measures have been taken such as reduction in excise duty, export, interest subvention for all labour intensive units and SMEs, additional funding towards export incentives and special packages to sectors such as textiles industry has supported the exporters and entrepreneurs withstand the onslaught of the global meltdown. Lending rates on housing loans for low and middle income segments have been reduced. Medium and small businesses are being provided tax exemptions and tax holidays. Reserve Bank of India has reduced its lending rate to 6.5% and its borrowing rate to 5%. A 10-point India economic stimulus package program, charted by Prime Minister Manmohan Singh, is targeted at reviving the most badly affected sectors of Indian economy like housing, automobiles, infrastructure, power and medium and small industries. A funding of Rs.300 billion has been earmarked for this. An additional funding of Rs.100 billion in the form of tax free bonds has been earmarked for India Infrastructure Finance Company Limited.

5. INTERNAL DEMAND OF THE COUNTRY

India's consumer confidence didn't let the economy down. The 6th Pay Commission contributed to about 1.5 per cent of GDP spread over 5.5 million government employees' boosted the domestic purchasing power. Debt waiver for farmers improved purchasing power in the agricultural sector. The Rural Employment Guarantee Scheme improved the purchasing power of the villagers. ''Bottom of the pyramid sustains the economy of the country. The purchasing power of the common man made Indian economy to weather the global economic crisis,'' said Union Minister for Law and Justice Mr. Veerappa Moily.

6. SAVINGS OF THE PEOPLE

Saving for the future instead of spending on short- term desires is a tendency imbibed in the psyche of the Indian masses. Before thinking at an individual level, the expenditure is always thought collectively in terms of family which makes the entire money- making system unique in India. Manmohan Singh, who is not only India Prime Minister but an excellently trained economist, has constantly stressed the need to raise India's savings and investment rates and has made this a foundation of his economic policy – with considerable success, as has been seen, in terms of sustaining high growth rates. Gross domestic savings and gross capital formation are usually expressed as proportions of the GDP at current market prices. The table-1 shows that the gross domestic savings had increased from Rs. 871 crores in 1950-51 to Rs. 1779614 crores in 2007-08, when compared to the year 1990-91 to 2007-08 the gross domestic savings had been increased more than 12 times.

TABLE – 1 : SECTOR-WISE DOMESTIC SAVINGS (At Current Prices) (Rupees in crores)

Year	House Hold Sector			Private Corporate Sector	Public Sector	**Gross Domestic Savings (4+5+6)**	**Net Domestic Savings**
	Financial Savings	Physical Savings	Total				
1	2	3	4	5	6	**7**	**8**
New Series (Base : 1999-2000)							
1950-51	62	516	578	93	200	**871**	345
1960-61	456	680	1136	281	535	**1952**	1105
1970-71	1371	3000	4371	672	1528	**6571**	4009
1980-81	8610	10114	18724	2339	5818	**26881**	15145
1990-91	49640	55149	104789	15164	10057	**130010**	78932
2000-01	215219	239634	454853	81062	-36882	**499033**	297215
2001-02	247476	256689	504165	76906	-46186	**534885**	306588
2002-03	253255	309985	563240	99217	-15936	**646521**	396014
2003-04	313260	350804	664064	127100	29521	**820685**	540637
2004-05	317546	399328	716874	212048	68951	**997873**	668832
2005-06	420974	443679	864653	276550	86823	**1228026**	847714
2006-07	482822	512076	994898	342284	137926	**1475108**	1038071
2007-08	553289	596846	1150135	416936	212543	**1779614**	1270165

Note: 1. 2006-07 data are provisional
2. 2007-08 data are based on quick estimate

Source: Central Statistical Organisation (CSO)

As per the revised series, it is seen from the table-2 that the Indian grow domestic savings has grown from 23.5 per cent in 2001 to 32.5 per cent in 2008 and the gross rate of investment increased from 22.8 per cent in 2001 to 34.9 per cent in 2008. This demographic dividend in the form of growing capital stock and technological improvements will help India's economic resurgence in the years to come.

TABLE – 2: SAVINGS AND INVESTMENTS (AS A PERCENTAGE OF GDP)						
	Savings		Investment		Saving- Investment Gap	
Countries	2001	2008	2001	2008	2001	2008
1	2	3	4	5	6	7
Advanced Economies *Of which*	**20.4**	**19.5**	**20.9**	**21.0**	**-0.5**	**-1.5**
United States	16.5	12.6	19.3	18.2	-2.8	-5.6
Japan	26.9	26.6	24.8	23.5	2.1	3.1
Germany	19.5	25.6	19.5	19.2	0.0	6.4
United Kingdom	15.4	15.3	17.4	17.0	-2.0	-1.7
Euro area	21.2	21.4	21.1	22.2	0.1	-0.8
Emerging and Developing Economies *Of which*	**25.0**	**34.8**	**24.4**	**30.9**	**0.6**	**3.9**
Developing Asia	31.5	47.7	30.1	41.9	1.4	5.8
China	38.4	49.2	36.3	42.6	2.1	6.6
India	23.5	32.5	22.8	34.9	0.7	-2.4
Middle East	29.7	41.9	23.4	22.8	6.3	19.1
Commonwealth of Independent States	28.8	30.9	21.8	26.2	7.0	4.7

Note: Data for China is from the World Development Indicators Online Database, World Bank; data for India is from the national source (CSO).
Source: World Economic Outlook (WEO), October 2009, IMF.

7. HIGH FOREIGN EXCHANGE RESERVES

The Asian Financial Crisis of 1997-2000 made the Asian countries to suffer a lot. After this Asian countries began generating huge savings surpluses, manifested in huge current account surpluses. Excess Forex reserves have saved Asian countries including India in the recessionary crisis. The table-3 displays that, the Indian foreign exchange reserves have increased more than five folds from US$ 46 billion in 2001 to US$ 248 billion in 2008.

Table-3 : Foreign Exchange Reserves – Emerging and Developing Economie (US$ billion)		
Countries	2001	2008
1	2	3
Emerging and Developing Economies *Of which*	**857**	**4,963**
Developing Asia	380	2,538
China	216	1,950
India	46	248
Middle East	135	826
Commonwealth of Independent States	44	504
Russia	33	413
Western Hemisphere	159	498
Brazil	36	193
Mexico	45	95

Source: WEO, October 2009, IMF.

8. EFFORTS OF LEFT PARTIES

The United Progressive Alliance (UPA) government, supported by the Left Parties, assumed office in May 2004. During the period the UPA government thought of to introduce some policies such as full capital account convertibility, allowing the foreign banks to takeover private Indian banks, the privatization of pension funds, and increasing FDI in insurance sector. This attempt was stopped by left parties, which helped the Indian economy in minimizing the disastrous impact of American financial crisis. Mr. Sitaram Yechuri, Politburo Member, CPI (Marxist) mentioned that, if the four measures that the UPA government were wanting to bring about were not stopped by us in the last four years i.e. capital account convertibility, allowing of foreign banks to virtually takeover private Indian banks, the privatization of pension funds or on the question of increased FDI in insurance, India would have now been in a deeper crisis due to the global recession.

Prabhat Patnaik, Kerala State Planning Board vice-chairman has said that the Left parties intervention in the government policies to the capital account convertibility would have allowed the rich to take out their investment from India anytime. Such a situation would have deepened the financial crisis in the country. The rupee would have fallen further. The collapse of the rupee would make the life miserable for the common man. He said the free market ideology has taken a knock.

9. LESS EXPOSURE TO INTERNATIONAL ECONOMY

China is the fastest growing economy in the world followed by India. The growth in China's economy is due to manufacturing goods and exporting them. But the Indian economic growth is different from that of China. The manufacturing companies and service organizations in India, are serving more to domestic demands than exporting which made the country to come out with flying colours from the recession. Union Law Minister M. Veerappa Moily said that, domestic demand and less exposure to the international economy protected India from the global recession.

CONCLUSION

The impact of the global economic crisis has led to a significant lowering of growth estimates all over the world. It is not only affected the developed nations but developing countries too. India too was not insulated from this. However, India has managed to achieve 7.2 per cent GDP growth during the period of 2009-10. This could be attributed mainly to the structure of economy, strong growth in domestic consumption, nationalization of banks, prudent measures taken by RBI, welfare measures and stimulus packages announced by government, savings of the people, maintaining huge forex reserves and less exposure to international economy are the factors which saved the country from turmoil. Although some factors helped limit the adverse impact on the Indian economy, there is no room for complacency. As highlighted by RBI Governor Dr. Subba Rao, there are lessons from the crisis for India too which include (i) further strengthening regulations at the systematic and institutional levels. As the current crisis shows, the problems in finance and financial regulations need to be addressed at a national as well as global level to ensure that the benefits of financial developments become more widespread and enduring in nature. Thus what is needed is not more regulations but sharper regulation of the financial system to ensure sustained financial development with stability.

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