GLOBAL RECESSION AND INDIA'S TURNAROUND

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ABSTRACT

The recession is said to have set in when country's gross domestic product declines for two or more consecutive quarters of a year. According to IMF if the global economic growth is less than 5 percent, it is termed as global recession. This economic scenario could have resulted into fall in prices, income and demand, commercial panic, restricting and calling back loans by banks and fall in investment. Soon the production fell, unemployment increased and inventory stocks got accumulated. There appeared the collapse of global economic confidence.

Key Words : *Global recession, IMF, Eurozone, credit rating*

INTRODUCTION

The state of recession is said to have set in when country's gross domestic product declines for two or more consecutive quarters of a year. According to IMF if the global economic growth is 5.3 percent or less then it is termed as global recession. Notably, world output slided down from a level of 5.0 percent in 2006 and 2007 to 3.9 percent in 2008. This situation resulted into fall in prices, income and demand, commercial panic, restricting and calling back loans by banks and fall in investment. Soon the production fell, unemployment increased and inventory stocks got accumulated. There was collapse of confidence. If not checked, this recession may give way to even a more grave situation called depression. The recent global recession whose epic centre was in USA in mid 2007 rapidly exacerbated substantially like a contagious disease and in no time engulfed the entire world in its fold by August 2008 (Rakesh, 2008). More than four years have passed since the global recession hit the world, the USA, Euro-Zone (17 countries) and other countries have not recovered fully. Despite some sign of recovery the 'fault lines' are still gaping open and would deepen if left unchecked and could slide into a 1930s style great depression. While the world economy was on recovery path, another economic shock was felt recently in August 2011 when USA Triple Credit rating suffered a set back and was reduced to double rating affecting stock markets across the globe and having implications for the US dollar reserve currency status (S&P 2011).

Searching the genesis of 2008 crisis, it lies in proximately indiscreet expansion of housing sector loan in USA due to lax financial regulations. US home loans rose unprecedently in a threatening manner. The borrowers started defaulting on the mortgages as loans were without adequate conventional

caution like borrowers' income, employment status, credit servicing etc. This also increased mortgage delinquencies (Hellwig 2009). The result was that banks and speculators suffered heavy financial losses as debtors couldn't pay borrowed loans. The large banks like Lehman Brothers, Meril Synch and some 19 other banks and about 100 private financial institutions were declared bankrupt. With the crash of housing industry, this had a fission effect on the stock market and the crisis involved construction sector and unemployment arose (Arvind 2010). Besides mounting unpaid housing loans, rising oil prices and reckless credit card system added fuel to the fire. As stated, slowing down of the US economy affected all other economies in Europe, Asia and Africa due to high level of interdependency. And US and Euro-Zone countries are still not out of wood despite Federal Reserve stimulus and gigantic rescue package aimed at reviving demand. At present USA's GDP is growing at 0.4 percent as in first quarter of 2011. Unemployment is high at 9.0 percent of the labour force and the fiscal deficit is too high at10.0 percent of the GDP due to tax cut. American dollar is facing the problem of reserve currency, and currency war between US and China goes on. European countries like Greece, Italy, France, Spain, Germany and other are giving jitter to investors worldwide. They have piled up more debt than they can handle. As a result world trade experienced drastic fall and it was merely 2.5 percent of the world production at the beginning of 2010 that was 9.2 percent during 2006. The Indian economy, which suffered in the immediate past two years due to world financial meltdown, has somehow, emerged from the ripple effects of recession and is now nearing at the pre-recession phase.

OBJECTIVES AND RESEARCH METHODOLOGY

This research paper is designed to evaluate the impact of global financial meltdown leading to world-wide recession, the worst of its kind since1929 Great Depression, on the Indian economy. It also seeks to probe the reasons that insulated India from its disastrous effects those experienced by USA, Euro Zone countries and several others across the globe. The research is based on secondary data. The data and material to carry out this research work was collected, marshalled and analysed to draw inferences and conclusions. Sources of data were largely from the various issues of Economic Survey, published by Govt. of India, Ministry of Finance, Economic Division, Central Statistics Organization, the Reserve Bank of India Bulletin, Directorate General of Commercial Intelligence and Statistics, scholarly journals and reports of WTO, IMF, World Bank etc. Compiled statistics is provided in Table-1

APPENDIX

Table 1 : Key Indicators of the Indian Economy (Annual percentage change)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Growth rate at factor cost (2004-05 prices)	9.6	9.3	6.8	8.0	8.4	6.9
Agri, Forestry, Fishery	4.2	5.8	-0.1	1.0	7.0	2.5
Industrial production	11.9	8.7	3.2	10.5	8.2	3.6
Overall Services	9.6	9.3	6.8	8.0	7.7	9.4
Power	7.3	6.3	2.5	6.8	5.7	9.3
Electricity, Gas, Water	9.3	8.3	4.9	6.3	3.1	8.3
Construction	10.3	10.8	5.3	7.0	8.0	4.8
Trade, Hotel, Transport and Communication	11.7	10.7	7.6	10.3	11.1	11.2
Insurance, Real Estate, Business Services	14.8	15.1	15.9	15.8	16.4	16.9
Foreign Tourists arrivals (million)	—	5.08	5.28	5.11	5.58	6.29
Export Growth (US $)	22.6	29.0	13.6	-3.5	40.5	23.5
Import Growth (US $)	24.5	35.5	20.7	-5.0	28.2	29.4
Balance of Payments (%) current account	-12	-1.0	-1.03	-2.3	-2.8	-3.6
Share in World Exp (%)	1.1	1.1	1.2	1.3	1.5	1.9(Jan. June)
FDI (net) US$ million	7693	15893	22372	17966	9360	12311(Apr Sep)
Portfolio Investment (Net US$ million)	7060(0.7)	27433 (2.2)	-14031(-1.2)	32396(2.4)	30293	13.46(Apr Sep)
Average Exchange Rate (Rs./US $)	45.25	40.26	45.99	47.42	45.56	47.70
Foreign Exchange Reserve (US Bn)	199.2	309.7	252.0	279.1	304.8	292.8
Lending of Scheduled Commercial Banks (% change)	28.1	22.3	17.5	16.9	21.5	16.4
External Debt (% of GDP)	2.4	2.2	2.2	2.1	2.1	1.9
BSE & Sensex (Return %)	15.9	19.7	-37.9	80.5	9.9	-20.4
Fiscal deficit (% of GDP)	3.3	2.5	5.9	6.5	4.8	4.6
Gross domestic saving (% of GDP)	34.6	36.9	32.2	33.7	32.3	n.a.
Inflation (WPI 12 month average)	6.5	4.8	8.0	3.6	9.6	9.1
Total Consumption Exp.	7.7	9.4	7.7	8.3	8.1	6.0
Gross Capital formation	15.3	17.2	-1.6	11.6	11.1	5.8
Foodgrain (million tones)	217.3	230.8	234.5	218.1	244.8	250.4

Source : Compiled largely from various issues of Economic Survey, published by Govt. of India.

(Appendix). The present research articles is based on explorative as well as descriptive research designs.

IMPACT ON THE INDIAN ECONOMY

Global economic recession has affected adversely all countries across the world. Although India has also felt the brunt of the world recessionary trend from the beginning of 2008 as it is linked to global market, but because of the structural safety net, strong fundamentals and cautious approach of the Govt. of India and the RBI, have saved India from possible devastating effect. Recession, for India, was a mixed bag. India has withstood the challenge stoutly during last three and half years and fast returning to pre-recession phase. Let us now evaluate the impact of global recession on Indian economy in terms of vital growth indicators such as : growth rate – sector wise, external sector, banking sector, foreign investment, prices, inflation and stock market, etc.

Growth Rate

During the global financial crisis, growth rate of the Indian economy had slowed down from 9.1 (annual growth for four years prior to recession at factor cost) to 6.8 percent in 2008-09 reflecting adverse effect. The Indian economy could not stay completely insulated from the global financial crisis of the developed world. The Indian government put in place the correctives and managed to retain growth rate of 8.0 percent and 8.6 percent in 2009-10 and 2010-11 respectively (Eco Survey, 2011). Growth rate for 2011-12 set to be at 8.2 percent initially became doubtful (CME 2011) and was only 6.9 percent due to inflationary pressures, tight marketing policy and certain other bottlenecks in the economy. In terms of major sectors of the economy, the crisis had negative effects on the agriculture sector and food security. Agriculture which was making good headway suddenly experienced slow down. Whereas the agriculture sector showed 5.8 percent growth in 2007-08, ducked to 0.1 percent in 2008-09 and 1.0 percent in 2009-10 but picked up to 7.0 percent in 2010-11. It again tumbled down to 2.5 percent in 2011-12. Government now has opened recently the export of wheat, rice and sugar in view of bumper harvest and overflowing buffer stocks.

The manufacturing electricity and construction sectors dropped during 2007-08 and 2008-09. Index of industrial production that was 11.9 percent in 2006-07 fell to 8.7 in 2007-08 and further to most low as 3.2 percent in 2008 09. Similarly electricity, gas and water dipped from 6.3 percent in 2009-10 to 3.1 in 2010-11. Mining and quarrying growth was 1.3 percent in 2008-09 as against 7.5 percent in 2006-07. Construction sector went down to 5.3 percent in 2008-09 from a high of 12.8 percent in 2005-06. Notably, export-oriented units had been the worst hit impacting employment. The impact of global recession affected badly the SSI units who were thrown open to a competitive platform as the list of reserved items shortened year after year. IT sector that experienced 43 percent growth rate in fiscal year 2007-08 was among worst affected sector and resulted in significant job losses. In IT, India remained vulnerable because of its heavy dependence on US (derives approximately 61 percent revenue from USA) and western markets. Outsourcing of IT services has been a great concern to US administration. The remittances from IT professionals and migrated workers which was about US$ 35 billion dried up. Fortunately, the negative growth remained short-lived and then there was upturn in these indicators. Agriculture grew at the rate of 5.4 in 2010-11 and industrial production upto 10.5 percent in 2009-10 and 8.2 percent in 2010 11. Similarly, there has been revival in other sectors of the economy as well. The Indian economy grew robustly in the last financial year and is on firmer footing and has moved close to the pre-crisis level.

External Sector

It was through this channel that recession gripped the Indian economy. The years 2008 and 2009 were tumultuous for global trade. Global recession resulted in unprecedented fall in global trade. There was fall of –11.9 percent in trade volume in 2009. The financial crisis manifested itself in India through a fall in export, especially from the medium and small scale sectors and loss of employment in export-intensive industries like IT, textiles, gems and jewellery, diamond cutting, garments, handicrafts and leather goods. India's export growth in dollar terms decelerated in 2008-09 while in rupee terms it exhibited an opposite movement reflecting the direct effect of the high depreciation of the rupee by 12.5 percent (Eco. Survey 2010 11) Export which was showing 29.0 percentage annual change in 2007-08 fell to 13.6 percent in 2008-09 and further touched a negative figure of -3.5 in 2009-10 over the previous year. However India's share in world export remained more or less at 1.5 percent in 2010-11. Export growth was robust in dollar and rupee terms clocking at 40.5 percent ($ 250 billion) in 2010-11. India achieved 23.5 percent export growth in 2011-12 fiscal year. It may be mentioned that western countries' protectionism is reappearing in the horizon and it takes shape, in covert or overt forms, creating problems for country like India. India also faces severe competition from China and East Asian countries on export front. India has recently in August 2011 lifted export curbs on steel and several agro products like wheat, sugar and non-basmati rice.

Likewise exports, India's imports which were going at the rate of 42.7 percent change over the previous year in 2004-05, started decelerating in terms of US $ that came down to 20.7 percent in 2008-09 and turned negative (5.0 percent) in 2009-10, mainly due to fall in imports of petroleum, oil and lubricant (Economic Survey, 2010). The deceleration of imports in rupee terms in 2009-10 was mainly due to the high negative growth of unit value indices while volume growth was moderately high. Though both exports as well as imports declined during the recessionary period, the balance of trade in rupee terms which was in deficit to the order of Rs. –26,8727 crore in 2006-07 touched a peak figure of Rs. –53,8568 crore negative in 2008-09 due to several external shocks. Trade deficit (on

customs basis) increased by 2.4 percent to US $ 82 billion in 2010 11 (April-December) from US$ 80.1 billion in the corresponding period of the previous year On the balance of payment side (BOP), it fluctuated but remained negative in all the years under study. Reverting to trade, it would be noted that decline in trade in India (both exports and imports) was also caused to fall in both the volume of trade and world income during world wide financial crisis. However fall in trade was more pronounced than the fall in world income (Mihir 2010). Since the period of 2006 to 2010, growth of world trade remained at 9.2 percent during 2006, declined to 7.3 percent and 3.0 percent in 2007 and 2008 respectively and showed negative growth of –11.9 percent during 2009. However, there was revival in world trade that grew by a record of 14.5 percent in 2010 and only 5 percent against the projected growth of 6.5 in 2011 in face of disastrous protectionism. India's share in world export slightly showed improvement from 1.5 percent in 2006-07 to 1.4 percent in 2010 11.

Service Sector

Service sector, in recent years, emerged an important sector providing new opportunities and contributing nearly 56.3 percent of GDP during 2011-12. The integration of telecommunication and computer technology has made virtual commercial services tradable across borders. India and China are among the top exporters in the US $ 3.55 trillion world export. Trade statistics reveal that the world trade (Exports and Imports) in these services (Trade, hotel, transport and commercial services and financial services) fell to 7.6 percent in 2008-09 from 11.7 in 2006-07. India is moving towards a service-dominated GDP growth with a 10 percent CAGR for services which is higher than the 6.7 percent for non-services during 2004-05 to 2009-10. Services exports reached US$ 106 billion in 2008-09 with a moderate growth of 17.3 percent over the previous year in 2009-10, it experienced 8 percent growth. The share of software services declined to 45.7 percent in the first half of 2010-11. And the impact on Indian companies has been more acute (Sathru 2010). Non-software services exports which was sluggish showed rising share which is a good sign. The fall in share of travel services from 21.5 percent in 2000-01 to 11.4 percent in 2010-11 is a cause of concern. Imports of commercial services reached US$ 60 billion in 2009-10. Business services are most important category of services imports, followed by transportation and travel. Tourist industry, a growing popular leisure industry in India, was hard hit and there was 20-25 percent dip in hotel booking especially from the US and UK in 2008. However, tourists started showing sign of recovery from the impact of global meltdown in 2009 showing 21 percent more tourist arrival touching 5.58 million in 2010-11 and further rise to 6.29 million in 2011-12. Similarly, a sharp fall in insurance sector was noticed. This industry grew just 5.0 percent per year till 2011 from the high growth of 87 percent in previous five years. LIC saw a drop of 21 percent in its new business premium collected in 2009 over 2008. The effect on recession has been more on private companies because of market uncertainty and risk factor. Indian health care firms treated 90 thousand foreign patients from 55 countries last year 2010-11 and hopeful to increase 70 to 80 percent in this figure. As average treatment cost is lower, medical tourism in India could become a US$ 2 billion industry by next year 2012 from $ 350 million in 2006. Whereas there is a growing concern about a high merchandise trade deficit coupled with inflation, falling services trade surplus is adding to the woes on the current account deficit front, instead of acting as a cushion as was the case earlier. Services trade surplus which increased steadily in this decade to reach US $ 539 billion in 2008-09, fell drastically in the global crisis year of 2009-10 to US $ 35.7 billion.

Banking Sector

In USA and other western countries, banks were the main source of crisis and have suffered heavy losses and credit crunch, loss of confidence and fall in real economy. A staggering 157 banks failed last year – the highest in two decades in USA with rising defaults. In India, banking sector has been less affected by the ongoing crisis than banking system in US and Europe. Initially, there were some adverse impact on Indian banking and as a result lending of scheduled commercial banks declined from 28.1 percent in 2006-07 to 17.50 percent in 2008-09. Public sector banks comprising 70 percent of the total banking sector having exposed towards derivatives were hit by the crisis. Among private banks, ICICI was partly exposed but it managed to counter the crisis through strong balance sheet and timely government intervention. Non-banking finance institutions (NBFIs) (exim banks, NABARD, NHB, SIDB), raised resources to the tune of Rs.74,305 crore in 2009-10 as compared to Rs. 59,450 in 2008-09. However, bank credit started picking up from the last quarter of 2009-10 and continued its momentum during 2010-11 as well. Bank credit which was Rs. 27,75,549 crore in 2009 (end March) looked up to Rs. 32,44,788 crore in 2010. Simiarly, aggregate deposits went up from Rs. 38,34,110 crore in 2009 to Rs. 4492826 crore in 2010 following the RBI's raising of the repo and reverse repo rates. However due to higher credit growth and tight liquidity condition, commercial banks' investment in government and other approved securities remained low at 27.3 percent as compared to 29.2 percent in 2010. On the whole, the conservative debt policies in India helped ward off the global credit crisis. Indian banks don't have any direct exposure to sub-prime mortgages and also exercise extreme caution in disbursing loans to needy people. RBI also swang into action and pumped Rs. 40,000 crores into the banking system in Oct. 2008 to meet its liquidity needs. Not only that RBI dared to raise CRR, and repo rate 13 times so far during last 19 months to attract foreign capital in India in wake of almost zero interest rate in USA and other western countries. In fact, Indian banking sector has accepted the recession as a challenge and overcome the grim situation with its effective strategies of risk management. Enormous faith of the public in public sector banks and their value system and limited desires of the public was added reason for the resilience

of Indian banking sector. Even then swelling NPA in banking sector and recent rating downgrade (Oct. 2011) of SBI – the leading Indian Bank by Moody's Corporation need serious attention which may have serious ramifications for the Indian banking system. As to non-banking financial institutions, especially mutual funds and corporates, sustained losses during crisis period. On the whole banks remained safe and healthy.

Foreign Investment FDI and FII

Foreign investment has two components viz. FDI and Portfolio investment. India has been one among preferred FDI destination as a low-cost business process outsourcing hub. It is second best FDI destination after China and offers possibilities to more FDI inflow in India also because of raised bulging purchasing power of customers in the market. India itself is a biggest consumer market with 300 million of middle class and the lowest debt ratio of 22 percent of the GNP. The country also enjoys the high saving rate of 32.3 percent of the GDP in 2010-11. India remained the hottest investment destination despite slump though there was decline of 12 billion in FDI inflows between 2008 and 2010, of which around 60 percent was due to weak inflows into services spaces like computer software and hardware, financial services, banking and construction. Though hangover from the financial crisis is still with Indian economy, FDI (net) inflows shows fall in 2009-10. But for 2011 12 it may touch at US$ 35 billion as against 19.4 billion dollar in the 2010-11. It's likely to go up if the government gives nod to the extent of 51 percent equity to multi-broad retail, defence, aviation, insurance and higher education. Portfolio investment also suffered a set back in 2008-09 (-14,031 US million dollar) against 27,433 in 2007-08. The crisis of confidence resulted in net outflow from both the equity and debt markets in India in the year 2008. Outflow of FII was not a major threat as India has foreign exchange reserve in the order of US$ 304.8 billion in 2010-11 and US$ 292.8 billion in 2011-12. RBI's action to raise repo and reverse repo rates several times in recent months is expected to attract more foreign institutional investment (FII) funds leading to too much liquidity in the system. It is worthwhile to note that India has recovered from the global financial crisis at a faster pace because India didn't have significant amount to 'Toxic assets' in their portfolio.

Inflation and Price Situation

The rate of inflation has been fairly volatile during last three years. The ten-year average of inflation (WPI) from 2000-01 to 2009-10 was around 5.3 percent. Annual average inflation rate based on WPI in 2005-06 was 4.3 percent and rose to 8.0 in 2008-09, it came down in 2009-10 but thereafter started rising and it was 9.6 percent during 2010 11 and 9.1 percent in 2011-12. This was contributed largely due to inflation in manufactured goods, primary food articles and also on account of high international fuel and commodity prices. The year 2010-11 was an abnormal one due to global slow down and unfavourable monsoon. In the current financial year (2011-12) overall average inflation is the highest recorded in the last ten years crossing two digits (10.05) in August 2011. Recent hike in petrol diesel and gas prices in April, June and September 2011 have fuelled the prices of essential items. Inflation may stay high in near future as imports of petroleum products fertilizers and edible oil would be costilier in view of depreciation of Indian rupee touching Rs. 52.73 per dollar on 22 November 2011. In order to arrest inflation rate, as noted, RBI has raised interest rate 13 times since March 2010. A strong domestic demand in view of significant rise in salary and wages of the employees in accordance with the recommendations of the sixth pay commission is one important contributory factor. It is now clear that monetary measures alone are not adequate to contain inflation. Non-monetary measures like having a better distribution of essential commodities, stepping up against the unscrupulous traders, hoarders and officials are required. To remove the bottlenecks on supply side, through all means, is required to ease pressure on demand side. Monetary policy, undoubtedly, is a double-edged weapon which is to be used judiciously with utmost care. Indian economy, in fact, is facing the dilemma (twin issue) of controlling inflation as well as reviving industrial growth. High interest rate beyond a limit would harm the interest of investors affecting production and supply of goods and services in the economy.

Stock Market

Stock markets are leading indicators of business activities in a modern economy. Indian stock market has been the witness to see the worst spillover. In the wake of global financial crisis, it was a dismal year for stock market as both the indices : Sensex and Nifty provided low returns with high volatility during recessionary phase of 2008-2009 and equity markets remained bearish. The Sensex dropped a level of 9,093 on November 2008 from closing peak of 20,893 points in Jan. 8, 2008 in line with similar large declines in other major stock markets. BSE Sensex experienced negative fall of –37.9 percent in 2007-2008. Almost entire industrial sector experienced a constant low in the stock prices hurting the confidence of investors. Several industrial and service sectors (like IT) which were badly hit started retrenching and laying off their employees. And job security had become the biggest fear among employees as all stock markets world-wide recorded major fall. RBI's interest policies attracted high amount of FII inflows leading to rise in the BSE Sensex to above 2000. However, stock markets in the emerging scenario is likely to be extremely choppy and volatile in view of another recession looming large. For example, Sensex in India fell 704 points on 21 Sep. 2011 on grim global outlook and investors lost Rs. 2 lakh crore in the meltdown on one single day and rupee plunged by 124 paise to close as nearly 49.57 against the dollar. Rupee's free fall continues. The Sensex is now settling at 16,653 on September 30, 2011. On the whole, the loss effect in India has been not enormous on this count since a large majority of Indians do not participate in equity and asset market.

Foreign Exchange Reserves and Exchange Rate

India has the fourth largest foreign exchange reserves after China, Japan and Russia which helped the nation to tide over global financial crisis. Beginning from a low level of US $ 5.8 billion at the end of March 1991 and those reached their peak at US $ 309.7 billion at end of March 2008, before declining to US $ 252.0 billion at the end of March 2009. The decline in reserves in 2008-09 was, among other factors, a fall-out of the global crisis and strengthening the US dollar vis-à-vis other international currencies. During 2009-10, the level of foreign exchange reserves again increased to US$ 297.3 billion at the end of December 2010 and 304.8 billion during 2010-11 mainly on account of depreciation of dollar against major international currencies including rupee. It is to be noted that the country's reserve mainly is of portfolio investment (FII), which is more vulnerable to sudden steps and reversal and borrowing from abroad. However, India remained unscathed by the global crisis and the total drain of foreign exchange reserve during the period was very modest in relation to resources. For a relatively small country, heavy dependence on FII can be disastrous and troublesome as FII can go in 'flight-by-night' way as happened in several South American and South Asian countries. Closely related to foreign reserve is the issue of foreign exchange rate impacting Indian economy. Rupee exchange rate per US dollar which was 25.89 in 1992-93 appreciated continuously upto 2002-03 and looked at 48.39 and then there was slight fall upto 2005-06. It experienced further fall for the years during 2006-07 (45.25) and 2007-08 (40.26). It again started rising in 2008-09 and was 47.42 in 2009-10 due to the appreciation of rupee on account of capital inflows and positive growth outlook. The rupee/US dollar exchange rate slightly depreciated and it was Rs. 45.68 in 2010-11. Now the partially convertible rupee crossed Rs. 52 in November 2011 to a dollar after touching lowest since May 25, 2010. With the rise in dollar value, rupee slightly depreciated making it helpful for the exporters to be more competitive in the international markets. But at the same time it will make our imports more costly. The situation on exchange rate in short term is likely to remain volatile as artificial low value of Chinese yuvan is a central issue at present which is helping to push China's exports and threat to American dollar as reserve currency. Also, uncertainty and inability of the euro-zone to deal with debt problem is another added factor to this volatility in exchange rate of world major currencies.

INDIA'S INSULATION FROM RECESSION, AND ITS POSITIVE SIDES

Global economic recession has affected negatively a large number of countries across continents. India is one of those few economies who are least affected by the onslaught during the worst recession due to internal strong drivers for growth. Though it suffered initially through a reversal of capital flows, rupee depreciation, stock markets decline and fall of exports. Recession also helped the Indian economy overtly. There are some issues which we now proceed to discuss subsequently under this head.

Taking up the first issue where resilient India withstood the storm with minimal damage, India's cautious approach towards economic reforms initiated in 1991 has saved it from possibly devastating implications. The government of India has been highly proactive in managing financial crisis with a slew of monetary and financial measures that helped the economy to wriggle out from recession and now on the path of recovery and attained nearly the pre-recession stage. Policy packages included both conventional and unconventional measures. For instance, a sum of Rs. 3,000 crore was pumped in to the banking system under the Debt Waiver and Debt Relief Schemes. The government of India paid its public debts in time and also provided foreign currency for foreign trade timely. The stabilizing role played by SEBI needs special appreciation with regard of the regulation of various financial instruments especially in the case of participatory notes. RBI also took measures for funds to banks limits on the borrowing and lending operations. Besides, India also avoided the temptation of full capital convertibility which saved India from catastrophic mess of financial crisis.

Secondly, Indian financial system is relatively insulated and its banks do not have high significant exposure to the sub-prime mortgage. However, most pressing current challenges facing major central loans are : inflationary pressures on the one hand and incipient signs of recovery. Indian financial system has limited 'toxic assets' and less exposed to the vagaries of the global recession.

Thirdly, India's growth story has been largely domestic demand driven and its reliance on foreign savings has remained only around 1.5 percent in recent years. India's economy is, by and large, an rural economy and agriculture dominated economy. Most of the Indians don't indulge in conspicuous consumption and avoidance of debt unless they are really needed, has been a saving factor as opposed to debt ridden US consumers in America and Europe. Our external demand, as measured by merchandise exports, accounts for less than 15 percent of our GDP. Some schemes of the government like loan waiver, expansion of National Rural Employment Guarantee Act (NREGA) and hike in public sector salaries has a huge role in sustaining the domestic demand or the Keynesian effective demand. India is amongst the top four position in GDP enough to keep effective demand up.

India's comfortable reserve position provides overseas investors. This has helped India and provided opportunity for the extension network of social safety net programme to Indian small investors, traders and farmers and also necessary to plan resource planning to increase productivity and efficiency, by downsizing. The practice of doing 'more with less' has become the modus operandi of most businesses and business areas. This culture has helped organizations to conduct several HR anti-recession initiatives as soon as the recession is seen in the organisation.

Saving and consumption expenditure in India remained stable and high during these years of recession. Gross domestic saving which was 34.6 percent of the GDP in pre-recession period slided down marginally in recessionary period. Similar behaviour is also seen in case of total consumption expenditure giving enough strength to effective demand in the economy. To prop up the aggregate demand fiscal deficit was resorted at 4.6 percent of GDP in 2011-12 down from 5.1 percent in the previous fiscal 2010-11. The domestic-led, government expenditure propelled growth story can still play out, albeit as a lower level of macro economic equilibrium of close to 7.0 percent GDP growth instead of 9-10 percent of the pre-recession period.

Due to severe recession in US and Europe, Indian NRIs are returning to India. Several Indian companies operating in foreign countries have closed down their business only to return to India. Growth rate in USA and Europe taken together is not expected to be more than one percent whereas in India it would remain around 8 percent. Returning of Indian nationals from foreign countries, would further accelerate the economic activities in India. Moreover, with the depreciation of rupee, that started since August 2011, exports will get a boost and Indian workers and professionals abroad would be able to send more remittances thus offsetting the loss of earnings to the NRIs who are returning to India.

Another short term benefit which is blessing in disguise of the recession has been its positive effect on environment. For example, in USA and Europe, this has cut emission of carbondioxide and man made green house gas by 100 million tons in 2009 alone. Such benefits include reduction in rate of air and water pollution from reduced energy use. This will also, to some extent, is likely to alter land use patterns by increasing the pressure to clear forests for firewood, timber or agriculture purposes thus affecting the environment adversely in India.

In India, to arrest the recurrence of recessionary trend, two things are to be done urgently. Firstly, now it is clear that monetary and fiscal policies are important but not enough. It is well known fact that more than 90 percent of workers are in the unorganized sector in India. Immediate attention is required to be given to protect the livelihood security, employment and income of the vast majority of the people who are either poor or vulnerable. There is need to enhance pro-poor public investment, strengthening and expand self-employment programme, enhancing access to credit to micro enterprises, creating a National Fund for unorganized sector and a programme for skill development, subsidies need to be moderated, opening fiscal space for the infrastructural spending. Unlimited subsidies can cause a crisis. Close supervision and regulations are important to reduce and track down the systematic risk (CIME 2008).

Secondly, current fiscal crisis and global economic slowdown has fostered the need for unprecedented international policy coordination globally with key role players (such as BRICS, ASEAN, SAARC G-20) as US, Europe, Russia, China and India at World Bank, IMF, UN and other international agencies. It is imperative for international community to create a mechanism to regulate and stabilize agriculture and oil prices at a certain reasonable and sustainable level, otherwise volatile situation would lead to steep rising inflationary trend particularly in developing economy like India.

CONCLUSION

The recent global recession that started in mid 2007 and whose epic centre was in US engulfed the entire world in its fold by August 2008 and had spill-over effects. Despite some sign of recovery, 'fault lines' are still gaping open and would deepen if left unchecked. Alternatively, we are not yet out of the woods. Outlook for India, so far, has been mixed bag. There is evidence of economic activities having domino effect slowing down more than others during recessionary period. The Indian economy was initially affected through reversal of capital flows, rupee value fluctuation and stock market decline and fall in exports bringing down ultimately the India's growth rate for two years 2008-09 and 2009-10. The decline, however, was partly offset by the resilience of the strong structural fundamentals in the economy. The Indian economy after having experienced low growth rate in above two years started posting positive growth rate since 2009-10, and India could mitigate the more potential impact of the turmoil on the economy and India now is on recovery path. Global problem requires global solution, coordinated action and joint consultation. Whereas US and several European economics need to undertake concerted recovery measures to fight recession, India needs to focus on infrastructural and technological enhancement, modernisation, skill formation sustaining harmonious growth and international outreach and confidence. The world is in danger zone and the threat of the second bout of recession would become a reality if US and European countries do not lessen the debt burden of their economies soon. The crisis still is unresolved and how long and to what extent it will persist is uncertain. Also, riots and 'occupy wall street' like protests underway accusing bankers and politicians of wrecking economies will go global. There is also an urgent need to humanise the capitalistic system of growth model, keeping in view the poor and deprived huge population in India and elsewhere.

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