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The Indian Economy: Distraction after the Global Financial Tsunami

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ABSTRACT: *The global financial meltdown and consequent economic recession in developed economies have clearly been major factor in India's economic slowdown. Given the origin and dimension of the crisis in the advanced countries, which some have called the worst since the Great Depression of the 1929, every developing country has suffered to a varying degrees, depending on their exposure to sub-prime and the related assets. No country, including India, remained immune to the global economic shock.*

The crisis surfaced around August 2007 with the sudden revelation of the risky and illiquid nature of many sub-prime mortgage instruments and with bursting of the bubble in the sub-prime mortgages in the US as reflected in the credit markets. Eventually, the sub-prime crisis had affected financial institutions in the US, Europe and elsewhere including the shadow banking system fostered by investment banks, broker-dealers, hedge funds, private equity groups and structured investment vehicles (SIVs), money market funds, non-bank mortgage lenders and in the process, had caused, within a few months, a huge financial meltdown, a string bankruptcies and a sharp global imbalances and slowdown in practically all industrialized countries. This enormous shock reflecting the growing integration of financial markets internationally in the chain of payments -- what Trichet, one of the central bankers of Europe called financial tsunami — with unprecedented virulence reached Europe on 9 August, causing the European financial markets to seize up. The collapse of the Merrill Lynch and Lehman Brothers in Mid-September 2008 further aggravated the situation leading to the crisis of confidence in the financial markets and, as the Reserve Bank of India (RBI) Governor D. Subbarao (2009) had rightly pointed out that from three channels: the trade channel (affecting the capital and current account of balance of payments), the financial channel and the confidence channel, it arose. The resulting uncertainty cascaded into a full-blown financial crisis of global dimensions.

India could not insulate itself from the adverse developments in the international financial markets, despite having a banking and financial system that had little to do with investments in structured financial instruments carved out of sub-prime mortgages, whose failure had set off the chain of events culminating in global crisis. The feedback effect of the crisis on the Indian economy was not significant in the beginning. The initial effect of the sub-prime crisis was, in fact, positive, as the country received accelerated Foreign Institutional Investment (FII) flows during September 2007 to January 2008. This contributed to the debate on "decoupling hypothesis," where it was believed that the emerging Asian economies, especially the larger ones like China and India could remain insulated from the crisis and provide an alternative engine of growth to the world economy in moderating the global downturn and paving the way for a worldwide recovery in a year or so. It was also believed and there were also arguments that the "strong" domestic financial sector of these economies would be capable to be remain immune to shocks from the international financial system. The arguments soon proved unfounded as the global crisis intensified and spread to the emerging economies through different channels-- one such important channel is capital and current account route of the balance of payments (BoP). It is worth mentioning that with the recent drive of the government towards capital account convertibility through gradual relaxation of the capital account transactions and the more and more close integration of the domestic economy with the global financial markets, the first memorable impact of global crisis was on the country's capital inflows, especially on external commercial borrowings (ECB) and FII .Almost immediately after the crisis surfaced , net ECBs and FIIS registered a sharp decline between October and November 2007, from$3.6 billion and $5.7 billion to $2.2 billion and minus $1.6 billion, respectively.

In the above backdrop the present paper expresses some facets of the global crisis, including its impact on some sectors of the Indian economy. In Section II, we discuss the macroeconomic explanation of the crisis along with the severity of the crisis spread over European countries.

Key Words : *Subprime Crisis, Trade & Financial Channel, Decoupling Hypothesis.*
Jel Classification : *F2, F21, F41.*

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I. INTRODUCTION

The global financial meltdown and consequent economic recession in developed economies have clearly been major factor in India's economic slowdown. Given the origin and dimension of the crisis in the advanced countries, which some have called the worst since the Great Depression of the 1929, every developing country has suffered to a varying degrees, depending on their exposure to sub-prime and the related assets. No country, including India, remained immune to the global economic shock.

The story began with the so called sub-prime crisis. In an attempt to restore some confidence in financial markets after the terrorist attacks in New York on 11 September 2001 the Federal Reserve Bank made a series of interest rate cuts which culminated in their main short-term interest rate, the Federal Funds Rate, hitting a low of just 1% in June 2004. The result of this easing in monetary policy was that US economic activity hit record levels fuelled by the availability of very cheap credit. It was a time when it seemed that everyone could borrow almost unlimited amounts of cash at very cheap rates of interest. The banks were awash with money and just desperate to lend it out. The concept of credit risk had been long forgotten. This was a band wagon that everyone was invited to join. From ordinary families right through to the largest sovereign borrowers they could all borrow enormous amounts of money. The banks were open and keen to do business.

The US housing market was one of the beneficiaries of these conditions, with homeowners seeing sharp rises in house prices throughout the country. As word spread of the 'easy' gains to be had, everyone wanted to join in and take advantage as this new 'gold rush' spread from the West Coast to the East Coast and from the North to the South. Everyone was riding on the roller coaster that was housing market boom. At the top of the market some of the lowest income groups were invited to borrow as the US banks were running out of other groups to lend to. In the past such people might have been considered to be far too risky a proposition to lend to. But these were no ordinary times. The economy was red hot and for the banks no risk was too great.

However, like all good things this could not last. The economic boom soon gave way to a slowdown as the Fed's policy of monetary policy easing reverted to a more prudent tightening in monetary policy. The resulting increase in mortgage rates caused many homeowners to be forced into defaults on their loans. In the wake of record number of mortgage repossessions, the US housing market crashed and the 'sub-prime crisis' was born.

The problem was that these mortgages had been pooled together and sold as 'mortgage-backed securities' to international banks across the world. This meant that any of the large financial institutions in almost any country was potentially a victim of the sub-prime crisis. They were also involved but it was not clear which of them had the greatest exposure to the risks associated with the global turmoil. These were exacerbated as a wide range of financial institutions had been involved in the creation of a range of complex financial products including collaterised debt obligations (CDOs). Many of the investment banks owned hedge funds that had purchased these instruments that soon turned toxic as their underlying value fell way below their original levels. As a result these funds acquired massive losses.

The warning signals were there back in June 2007 when Bear Steams became one of the first US investment banks to be forced to admit that it had made substantial losses in its hedge funds as a result of bad investments in these products. This contagious risk soon spread to other banks including BPN Paribas in France and eventually Northern Rock in the UK. Eventually, the sub-prime crisis had affected financial institutions in Europe and elsewhere including the shadow banking system fostered by investment banks, broker-dealers, hedge funds, private equity groups and structured investment vehicles (SIVs), money market funds, non-bank mortgage lenders and in the process, had caused, within a few months, a huge financial meltdown, a string bankruptcies and a sharp global imbalances and slowdown in practically all industrialized countries. This enormous shock reflecting the growing integration of financial markets internationally in the chain of payments -- what Trichet, one of the central bankers of Europe called financial tsunami — with unprecedented virulence reached Europe on 9 August, causing the European financial markets to seize up. The collapse of the Merrill Lynch and Lehman Brothers in Mid-September 2008 further aggravated the situation leading to the crisis of confidence in the financial markets and, as the Reserve Bank of India (RBI) Governor D. Subbarao (2009) had rightly pointed out that from three channels: the trade channel (affecting the capital and current account of balance of payments), the financial channel and the confidence channel, it arose. The resulting uncertainty cascaded into a full-blown financial crisis of global dimensions.

The gradual softening of international interest rates during the last few years, coupled with relatively easy liquidity conditions across the world, forced investors who take risks leading to expansion in the sub-prime market. The word 'sub-prime' refers to borrowers (who are not related as 'prime') and who do not have a sound track record of repayment of loans. The risks inherent in sub-prime loans were sliced into different components and packaged into host of securities and structured investment instruments like Collateralized Debt Obligations, synthetic CDOs. Credit rating agencies has assigned risk ranks to them to facilitate marketability. Intermediaries such as hedge-funds, pension funds and banks, who held in their portfolios, were not fully aware of the risks involved. Moreover the securitization process was not backed by due diligence. When interest rate rose leading to defaults in the housing sector, the value of the underlying loans declined along the price of the products. Institutions were saddled with illiquid and value-eroded instruments, leading to liquidity crunch; the crisis in the credit market subsequently spread to the money market as well. Households and corporate accustomed to high asset values in the present globalized economies were adversely affected by the bursting of the asset bubbles, and contributed to sudden and severe contradiction in demand and loss of confidence. The reason for bursting of the asset bubbles is not far to seek. Actually, the asset bubbles was on the process of creation out of excess liquidity growth which were due to the excessive accommodative monetary policy of the advanced industrialized countries, especially of the US, i.e., allowing the supply of money to be plentiful and interest rate low relative to appropriate level, which in turn, caused investors on the look out for yield as well as to take either under-priced risks or excessive risks. Such excess liquidity at last found its way into speculative activities, causing asset bubbles. Investors then were under the impression that the prices of such assets like real estate or equity will keep increasing in future. These developments resulted in drastic reductions in activity in the real sectors. Thus the initial problems in the financial sector were transmitted to the real sector with adverse feedback effects.

The crisis in the financial sector caused a crisis in the 'real' economy in several ways. The rapid depreciation of assets reduces the income people have available to spend, as dividends and pensions linked to the stock market decline and falls in housing equity limit withdrawals. The collapse in confidence in the financial sector led to a credit crunch, with the resulting lack of access to credit, meaning that some businesses went bankrupt, with knock-on effects on people's income. There is a rapid downward spiraling of the real economy leading to recession and may be to depression. While the financial crisis started in the USA, and despite the significant variations between countries in the regulation of finance, the effects on the real economy are spreading around the world. Table 1 shows the declines in the USA, EU, Ireland, Sweden, and the UK in GDP, stock market and rise in unemployment in 2008. The downturn in the real economy created unemployment and poverty, thereby deepening inequalities (because of the gaps between employed and unemployed) unless radical policy interventions were made.

Table 1 Economic Recession 2008-2009: USA, EU, Euro-zones, Sweden, UK, Ireland

	GDP Q2 2008 change on previous quarter	**GDP Q4 2008 change on previous quarter**	**Unemployment per cent June 2008**	**Unemployment per cent December 2008**	**Share price change on previous year Feb 2009, per cent**	**House price change during 2008, per cent**
USA	0.70	-1.60	5.6	7.2	-44	-18
EU			6.9	7.4		
Eurozone	-0.25	-1.50				
Ireland	-0.61		6.0	8.2	-66	-10
Sweden	-0.46	-2.40	5.8	6.9	-36	-13
UK	-0.02	-1.53	5.5	6.1 (Oct)	-31	-18

Data for GDP, unemployment and share prices: OECD (2009) OECD.
Data for house prices: Ireland (Finfacts Ireland 2009); Sweden (Sweden Price History 2008); UK (BBC 2009); USA (Hopkins 2009).

India could not insulate itself from the adverse developments in the international financial markets, despite having a banking and financial system that had little to do with investments in structured financial instruments carved out of sub-prime mortgages, whose failure had set off the chain of events culminating in global crisis. The feedback effect of the crisis on the Indian economy was not significant in the beginning. The initial effect of the sub-prime crisis was, in fact, positive, as the country received accelerated Foreign Institutional Investment (FII) flows during September 2007 to January 2008. This contributed to the debate on "decoupling hypothesis," where it was believed that the emerging Asian economies, especially the larger ones like China and India could remain insulated from the crisis and provide an alternative engine of growth to the world economy in moderating the global downturn and paving the way for a worldwide recovery in a year or so. It was also believed and there were also arguments that the "strong" domestic financial sector of these economies would be capable to be remain immune to shocks from the international financial system. The financial chaos unleashed in the US economy was largely caused stock market crashes, credit crunches, housing slumps — all of these came together in the US economy. And the storm clouds moved so quickly over the Atlantic and Pacific oceans, gathering strength as they went on and last of all hit the Indian ocean and its economy through channels like international finance and international trade.

The arguments soon proved unfounded as the global crisis intensified and spread to the emerging economies through different channels-- one such important channel is capital and current account route of the balance of payments (BoP). It is worth mentioning that with the recent drive of the government towards capital account convertibility through gradual relaxation of the capital account transactions and the more and more close integration of the domestic economy with the global financial markets, the first memorable impact of global crisis was on the country's capital inflows, especially on external commercial borrowings (ECB) and FII .Almost immediately after the crisis surfaced , net ECBs and FIIS registered a sharp decline between October and November 2007, from$3.6 billion and $5.7 billion to $2.2 billion and minus $1.6 billion, respectively.

In the above backdrop the present paper expresses some facets of the global crisis, including its impact on some sectors of the Indian economy. In Section II, we discuss the macroeconomic explanation of the crisis along with the severity of the crisis spread over European countries.

Section III examines, in growth perspectives, the effects of global crisis and economic slowdown on the Indian economy. Section IV however analyses the impact of the global crisis on India's balance of payments and external sector. Section V shows how did the crisis contaminate in India's stock, bond, money and credit markets. Section VI shows the effect of global recession on India's cultivators. Section VII gives and account of severity of the global crisis and economic slowdown on the employment situation in India. Section VIII gives a brief account of what policy measures would be appropriate to get rid of this most serious financial threat. Section IX concludes.

II. THE MACROECONOMIC EXPLANATION OF THE CRISIS

For why the crisis occurred can be thought of from the view point of those relating the overall macroeconomic management and those concerning to the behaviour of the financial markets.

The macroeconomic explanations for the crisis as a whole may be summarized as follows: First, in recent times the volume of international payments disequilibria overhanging world financial markets increased inexorably—rising current account deficits in the US, UK, Spain, France and Italy on the one hand, and large surpluses on current account in China, Russia and Middle East oil exporters on the other. And there cropped up a progressively growing divergence between the financial power and the far greater monetary ammunition assembled by private and public sector institutions on the world investment scene. These ranged from hedge funds and private equity funds to the shadowy para-state Sovereign Wealth Funds running the surplus capital of wealthy developing economies from the Middle East and Asia. Moreover, the explosion of reserves assets in the first decade of the twenty -first century was heavily linked to a sharp rise in balance of payments disequilibria and a corresponding increase in international liquidity—factors which helped trigger the sub-prime mortgage crisis in August 2007.The best measure to record the imbalances is the current account balance of payments--recording all foreign trade in goods and services as well as transfers, investment income and other 'invisible' earnings. The sum of individual current account surpluses and deficits in thirteen countries with the largest individual contributions to international liquidity – China, France, Germany, Italy, Japan, Kuwait, Russia, Saudi Arabia, Spain, Switzerland, United Arab Emirates, UK and US – more than quadrupled between 1998 and 2007 to $2,300 billion.

The US current account deficit tripled over this period, from $213 billion to $738 billion (although the peak was reached in 2006, as exports rose thereafter, under the impact of the weaker dollar). The relative ease with which international funds flowed into the US to finance the burgeoning balance of payments deficit underlined how, under floating exchange rates, capital flows progressively swamped purely trade-induced currency movements. During the thirty years between 1950 and 1980, the US current account fluctuated between surpluses and deficits of no more than 1 per cent of GDP, whereas already by 2005 the shortfall was six times as large. Deficits also rose sharply in the UK, Spain, and Italy (the latter two countries had run surpluses before the advent of EMU). On the other hand, surpluses expanded fast in the developing countries and in parts of the industrialized world (from $31 billion to a surplus of $360 billion between 1998 and 2007 in China, from a deficit of $16 billion to a surplus of $255 billion in Germany, from $119 billion to $212 billion in Japan, from zero to $77 billion in Russia, and from a deficit of $13 billion to a surplus of $101 billion in Saudi Arabia.) Thus the countries which had meanwhile accrued large sum of surpluses in the current account, lent to or invested in the US. Since these recurring imbalances persisted and increased over the years, correction was warranted by the markets.

A large excess of savings through the build-up in surpluses, along with the emergence of the US as the world's largest borrower, contributed to the trend for US banks to create ever more risky borrowing mechanisms. In the period up to 2007, the US sucked in more than $5 billion a day from the rest of the world to finance both its enormous current account deficit and the still larger volumes of international capital outflows. Between 2000 and 2006 international issuance of credit instruments rose twelve-fold, from $250 billion to $3,000 billion, according to bankers' estimates – activity that appeared to accelerate after 2004 as investors sought higher returns after a long period of relatively low interest rates. Most notorious was a range of debt vehicles developed in the US to re-package higher-risk loans to less trustworthy mortgage borrowers into a series of innocuous-looking debt instruments all benefiting from relatively high credit ratings that turned out in many cases to be almost entirely fictional (Marsh, 2009). Central bankers obviously were aware of the growing risk. Trichet said in May 2007,'Episodes in the global economy where you have "capital chasing investment" are not necessarily sustainable in the very long run."

However, in the arena of banking and finance, the Euro economies showed highly varied developments, and were affected in different ways towards the end of EMU's first decade by the US sub-prime mortgage upset. An important part of the credo behind the Euro is that integrated banking and financial markets should play a significant role in smoothing out imbalances in economic performance among member states. According to this theory, the relatively small amount of fiscal redistribution through the Euro area via the European Union budget (which makes up a mere 1 per cent of EU GDP) should not hinder the financing of economic adjustment, as long as private sector financial institutions can take up the strain in ironing out economic discrepancies. Unfortunately, however, Euro area banking and financial organizations have registered only scant success in improving Europe-wide services for private customers and smaller businesses. The legacy of the credit crunch is that financial organizations throughout the Euro area are likely to show further caution in cross-border activities – a handicap for EMU's cohesiveness and resilience.

In the first twelve months of the credit crisis after August 2007, EMU area banks didn't need to raise additional capital from sovereign wealth funds and other foreign investors. But shortly after the Lehman and Merrill Lynch shocks, the tide of financial market convulsions washed through into Europe and other emerging countries (like India) with full force. Belgian –Dutch bank Fortis, the Franco – Belgian financial group Dexia and Germany's second - biggest mortgage lender Hypo Real Estate all had to be saved from collapse with spectacular private – and public – sector financial rescue packages. Ireland took unilateral measures against financial panic by moving to guarantee all deposits – a move quickly followed by Greek and Germany. At beginning of October 2008, the credit crisis underwent a further turn for the worse – a moment of fear and panic on world financial markets.

Second, in many countries, macroeconomic policies in the recent past resulted in gross inequalities in income and wealth. The sub-prime crisis in the US was only one of the symptoms of the lack of aggregate demand, coupled with excessive financialisation of the economy and excessive leverage.

Third, in view of the underdeveloped nature of financial markets in some developing economies, such as in China and other Asian economies, the domestic savings in those economies could not be fully channeled into the required domestic investments, and hence there was a surplus of global savings in these countries.

Fourth, some central bankers were focused exclusively on price stability, and many of them were mandated to focus on this through inflation targeting regimes. In addition, there was no formal mandate to any particular institution to maintain financial stability which is bereft of any uninterrupted financial transactions as well as an acceptable level of confidence in the financial system, and excess volatility that unduly and adversely affects the normal real sector activity: hence the relatively low emphasis of such stability in public policy.

Fifth, many central banks were persuaded to be very transparent and provide forward guidance to financial markets on their policy stance, especially on the future course of monetary policy. Such forward guidance provided excessive comfort to financial markets and enabled them to take under-price risks.

Sixth, even when some of the central banks perceived the under-pricing of risks, financial market agents asserted that the central banks could not sit in judgement on prices set by a competitive market, and assured policy makers that markets would correct themselves automatically . The central banks were informed by financial market agents time and again that the dangers of policy mistakes were more than the prospect of markets not correcting themselves smoothly.

Seventh, the central banks seem to have ignored the economic imbalances and asset bubbles that were building up, and thus failed to act in a counter-cyclical fashion to moderate, though not eliminate, the boom bust cycle.

Eighth, multilateral institutions like the IMF, which were charged with the responsibility of surveillance, gave warnings about macroeconomic imbalances. They, however, did not bring out the extent of the vulnerabilities of the global economy in general, and the systemically important economies in particular. The multilateral institutions were constrained partly because they were dominated by select countries that were unwilling to subject their economies to objective surveillance, which had in fact encouraged the institutions towards an excessively market-oriented ideology.

Finally, the global economic system was dominated by dollar and was subject to the undue influence of the policies of one country. Dependence of the global economy on one currency by itself had the potential for instability, and in any case could have facilitated excessive risk-taking by the public-policy in the US.

III. EFFECTS OF GLOBAL CRISIS AND ECONOMIC SLOWDOWN ON INDIA

Government of India's Economic Survey 2006-07 vociferously articulated that "the sub-mortgage loan crisis is the major financial crisis of the new millennium whose origin is in the United States (US) housing market. Subsequently, this spread to Europe and some other parts of the World. The sub-prime crisis has also impacted the emerging economies. India has remained insulated from this crisis. The banks and institutions in

India do not have marked exposure to the sub-prime and related assets in matured markets. Further, India's gradual approach to the financial sector reforms process has played positive role in keeping India immune from such international shocks." But this presumption made by the Economic Survey that India would in no way be affected by the crisis was wrong. The recent Indian growth story was analogous to the story of speculative bubble-led expansion that was the characteristics of the several other developed and developing countries during the same period. This is so because recent economic growth in India is dependent upon greater global integration, related to financial deregulation that spurred consumption as well as credit boom and combined with fiscal concessions to spur consumption among the richest population of the country. This led to rapid increase in aggregate GDP growth at the cost of greater employment generation and agrarian improvement and other benefits thereof.. The proliferation of financial activities thus became combined with rising asset values to enable credit-finance consumption splurge among the rich and the middle classes in our country. In the 1990s and beyond we find as a result a rise in debt-financed housing investment and private consumption among the elite and the middle class. These developments in the financial sector resulted in drastic reductions of activity in the real sector and those bad developments were transmitted quickly to the real sector with adverse effects.

By the middle of 2008, things began to turn worse. The credit-financed consumption spark, which is turn, generated higher rates of investment, did not match with the growth of the domestic market. This mismatch was reflected in the Indian economy. Besides, the deepening of the global crisis and subsequent excessive leveraging occurs through utilizing a far larger proportion of borrowed or others' money relative to one's own in undertaking risky business as well as risk aversion however affected the Indian economy leading to slowing of growth momentum. The growth of GDP at factor cost (at constant 1999-2000 prices) at 6.7 % representing deceleration from high growth rate of 9% and 9.7% in 2007-08 and 2006-07 respectively (Economic Survey,2008-09).The year 2008-09 closed with industrial growth at only 2.4% as per the Index of Industrial Production, while during 2004-05 to 2007-08, the industrial sector recorded a robust rate of growth in excess of 8 %. Industrial production picked in December 2007, fell by 6.5% in April 2008 as a consequence of successive shocks, the most being the knock-on effects of the global financial crisis that not only impacted the financing of industries but also their domestic and external demand . The manufacturing, electricity and construction sectors decelerated to 2.4, 3.4 and 7.2 %respectively in 2008-09 from 8.2, 5.3 and 10.1% respectively in 2007-08. Needless to say, almost all commodity groups, barring a handful, have been adversely affected by the impact of global recession. The crisis became intensified by causing sharp decline in exports of manufacturers and reversal of capital flows. Thus the current global scenario presents Indian industry with major challenges.

IV. EFFECT OF GLOBAL RECESSION ON INDIA'S BALANCE OF PAYMENTS

The direct impact of global financial meltdown was transmitted to India by way of reflection in its various external sector transactions, some of which exhibited notable trend reversals, seen not before any other major crisis hit India with so much vigour and intensity. With the onset of the meltdown, mainly after September 2008 we witness that the Indian economy was seriously affected by the trade channel through drastic reduction in earnings from exports of goods and services, first, on account of the drying up of international financing and trade credit, followed by a fall in global demand. To mitigate the loss of demand, therefore, there needed a fiscal expansion, which in turn, encouraged a payments deficit, by means of current account deterioration and the capital outflow produced by lower interest rate.

The trade channel of the contagion that intensified in the post- September 2008 phase of the crisis, adversely affected India's merchandise trade with exports declining at a great speed. There was significant decline in merchandise exports, reflecting fall in exports of all commodity groups. The biggest falls were recorded in the export of rice, raw cotton, ready-made garments, sugar and molasses, iron ore, iron and steel. With an exception of engineering goods, (which constitute more than one-fourth of India's total exports), gems and jewellery showed decline as these sectors were more severely affected by the demand recession in the developed countries. Gems and jewellery exports during 2008-09 (April-February) registered a decline, reflecting mainly the recessionary conditions in the largest export destination viz., the US. Petroleum products exports, which constituted the second largest component of India's exports, witnessed a sharp deceleration in growth both because of the sharp reduction in international POL prices and recessionary conditions in major export destinations of India. India's export growth to the EU, OPEC, Eastern Europe and Latin American developing countries decelerated, while exports to North America, Asia and Oceania and Asian and African developing countries showed a decline. Following the crisis, the transmission of external demand shocks was much more pronounced, swift and severe on export growth. According to the provisional trade data released by the DGCI &S, India's merchandise exports growth during 2008-09 sharply decelerated to 3.4 per cent from 29.0 per cent during 2007-08, with large intra-year volatility. Although export growth was buoyant till 2008 (35.6 per cent during April-August 2008), it, decelerated significantly in September 2008 to 14.2 per cent, and subsequently exports declined in all the remaining months of 2008-09, in tandem with the deepening of recession in the developed countries .On the whole, export growth, on BoP basis, declined from a peak of 43 per cent in Q1 of 2008-09 to (-)9per cent in Q3 and further to (-) 24 per cent in Q4—a fall for the first time since 2001-02 (RBI Annual Report , 2008-09)

Despite that, imports continued to grow, although at a much slower rate because of a fall in import payments due to a sharp decline in international prices of oil to an average of US$ 53.55 per barrel during October –December 2008. Reflecting the impact of higher growth in imports(as a proportion of GDP, imports were21.8% and 27.1% of GDPmp in April-December 2007-08 and April-December2008-09 respectively) coupled with the slowdown in export growth (as a proportion of GDPmp exports were at 13.5% and15.2% in April-December 2007-08 and April–December 2008-09 respectively), the merchandise trade deficits widened significantly to US$105.3 billion during April-December 2008 from US$69.3 billion in April-December 2007 (52.1 % increase) as with the decline in export earnings due to global downturn playing also an increasingly larger role in driving down the value of rupee, which altogether invited a significant fall in forex earnings from merchandise exports. Trade deficits increased from 8.2 % of GDP in 2007-08 (upto the third quarter of 2007-08) to 12.0% in 2008-09 up to the third quarter of 2008-09. This trade deficit was placed at a much higher level of US$36.3 billion during the third quarter of 2008-09 (12.6 % of GDP) as compared to US$ 26.1 billion in the third quarter of 2007-08 (8.4 % of GDP) Hence, we can definitely say that the shrinkage in international demand because of global economic slowdown has had a negative impact on the Indian exports itself, while a positive impact was being felt on imports following a fall in global prices of oil and other primary commodity prices. Only one component of the current receipts, which remained relatively resilient in the face of the global slowdown was software services.

If we compare the performance of the Indian Economy in the external sector, in April-August 2008-09 (pre-recession) and September-March 2008-09 (post-recession), we can clearly see the adverse impact of global recession on India's trade sector in 2008-09. Both exports and imports growth were very robust in the pre-recession period, but turned negative in the post-recession period (**Table-2**). In the post-recession period import growth of POL was negative and non-POL and non-POL + non-billion import growths were very low. Non-POL imports, although remained resilient during pre-recession period (27.9 per cent growth rate), declined to 4.0 per cent during post-recession period , mainly due to slowdown in the growth in imports of capital goods and gold and silver. Growth of trade deficit also fell drastically.

Table - 2: Growth rate of exports and imports (US$ terms)

Year	Exports	Imports POL	Imports Non-POL	Imports Gold & Silver	Non-POL+ Gold& Silver	Imports Total	Trade Balance
2007-08							
April-Aug	20.8	18.4	43.6	131.7	33.0	34.4	68.4
Sept-Mar	35.3	56.1	38.5	-30.3	49.2	44.0	63.7
2008-09							
April-Aug	29.5	69.2	27.9	-13.7	36.7	40.9	61.2
Sept-Mar	-12.1	-12.8	4.0	3.2	2.9	-1.7	17.8

Source: Economic Survey 2008-09 & 2011-12, Govt. of India.

The trade impacts were, however, not confined not only to the above items alone but it had spilt over into invisibles trade, under which there are items like private transfers and remittances from NRIs (which are shown on the current account rather than capital account of the BoP). Remittances have helped so far in offsetting India's merchandise trade deficit to a large extent. It is feared that recession induced rising job losses in the US and Europe could impact migrant workers more severely. Fears have also been expressed about reverse migration of Indian labourers working in Gulf countries, which could result in a decline in inflows of remittances and NRI deposits to India. Actually the construction industry in the Gulf region, especially in the UAE, is facing a difficult time due to global meltdown and has left millions of construction workers with uncertain future The relative stability in such transfers, compared to other capital account items, such as NRI deposits, foreign direct investment and portfolio investment, has also enabled the containment of the current account deficits at modest levels in the face of pressures on other accounts. It was expected that inward remittances to India would no way be impacted significantly by the global economic crisis. According to the World Bank estimates, India received significantly higher remittances to the tune of US$52 billion in 2008 as compared with US$38.7 billion in 2007. This could be attributed to a number of factors, such as, depreciation of the rupee, hike in interest rate ceilings on NRI deposits since September 2008 and uncertainties in oil-prices, which might have induced the workers to remit their money to India as a hedging mechanism due to its relatively better growth prospects. According to an earlier study by the Reserve Bank of India, region-wise, North America accounts for nearly 44 per cent of the total remittances to India, followed by the Middle East (24 per cent) and Europe (13 per cent). In view of the recessionary conditions in the advanced economies and sharp moderation in growth in the Middle East, some slowdown in remittances could be experienced in the near term. In fact, Global crisis had spillover effects on India's invisibles trades through lower remittances from non-residents workers due to jobs shrinkage and finalization of income contract in the US and EU and other countries and lower earnings from tourism. Thus the fallout of the crisis has permeated onto the country's services sector. According to the World Bank study, remittances which have so far been a major source of BoP support in many emerging economies and were of the order of US$305 billion in 2008 to developing countries, far exceeding the flow of official assistance, are likely to fall by 5-8 percent in 2009, which may cause hardship to many poor countries. It is of no wonder that India, being so far the top recipient of such type of private transfer among developing countries currently standing at `164624 (US $36929 billion) for the year 2008-09 (April –December) or 3.49 % of the GDP could escape the global financial crisis in this respect. As per the Reserve Bank of India's estimate, the third quarter of 2008-09 (October to December) witnessed deceleration in remittance flows to the tune of US$10.5 billion as against US$10.9 billion in the corresponding quarter last year due to global financial crisis.

Another important category in the invisible item of the current account is " Miscellaneous Services" comprising IT, ITES followed by travel, transportation, insurance, financial, communication and business services. This category is presently facing the incidence of huge decline in exports as the major demand for these services is usually from the US, which is now under the hard impulse of the crisis. As a result, the role played by the surplus on the invisibles account in balancing the high trade deficit and of lowering the current account deficit has over time declined. The invisible surplus financed about 65.4 % of trade deficit during April December 2008 as against 77.6 % during April – December 2007.

Table – 3: Selected indicators of the external sector

Items	Years 2005-06	2006-07	2007-08	April-Dec. 2007-08	April-Dec. 2008-09
	(As per cent of GDP mp)				
Exports	13.0	14.1	14.1	13.5	15.2
Imports	19.4	20.9	21.9	21.8	27.1
Trade balance	-6.4	-6.8	-7.8	-8.2	-12.0
Invisibles balance	5.2	5.7	6.3	6.4	7.8
Goods and services balance	-3.6	-3.6	-4.6	-4.7	-7.7
Current account balance	-1.2	-1.1	-1.5	-1.8	-4.1
E C Bs	0.3	1.8	1.9	2.1	0.8
Foreign Direct Investment (net)	0.4	0.8	1.3	0.8	1.7
Portfolio Investment	1.5	0.8	2.5	4.0	-1.3
Total capital Account (net)	3.1	5.1	9.3	9.8	1.8
External debt	17.2	17.9	18.9	24.5	26.2

Source: RBI
Note: (i) TC: Total Capital flows (net)
(ii) ECBs: External Commercial Borrowings
(iii) FER: Foreign exchange reserves, including gold, SDRs and IMF reserve tranche.
(iv) GDPmp: Gross Domestic Product at current market prices.

Accordingly, particularly after September 2008 the current account deficit had increased sharply to US$14.6 billion (5.1% of GDP) during the third quarter of 2008-09 as compared to US$4.5 billion (1.5% of GDP) in the third quarter of 2007-08, rising by more than threefold. In fact, it stood 4.1% of GDPmp during April – December 2008-09 as compared to 1.8% of GDPmp during April-December 2007-08 (**Table 3**). However, we see that the deficit is the outcome of all factors both domestic and external. Hence arises the need for which we have examined the various ways in which the various developments since the onset of the US sub-prime turmoil have affected India's exports and imports of goods and services. What made things worse was that capital was also leaving India, causing the capital account balance to turn negative during the third quarter (October – December) of 2008-09, the first time since the first quarter of 1998-99, which altogether indicating a net outflow of US$3.7 billion, as against an inflow of US$31.0 billion in Q3 of 2007-08 , mainly due to net outflows under portfolio investment (on account of deleveraging triggered by the crisis.), banking capital and short-term trade credit. This abrupt reversals of capital flows continued during Q4 of 2008-09 which altogether led to significant difficulties in monetary and macroeconomic management of the Indian economy. It is worth remembering that India at the time of the recessions of the early 1990s and the Asian crisis of 1997-98 also had witnessed capital outflows. But this time the current global crisis is somewhat different as India for the first time witnessed large volatile movements in capital flows under the pressure of intense deleveraging as reflected in the sharp turnaround in the capital flows cycle from a sustained phase of surges in capital inflows into large outflows, (particularly in Q3 of 2008-09, which during Q4 as well).

Moreover, following the crisis we witnessed also the combination of the higher costs of funds, liquidity premiums, and higher risk which have resulted in a sharp increase in the price of short-term trade credit. The shortage of availability of trade credit, following the financial crisis, could be viewed from the decline in short-term trade credit inflows into India, as reflected in India's overall balance of payment statistics. During the period 2008-09, net capital inflows under the head "short-term trade credit" have shrunk to US $ 9.2 billion, as compared to US$ 48.9 billion received during the corresponding period of the previous year. Short-term trade credit to India witnessed a net outflows of US$ 45.5 billion in 2008-09 (as against inflows of US$ 39.7 billion during 2008-09). Gross disbursement of short-term trade credit was lower than that in 2007-08 (Table 4). This is mainly due to lower disbursement of short-term trade credit reflecting tightness in the overseas international credit markets and increased risk aversion by the lending counterparties, and increased repayments as roll over was difficult .Domestic exporters were also reporting challenges of liquidity in foreign currency.

Table 4 Gross Capital Inflows and Outflows

(US $ billion)

Item	Inflows			Outflows		
	2006-07	**2007-08**	**2008-09**	**2006-07**	**2007-08**	**2008-09**
1. Foreign Direct Investment	23.6	36.8	36.3	15.9	21.4	18.8
2. Portfolio Investment	109.6	235.9	128.7	102.6	206.4	142.7
3. External Assistance	3.8	4.2	5.0	2.0	2.1	2.4
4. External Commercial Borrowings	20.9	30.4	15.4	4.8	7.7	7.2
5. NRI Deposits	19.9	29.4	37.1	15.6	29.2	32.8
6. Banking Capital Excluding NRI Deposits	17.3	26.4	27.9	19.7	14.8	35.6
7. Short Term Trade Credits	30.0	48.9	39.7	23.4	31.7	45.5
8. Rupee Debt Service	0.0	0.0	0.0	0.2	0.1	0.1
9. Other Capital	8.2	20.9	12.4	4.0	11.4	8.2
Total (1 to 9)	**233.3**	**433.0**	**302.5**	**188.1**	**325.0**	**293.3**

Source: RBI Annual Reports 2008-09

Net external commercial borrowings (ECBs) acting as short and medium term loan remained lower at US$3.9 billion in Q3 of 2008-09 as against US$6.2 billion in Q3 of 2007-08, as the liquidity conditions tightened in the international credit markets and ECBs became more difficult and expensive. Rise in risk premium on the new borrowing along with the liquidity squeeze made ECB disbursements to India to decline sharply during 2008-09.

A major fall-out of the global crisis had been the reversal of portfolio flows. The net portfolio flows to India turned negative (the extent of reverse of net portfolio inflows in case of India was US$11.34 billion during the third quarter of 2008-09) as Foreign Institutional Investors (FIIs) rushed to sell equities to a larger scale in the Indian Stock Markets in a bid to replenish overseas cash balances. On the whole, the net capital inflows during 2008-09 were abysmally low in comparison to the year 2007-08 and there was depletion of forex reserves as the capital flows were not sufficient enough to finance current account deficits. Together with the widening trade deficit and insufficient capital flows, these major events had a knock-on-effect on the domestic money market , stock market and the exchange rates (through creating the supply-demand imbalances in the foreign exchange market, leading to a more than 30% decline in the rupee exchange rate vis-à-vis US dollar from around January 2008). The currency came under sharp pressure and the decline in rupee became more pronounced after the collapse of the Lehman Brothers in September 2008. The value of rupee declined from `40 in April 2008 to `48.66 in October 2008, ultimately taking the rupee-US dollar exchange rate to a low of `52.09 per US dollar on March 5, 2009: both the nominal effective exchange rate (NEER) and the real effective exchange rate (REER) went down significantly, the latter from 112.16 in April 2008 to 95.65 in March 2009 against US dollar, Euro and Japanese Yen, almost by 13.4 per cent between March 2008 and March 2009. This is 6-currency trade- based REER (base:1993-94= 100).The strengthening of the US$ vis-à-vis other international currencies had also been responsible for the decline of Forex Reserve of India to the tune of US$57.7 billion during 2008- 09 to US $252.0 billion as at end –March 2009 as well as to the valuation losses of US $.37.7 billion during 2008-09 in case of India (Table 5). The RBI Annual Report 2008-09 articulates that during 2008-09, the widening of current account deficit coupled with net capital outflows resulted in the drawdown of India's forex reserves of US $20.1 billion (excluding valuation) as against accretion to reserves of US $92.2 billion in 2007 -08. This order of change in the accretion of reserves losses during the crisis was bound to make an inroad and make itself felt in the domestic liquidity situation since accretion to reserves through the BoP has been the biggest driver of domestic liquidity in recent years.

Table 5: Sources of Variation in Foreign Exchange Reserves

(US $ Million)

Item	2007-08	2008-09
I. Current Account Balance	**(-) 17,034**	**(-) 29,817**
II. Capital Account (net)*	**109,198**	**9,737**
Of which:		
(i) Foreign Direct Investment	15,401	17,496
(ii) FIIs	20.327	(-)15,017
(iii) External Commercial Borrowings	22,633	8,158
III. Valuation Change	**18,380**	**(-)37,658**
Total (I+II+III)	**110,544**	**(-)57,738**

*** Includes 'errors and omissions'.**
Note: Increase in reserves (+) / Decrease in reserves (-).
Source: RBI Annual Reports 2008-09

According to Economic Survey,2008-09, the balance of payments position of the country swung from the position of total forex reserve of US$ 286.336 billion in September 2008 to a decrease in reserves to the tune of US$ 252.883 billon, US$ 247.686 billion and US$ 249.278 billion in October, 2008, November 2008 and February 2009 respectively.

From the above discussion the section concludes that global financial crisis eventually has led to considerable contraction in India's exports, widens current account deficits, reverses capital flows, with concomitant pressures in the domestic foreign exchange market (felt through the dollar liquidity shocks emanating from the very lower level of net capital inflows) and drawdowns of reserves, which ultimately make an inroad to have a structural change in India's BoP.

V. IMPACT ON STOCK, BOND, MONEY AND CREDIT MARKETS

Indian stock markets have experienced considerable volatility in the wake of the crisis. The Indian stock market which began the year 2008 on a bullish note , with (Bombay Stock Exchange) BSE and (National Stock Exchange) NSE Sensex indices touching a new peaks of 20,873 and 6,288, respectively, on January 8,2008 but was affected adversely thereafter altogether reflecting the impact of global financial crisis. BSE Sensex stood at 8,325.82 on 6 March, 2009(compared to its average value of 15,644.44 over the year 2007-08), largely due to sizeable net outflow of funds from domestic capital market by FIIs. In fact, intraday fall of 1,968 points in absolute terms in BSE Sensex on January 21, 2008 was the highest recorded fall in the history of Sensex .The market sentiment remained bearish due to the rising domestic inflation, increasing oil prices and volatility of in international financial markets in the wake of uncertainties about US sub-prime mortgage market and credit market exposures and negative portfolio investment flows during February – March 2008.Reflecting this bearish trend , the market capitalization of shares traded declined sharply and nosedived in the range of 48 % to 54.6 % at end-December 2008This also had propelled the price-to-earnings ratio to fall in all the market segments reflecting the downward trend in stock prices. Meanwhile, the Indian equity markets became weakened during September –December 2008, following sharp decline in stock markets across the globe and perceptible shift in investors' preferences .Reflecting the volatile capital market conditions, the net inflow of saving into mutual funds, which so far recorded a steady rise during 2005-07, turned negative in 2008.The private sector mutual funds having experienced losses and liquidity problems witnessed heavy redemption pressure in 2008 and recorded a net outflow of `12,506 crore and there was a sharp decline in the volume of assets which they have managed so far. The decline of asset value has had a harmful effect on the upper and the middle class people through the decline in the demand for consumer durables and fast-moving consumer durables.

Bond, money and credit markets had been affected indirectly through the dynamic linkages. The domestic bond markets were affected, since the government securities market and the corporate bond market were opened up. They were affected indirectly, since the drying up of bond and credit markets globally made corporate substitutes overseas funds with domestic funds. Cumulatively, these impacted the forex markets, warranting the use of forex reserves and the management of liquidity in money markets. The drying up of liquidity, a fallout of repatriation of portfolio investments by FIIs, affected credit markets in the second half of 2008-09. This was compounded by the risk aversion of the banks to lend and the reluctance of the borrowers to borrow, because of the considerable uncertainties in the level of economic activity. Paul Krugman's remark in early January 2009 in this connection is worth remembering, 'This looks an awful lot like the beginning of a second Great Depression… recent economic numbers have been terrifying, not just in the United States but around the world. Manufacturing, in particular, is plunging everywhere. Banks aren't lending; businesses and consumers aren't spending." However, the extent of the external financial and monetary shock on the Indian monetary- financial system is found to be in contraction in reserve money by more than 15% between august 2008 and November 2008. Reserve money growth collapsed from 26.9% in August 2008 to 10.3% in November

2008 and further to 6.4% in March 2009. Despite these, M1 growth and M2 growth decelerated. The reduction in capital flows (arising out of deceleration in reserve money (M_0) largely on account of the decline in NFA of RBI (a major determinant of reserve money growth), simultaneously with the outflow of foreign exchange of the country, as a fallout of the global financial crisis put RBI in great pressure. To deal with the emergent situation of liquidity crunch and virtual freezing of international credit, and at the same to ensure that the financial contagion arising from the global financial crisis in no way would permeate the Indian banking system, the RBI at that time had no other option but to respond quickly to this situation after going through the abrupt change in its monetary policy front in the second half of 2008-09, particularly after the fall of Lehman's Bothers in September 2008, by facilitating monetary expansion through decrease in the cash reserve ratio (CRR) of scheduled banks, the repo rate under the liquidity adjustment facility (LAF) and reverse-repo rates under the LAF and the statutory liquidity ratio (SLR).The repo rate was reduced in a successive of steps from 9% in September in 2008 to 5% in March 2009 and further to 4.75 % in April 2009 with immediate effect as announced in the Annual Policy Statement of RBI for 2009-10 (with a corresponding reduction in the reverse repo rate from 6% to 3.5 %, and further to 3.25 %). The CRR was also reduced from 9% to 5% of net demand and time and retained unchanged at 5 % over the same period, whereas the SLR was brought down by 1% to 24 %. Altogether, it has been estimated that these rupee liquidity augmentation process will release to be of order of `4,22,793 crore overall primary liquidity into the system.

Subsequently, credit growth decelerated sharply to 17.1% in March 2009, partly because of transmission of OECD recession effects to Indian exporters and organized manufacturing. From October 2008, there were also falls in FDI. Its share declined to 26.4% during April-December 2008-09 on account of FII outflows as a result of the global financial crisis. The cumulative effect of the above is on real-sector activity. It is now possible to argue that the global forces have dampened the domestic activity.

It is now obvious also that such global crisis will adversely affect upon workers of India through falling employment, lower wages (sometimes through reduction of even nominal piece- rate wages among more than 8 million home-based women workers working in the unorganized sector) and more adverse working conditions, and indirectly through reduced access to public goods and services. The global crisis also meant that the economy has had been experiencing extreme volatility in terms of fluctuation in inflation level.

VI. IMPACT OF GLOBAL RECESSION ON THE INDIAN CULTIVATORS

The impact of the crisis on Indian agriculture has even more severe than has been apprehended. .It is well-known that the farmers in our country face problems like critical agro-climatic variations such as eratic rainfall distributed over time and space, frequent droughts or floods, cyclones, rising temperature, volatile monsoons, soil degeneration, lack of institutional credit and insurances leading to excessive dependence on private money-lenders, difficulties in marketing and high volatility of crop prices. Further in liberalized world the Indian farmers have to work in highly uncertain and volatile international environment and often are exposed to import competition against highly subsidized large agricultural producers in the developed countries. They are told to diversify their production from growing mixture of traditional crops to export –oriented cash crops and to increase export capabilities in order to survive. But the fact is that farming is going to be unprofitable day by day as revealed by the 59th round of NSSO which states that 40 % of the farming community are ready to give up farming in favour of jobs due to tremendous hike in cost of cultivation in each unit of land. Volatile crop prices often leads also the farmers to respond to the wrong signal and they, finding no other alternatives have to adjust themselves by changing their cropping pattern which eventually demands high prices for inputs like pesticide and fertilizers etc. This requires for them new varieties of seeds and other inputs supplied by MNCs. Small and marginal farmers find themselves in real difficulty if crops fail or output prices remain low. Very often these cash crop producers do not net the benefit of global price boom of these commodities. Further, they have to face continuous rising prices of inputs. Financial liberalizations measures have caused significant slowdown in the growth of bank credit, particularly from commercial banks to rural areas and a relative fall in proportion to bank credit flowing to the priority sectors, especially agriculture. Bank credit growth fell from 22.3% in 2007-08 to 17.3% in 2008-09 (Economic Survey,2008-09). As a result, traditional money-lenders who had been marginalized by decades of efforts to bring institutional banking to the rural areas, are making a comeback, emboldened by the financial liberalization measures that have undermined the spread of banking to the poor. The availability of public services and access to them has over time deteriorated for most people, especially – but not only – in the rural areas. The majority of India's citizens live in more fragile, vulnerable and insecure material circumstances than before. This wretched condition would ultimately lead to anger bred by persistence backwardness and rising inequalities, which in turn, accentuate the growth of extremist activities like Naxalite and Maoist movements .However, the impact of the slowdown in rural banking fell disproportionately on poor and small borrowers. The agrarian crisis in most part of the country is often substantially related to the decline in the access of peasant farmers to institutional finance, which is the direct result of financial liberalization. As per the Report of the Committee on Financial Inclusion (January

2008), more than 73 % of farmer households have no access to formal sources of credit. The need of the hour is thus to create innovative institutional mechanisms that would provide credit and financial products (including insurance products) specifically designed to meet the needs of the farm sector so that they can be able keep their risk-bearing ability in conformity with the changing situations. But measures so far taken by the government, which have reduced credit towards farmers and small producers have contributed to rising costs, greater difficulty of accessing necessary working capital for cultivation and other activities, and reduced the economic viability of cultivations, thereby adding directly to rural distress. There is ample evidence here in India that the debt crisis of the cultivable community, which has been associated with to a proliferation of farmers' suicides and other evidence of distress such as migration, malnutrition,(the latter arising out of macro and micro-nutrients, which can be because of inadequate or inappropriate intake and /or inefficient biological utilization due to physical or environmental factors) and even hunger deaths due to inadequacy of food in different parts of rural India, has been related to the decline of institutional credits .The steep and unprecedented fall in food grains absorption per head, comparable only to the situation in the initial years of World War II, has entailed a sharp increase in the numbers of people in hunger, particularly in rural areas, and for very many it has meant starvation (Ghosh, 2009). By and large, despite the "Agricultural Debt Waiver and Debt Relief Scheme 2008" for the marginal and small farmers and other farmers recently announced in the 2008-09 Union Budget, farmer suicides are far more prevalent in the states with more commercialized agriculture, dependent on heavy inputs of irrigation, fertilizers, pesticides and seeds by transnational corporations and the incidence is greater among farmers with higher levels of debt per person or per acre.

Besides, the adverse situation in the global economy between September 2007 and October 2008, experiencing both stagnation (of growth momentum) and the rising inflation at the same time cast its darker shadow on the industrial producers and the farming community in particular. The global commodity price- led inflation driven mostly by the rise in prices like energy and agricultural products was immediately transmitted onto our domestic economy testifying the fact that the global demand supply imbalances do influence the domestic inflation. We witnessed meanwhile in the Indian economy the sharp and unprecedented uptrend in commodity prices as reflected in the rise of whole sale price index (WPI) inflation , which remained in double digits for 21 weeks(June to mid- October 2008), reached its peak of near 13 % in August 2008. With the WPI inflation and CPI inflation (whose fate was almost the same over the period extending upto January 2009), the Indian economy was under the spell of heavy price pressure. It, reinforcing the slow moving tendencies in our domestic economy, while at the same time, strengthening the recessionary forces in the domestic economy already at work, ultimately accentuated the miseries of the industrial producers and the farming community in particular, as within the commodity groups the prices of food articles (for 2008-09) was also very high during that time.

The global meltdown in commodity prices thereafter particularly in energy, metals and agricultural intermediates across the world, most of which are tradeables, has led to corresponding decline in domestic prices (Economic Survey, 2008-09**)**. The fall in international prices of several commodities (both agricultural and non-agricultural) has impinged on small produces and farmers' income via import competition as well as low prices in sectors such as cotton and oilseeds production. Farmers eventually face lower prices of their output even as food prices have continued to increase, by more than 10 % in the past year and more than 40 % in the past five years.

VII. EFFECT OF GLOBAL FINANCIAL CRISIS AND ECONOMIC SLOWDOWN ON EMPLOYMENT IN INDIA

Major markets in India have been seriously affected by the global financial crisis and the follow-on of global economic downturn with a dearth of employment opportunities in the financial year 2008-09. US corporates' reduction of outsourcing as a fallout of the Us financial meltdown has had an obvious direct impact on extensive job losses in India, though this constitutes a miniscule number of massive labour base of India Some sample survey data in this connection will help us to indicate employment losses in the wake of the global financial crisis and economic slowdown.

According to the report on "Effect of Economic Slowdown on Employment in India", which is based on a sample survey of 2581 units conducted by the Labour Bureau, Ministry of Labour and Employment, during October-December 2008, covering eight sectors like mining, textiles and garments, metal and metal products, gems and jewellery, automobiles, construction, transport, and information technology (IT)/ business process outsourcing (BPO) industry, there was decrease in employment of about half a million workers during the period. The most affected sectors were gems and jewellery, transport and automobiles where employment has declined by 8.58% , 4.03%, and 2.42% respectively during the period . In textile sector, 0.91% of workers have lost their jobs. Another thin sample survey conducted to asses the employment situation in January 2009 over December 2008 indicated a loss of about 1 lakh jobs in the month of January 2009. The employment decline was more rapid in case of export units (1.13% per month) compared to non-export oriented units (0.81% per month), pointing to the direct role of global meltdown. A sample survey conducted by the Department of Commerce for 402 exporting units revealed job loss(direct & indirect) to the tune of 1,09,513 persons during August 2008 to mid-January 2009. Another survey in a single state (Gujarat) has found that more than 400 thousand jobs have been lost due to recession in the diamond industry by February 2009(Task Force for Diamond Sector 2009). The Confederation of India Textiles Industry has estimated that at least 1.2 million jobs in textile and garment production had been lost by March 2009, not to speak on the substantial declines in money wages for daily contracts and piece rate work for the usual workers and migrant workers, the latter coming from the far- off backward and most distressed regions of the country. What emerges, in fact, is that the employment squeeze in the organized sector in the recent years has a tremendous impact on the unorganized sectors via the backward linkages with the former. Even the National Commission for Enterprises in the Unorganised Sector (NCEUS) is of the view that the recent global crisis has impacted serious repercussions on the Indian economy and especially the poor who are in the unorganized workers (of whom women workers constitute more than 15 million) working in sectors like construction, zari, charka or other handloom work, textiles, apparel, leather products, gems and jewellery, metal products, carpets, oil mills, marine products, and handicrafts, food processing and also potentially hazardous work involving acids and chemicals. Even the nominal piece rate wages for the women workers have fallen in many of these activities in which they are engaged, while at the same time they are facing the rising prices of necessities. This obviously affects budgets for both the poor male and women workers, for whom food itself still accounts for more than half of total household expenditure. The situation urgently calls for a revival from the part of the government in the form of a major fiscal stimulus comprising of (i) Programmes to boast pro-poor public investment in physical and social infrastructure, (ii) Expansion in scope and coverage of social security schemes for the unorganized workers so that they are immediately assured of a minimum level of social protection, (iii) Schemes /Programmes which protect and promote incomes of the poor.

VIII. WHAT IS TO BE DONE

There is no denying the fact that the unfolding of the financial crisis has laid bare the flaws of an economic model driven exclusively by the proliferation of finances. It also reveals the vulnerability of an international financial system based on the growing debt of the US. And it has by now become clear that this is no ordinary meltdown or so. So the focus of crisis management should be different. And the objective would be to restore the Indian economy to a high growth path consistent with price and financial stability. There now appears to be considerable agreement across the wide spectrum that easy money and massive fiscal stimulus are indispensable to prevent the current slum from getting even worse. As a result, creating of a number of monetary easing and liquidity enhancing measures by the RBI by reduction in CRR, SLR and key policy rates like repo and revised repo rates etc., for facilitating the flow of funds from the financial system to meet the growing needs of productive sectors at one hand , and the same time making a hefty package of increased public spending and tax cuts by the Government to boost demand and to create employment and public assets are now on the way on the Indian economy, as the economy is seriously impacted by the twin global shocks – unprecedented increase in the global commodity prices particularly of crude petroleum, steel and food and also the need for financing 11th five year plan priorities and farmer loan waiver coupled with the ripple effects of the deepening of the global financial crisis-- through sharp deterioration in its monetary and fiscal position, as the year 2008-09 progressed, thus largely endangering the sustainability of the process of fiscal consolidation and monetary stability. A judicious mixture of the monetary and fiscal policy is now warranted to ensure adequate coordination between these two, so that they do not work at cross- purposes. Further, it becomes imperative to use both the traditional and unconventional instruments to arrest the loss of confidence of private investment and to counter the negative fallout of the global crisis on the Indian economy -- simultaneously through a major expansion of public investment in infrastructure and social programmes (mentioned below), financed by a monetised budget deficits.

The immediate task of the government to be out from this quagmire is to protect the citizenry from the adverse effects, including through countercyclical macroeconomic policies (Ghosh,2009). The government needs to respond quickly not only by short-and medium term measures to cope up with the crisis and its effects but also by modeling an alternative growth trajectory based on sound policy initiatives. Clearly, much more creative and imaginative policy responses are required, in consonance with the changing direction and pattern of misdirected investment and conspicuous consumption in the home market to emphasize wage-led growth (suggested many years ago by Vakil and Brahmananda though in a different context), and diversifying exports and its destination wherever it is more viable and also making moves designed to turn economic disadvantage to advantage. There is plenty of scope to diversify exports into sectors where global demand is high and on the ascend with imaginative policy designed with continuously restructuring their productive bases entwined with efficiency, improved productivity and constantly improving their global share in all the export commodities This should not go unnoticed.

The general monetary and fiscal policy measures undertaken so far has contributed very little to improve the lot of the vulnerable sections of the society, including labour. These sections have been hard hit more than the non-vulnerable sections by the financial contagion and its effect. Hence, in the interest of these sections, ensuring against financial contagion should receive immediate priority, which should include increased public expending on works, social safety nets and employment for these vulnerable sections (as already suggested by the NCEUS) through expansion of employment guarantee scheme within rural and its extension to urban areas, productive use of labour force, especially women workers, ensuring food security by moving to Public Distribution System, provision of food and other necessities at affordable rate; also a package for farmers to protect them from volatile crop prices, and to deal with burden of debt and create means for sustainable cultivation.

IX. CONCLUSION

The neoliberal policies adopted since the 1980s such as the dismantling of government regulation in financial as well as goods and labour markets, and increased openness to trade, foreign direct investment and financial capital flows etc., have created so far a fertile ground to sow the seeds of a major global crisis following the risky developments in the credit, housing, security and other related markets. Thus the current global financial crisis is first and foremost a crisis of neoliberalism reflecting thereby the failure of unfettered market functioning, most especially in financial markets. It is also a product of the hegemony of global finance and is a structural one as well as of cyclical nature that cannot be easily resolved only through the self-regulating character of capitalism. There is one view that the failure of governance at all levels is truly indicative of the failure of the whole economic system, or what some have described this financial tsunami as a failure of capitalism or those who contend that

It is a "Minsky moment" of pure meltdown to be counted as the actual financial collapse when liquidity dries up as unsustainable financial exuberance runs its course, in the wake of deteriorating credit standards.. A suitable redesign of international and domestic institutions may aid the process of recovery.

There is now increasing recognition that whether recession or depression, the nature of the current crisis, is altogether profoundly different from those of east Asian currency crisis that happened more than a decade ago or the crisis occurred during the Great Depression of the 1930s. The root causes of the current crisis and economic slowdown , according to the IMF(February 2009) lie in " market failure… bred by a long period of high growth, low interest rates and volatility and policy failures in financial regulation—which was not equipped to see the risk concentration and flawed incentives behind the financial innovation boom; macroeconomic policies—which did not take into account building systematic risks in the financial system and in housing markets," Such crisis of world- wide magnitude where the economic system of any country is more or less integrated with the world economic system in this globalized era is bound to be reflected. India as one of the emerging market economies cannot be remained immune from this crisis and now simply is suffering the after-effects of this financial tsunami unleashed in the US.

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