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Impact of Global Recession of 2008 on Indian Economy

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Abstract:

The Start of Sub Prime Mortgage Crisis in USA in 2008 lead to spread of recessionary pressure across the globe to which India was not an exception. This paper attempts to find the impact of global recession of 2008 on the Indian economy in general and its markets, rupee movements, impact on exports and imports in specific and various policy measures undertaken by the bodies to mitigate this global crisis.

Keywords: *Recession, Sub-Prime Mortagage*

Introduction:

Economic Recession means a general slowdown in economic activity in a country over a sustained period of time, or in simple words a business cycle contraction. During the period of recessions, many macroeconomic indicators vary in a similar way. Production which is generally measured by Gross Domestic Product (GDP), employment, investment spending, capacity utilization household incomes and business profits all fall during recessions. One such global financial crisis started showing its effects from mid-2008.

Origin of the Sub-Prime Crisis:

The second half of the year of 2007 marks the beginning of the financial crisis in the United States with large spread of mortgage defaults bursting the artificial housing bubble leading to insolvency and bankruptcy of many financial institutions. The foundation of this crisis occurred due to sub-prime housing loans given on a large scale by the American banks in the past several years. Ease of availability of credits and loans without even due creditworthiness of repayment which was result of cut in interest rates by the federal to pull economy of US from the recessionary pressures, this excess lending without due diligence lead to beginning of this crisis.

One impulsive and unreliable financial conduct on the parts of banks was to provide Ninja Loans which stand for providing loans to households which had no income and no assets. The bubble was sustainable till the time housing prices were moving upwards, the challenges in natural laws of demand and supply disturbed the entire eco-system resulting in oversupply of houses resulting in decline in prices of houses in 2006, leading to large defaults by households regarding their EMIs, resulting in heaving losses to the banks.

Securitization of sub-prime Mortgage Housing Loans:

The banks which sold the sub-prime mortgage loans did not keep them with themselves. They sold them to other banks and investors through a financial innovation called as CDO (collateralized Debt Obligation) securities. These CDO securities were backed by a host of mortgage assets. Investment banks associated with Wall Street in the US repackaged the sub-prime housing loans into synthetic securities CDO. Credit rating agencies gave AAA, BBB rating to these CDOs in order to make them safe for investment and thereby to increase their marketability. The American and European intermediaries such as banks, hedge funds, pension funds mutual funds invested heavily in these complex securities as they were unaware of the risk involved.

The problem was further intensified due to leverage. Those who bought these mortgage backed securities borrowed heavily from banks and other financial institutions to make investment in them. Some Wall Street Banks had been borrowed fourty times more than what they were worth.

Huge Losses and Liquidity Crunch:

The value of underlying CDO securities declined along with the prices of special complex securities which was due to default in payment schedules by borrowers of loans which lead to vicious cycle of recession. This intensified the liquidity challenges with banks as they had invested heavily in these complex securities. Lehman Brothers and others went bankrupt. The other banks and financial intermediaries such as Citi Bank came to the brink of insolvency and lacked liquidity. Loans to various corporate and consumers were stopped to mitigate this challenge which resulted in slowdown in economic growth resulting in decline in GDP numbers for two consecutive quarters (2nd and 3rd) of the year 2008 which lead to US to the recession.

Further due to increased exposures to securities, top five US investment banks which had significantly increased their financial leverage during 2004-2007 inflated the losses. This was followed by panic in financial markets and liquidity was squeezed from the market. In September 2008, top 5 of Wall Street succumbed to sub-prime losses.

1. Lehman Brothers filed for Bankruptcy.
2. Merrill Lynch merged with Bank of America.
3. Goldman Sachs and Morgan Stanley converting onto commercial banks.
4. Bear Sterns had been acquired by JP Morgan Chase in March 2008.

The 'Lehman brothers' was a very important American Investment bank as it had world-wide financial dealings and investment. When Lehman Brothers was allowed to go bankrupt by the US treasury department, it caused the world financial crisis. This affected not only the confidence on the financial market in the US but also in the whole world financial structure. The redemption pressure on securities added to the liquidity problem of banks not only in US but it spread to the banks and financial institutions of Europe, Brazil, Japan, China, India and other countries. Recession emerged in Europe, Japan and growth in GDP in India slowed down. The world economy was in turmoil and its cascading impact was being witnessed by all countries around the globe with varying degree. International Monetary Fund, World Economic Outlook for 2009 finds negative growth in the US, Japan and the European Union.

The US has officially entered into recession and growth was negative in 2009 as against 1.6% in 2008, similar in case with Europe and Japan. Only emerging economies like India and China had a positive growth. The trading partners of India are badly hit by the global crisis which indirectly has negative impact of Indian business. The three blocks (US, Europe & Japan) account for about 40% of India's exports and thus the slowdown not auger well for Indian exporters. After a long spell of growth, the Indian economy has experienced a downturn.

Impact of Recession and Spread of Crisis to India:

The term of "sudden stop" was firstly introduced by Dornbusch (1995) and later given analytical framework by Calvo (1998) to evaluate the impact of a sudden and largely unexpected cut-back in foreign capital inflows to emerging economies. This is reminiscent of the bankers' old saying that "it's not speed that kills, it's the sudden stop." The chart below depicts the various stages in the process of the spread of the international financial crisis to our nation, within the framework of the "sudden stop" analysis.

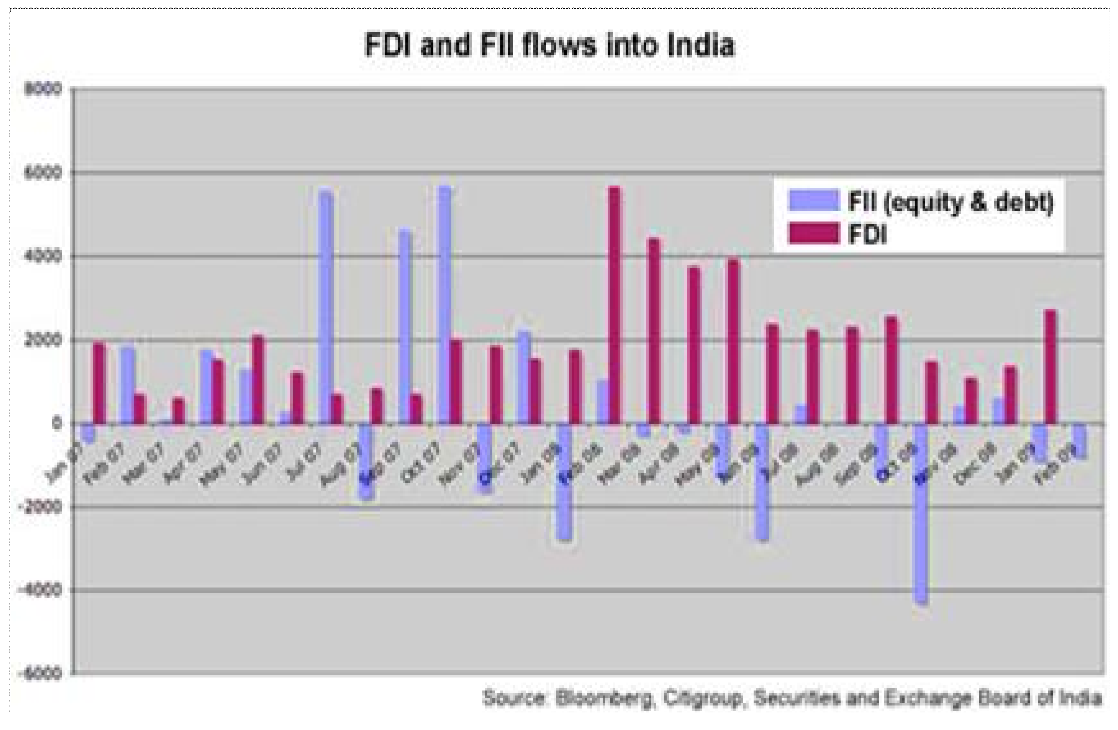
Chart 1: The Spread of International Crisis to India

First of all the impact of the International crisis on India was felt in the stock market in January 2008. This came through the reversal of inflows from foreign institutional investors (FIIs) into the parent country.

Source: Global Financial Crisis: How was India Impacted?by Mathew JosephSenior Consultant, ICRIERNew Delhi

A presentation to InWEnt-DIE Conference on Global Financial Governance – Challenges and Regional Responses, September 3-4, 2009 in Berlin, Germany.

Chart 1: **FDI and FII flows in India**

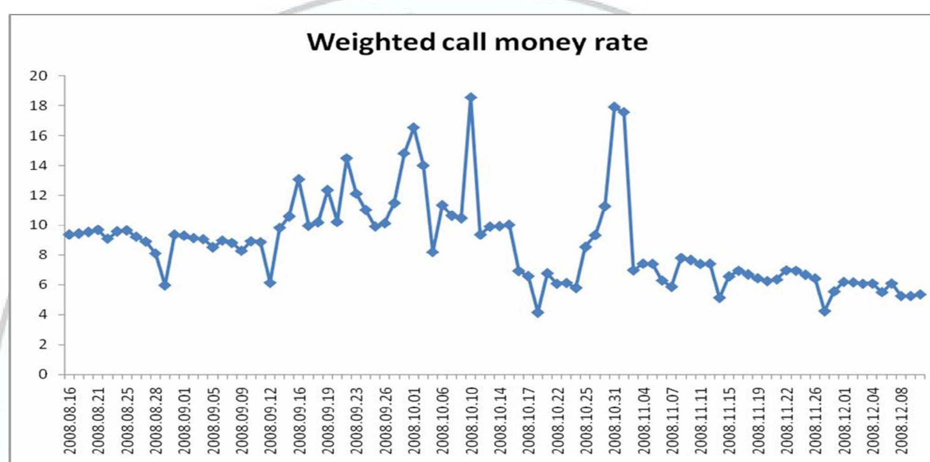


India had received about US$ 17.7 billion as net equity investment inflows from FIIs during 2007. This moved into **a net disinvestment of US$ 13.3 billion** during the tennure from January 2008 to February 2009. Foreign Institutional Investors pulled back money to meet the liquidity challenges for their principals in US resulting in large outflow of money resulting in decline in markets. This lead to crash in markets in January 2008 wherein the benchmark stock price index, the BSE Sensex, recorded 56 per cent fall from **20,873** on 8 January 2008 to **9093** on 28 November 2008, over a period of 11 months. The fall in Wall Street started two months before in November 2007, but the intensity of the market crash taking place after a lag in Indian markets had been much larger. Further capital inflows under external commercial borrowings, short-term trade credit and external borrowing by banks dropped sharply from April 2008. There was a huge return flow of capital from India in the second half of the year with regard to short-term trade finance and bank borrowings to the extent of US$ 9.5 billion and US$ 11.4 billion respectively.

This didn't end with Equity markets, the challenges and crisis moved to foreign exchange

market wherein rupee tumbled by 20 percent between April to November in 2008. The Reserve Bank of India had been intervened by selling dollars to smoothen the fall of the rupee. The heavy selling results to a massive depletion of the stock of reserves from US$ 315 billion in May 2008 to US$ 246 billion in November 2008. This lead to depletion of official reserves and appreciation of dollar against all other reserve currencies. Next on line was Money markets the crisis gripped Indian money market in September 2008. Indian banks also lost access to finance from out of nation, as inter-bank borrowing seized up in the US and Europe. And, apart from that, banks had to send finances to their branches abroad in those countries. Apart from that, all the above has put heavy load on Indian banks leading to a liquidity crisis from mid-September to end-October 2008 and this was reflected in the inter-bank call money markets where the call money rates almost rose to 20 %.

Chart 2: Liquidity Crisis



Source: Reserve Bank of India

The First half of 2008-09 had the strong growth in the current account of India's balance of payments.

- Merchandise exports grew by 35%,
- Imports by 45%,
- Software exports by 38 %
- Private transfers (remittances) by 41%.
- In the second half of the year 2008-09, these dramatically changed :
- Merchandise exports declined by 18 %, and
- Imports by 11 %.
- The growth in software exports has been dropped to less than 4 %. And the Remittances declined in absolute terms by about 20 % in the second half of the year 2008-09.

Thus the effect of the global financial crisis manifested itself in the real sector through the collapse of India's domestic trade sector. In the financial sector, domestic banks responded to the sudden loss of different avenues of funds for the Indian commercial sector and increased their

lending during the period of "credit crunch". In the month September as well as October 2008, bank finance expanded more than the previous year partly compensating for the drying up of funds from the other sources.

The crisis spread to the domestic credit markets. The actual economy deteriorated from the month of September 2008 shown first by the sharp fall in export growth to 10 per cent in that month from about 35 per cent during the months of April-August 2008, and minus growth thereafter; virtually negligible and/or negative growth in industrial output from October 2008; and negative growth in central tax revenue collection also from October 2008. Business and consumer confidence began to shrink leading to a decline in overall demand. By the month November 2008, the situation had been fundamentally transformed. Expansion of our country's bank finance to the commercial sector has been slumped to Rs. 609 billion during the four-month period, during the month of November 2008 to February 2009, just about a quarter in comparison with the increased of Rs. 2,362 billion during the similar period a year ago. This has been primarily due to a sharp fall in demand for funds as investment as well as consumption dropped. This is partly due to Indian banks becoming extremely risk adverse with the perception of default rising considerably.

Let us now discuss impact of the global economic crisis on various parameters. Financial Sector, Exports and Exchanges rates were three sectors of economy which had an impact of global crisis of recession in India.

1. The financial sector,
2. Exports
3. Exchange rates

The financial sector including the banking sector, equity markets, external commercial borrowings and remittances has not remained unharmed though fortunately, the Indian banking sector was not overly exposed to the sub-prime crisis.

Only one of the larger banks which are ICICI, was partly affected but managed to minimize crisis, because of its strong balance sheet and timely action by government, which virtually guaranteed its deposits.

The equity markets have been seen a near **60%** reduced in the index and a wiping off of about USD1.3 trillion in market capitalization since January 2008, when the Sensex had been peaked at about 21,000.

Source: Global Financial Crisis: How was India Impacted? by Mathew JosephSenior Consultant, ICRIERNew Delhi

A presentation to InWEnt-DIE Conference on Global Financial Governance – Challenges and Regional Responses, held on September 3-4, 2009 at Berlin, Germany.

Indian markets felt pressure in recession due to withdrawal of about USD12 billion from the

market by foreign portfolio investors between September and December 2008. This was primarily done to strengthen the balance sheet of parent companies and meet their liquidity requirements. Commercial credit, both for trade funds and medium-term advances from foreign banks has virtually dried-up. This has had to be replaced with credit lines from domestic banks but at higher interest costs and has caused the Rupee to depreciate raising the cost of existing foreign loans. The second punch in downturn came with decline in Indian exports to its major markets. Gems and Jewellery and around 30000 plus workers got affected due to this, garments and textiles, leather, handicrafts and auto components followed the same pattern which resulted in major job cuts. The 21% decline in exports in the month February 2009 is the steepest fall in exports for the last two decades. While exports of both goods and services, accounted for only about 22 percent of the Indian GDP, their multiplier effect for economic activity was quite large as the import content was not as high as Chinese exports. Therefore, an export slump has brought down GDP growth rate in 2009-2010.

The third spread channel was in the exchange rates as the Rupee has come under pressure with the outflow of portfolio investments, higher foreign exchange demand by Indian entrepreneurs seeking to replace external commercial borrowing by Indian financing, as well as the consequent decline in foreign exchange reserves. This was likely to continue because current account remained in deficit and the capital account, which has been in deficit in the second and third quarters of 2008-09, has not generated the needed surplus to cover the current account deficit. This led to further drawing down of foreign exchange reserves and continued downward pressure on the exchange rate. Let's us now discuss the impact of global Economic Crisis on various parameters.

- GDP growth
- Indian exports
- Industrial Production
- Unemployment
- Stock Market Crash
- Depreciation of Indian Rupee
- Foreign Exchange Rate

India's GDP Growth:

There was been various different versions and explanations of recession by various experts. Some confirm decline in GDP growth for two or more consecutive quarters is termed as economic recession, while other recommend decline in economic activity lasting more than few months. The world economy went into a steep recession in the last three months of 2008 with global real GDP dropping at a 6 % annual rate. This has been clearly the bad decline in world output as well as also in world industrial production and world trade. US being dominant players in the global economic, its slowing economic slowdown had cascading effects to all other major countries around the world.

The Indian economy has been looked to be relatively insulated from the international financial crisis that started in August 2007 when the 'sub-prime mortgage' crisis first surfaced in the US. In fact the RBI was raising interest rates until July 2008 with the view to maintaining the growth rate and to contain inflationary pressures. But as the financial meltdown turned into a international economic downturn with the fall in of Lehman Brothers on 23 September 2008, the impact on the Indian economy was almost immediate. Credit flows suddenly dried-up; money market interest rate rose and remained high for the next month.

High inflation, reducing job opportunities and industrial production, 'austerity measures' and decreasing purchasing power parity, were a few immediate implications. Many economics experts around the world felt that the impact of a possible slowdown in the US will not be much on countries like India and China. The experts also felt that, Indian economy was not following the pattern of world economy, but had become capable of sustaining high single-digit growth rates for times to come. While the global economic recession did not have huge impact on Indian economy, but it has affected growth rate and it is visible in the first two quarters of 2009. Therefore it will be prudent to understand what happened, how it has affected India and what the measures our government has taken to keep the impact to the minimum.

Source: Impact of Recession on India by Mangal Sain & AditiI Mittal, IJMSS Vol.01 Issue-04, (August, 2013)

TABLE 1: TRENDS IN GDP AT FACTOR COST IN RS. CRORE

Year	GDP (at 2004-05 Price)	Growth in %
2005-06	3254216	9.5%
2006-07	3566011	9.6%
2007-08	3898958	9.3%
2008-09	4162509	6.8%
2009-10	4493743	8.0%
2010-11	4879232	8.6%

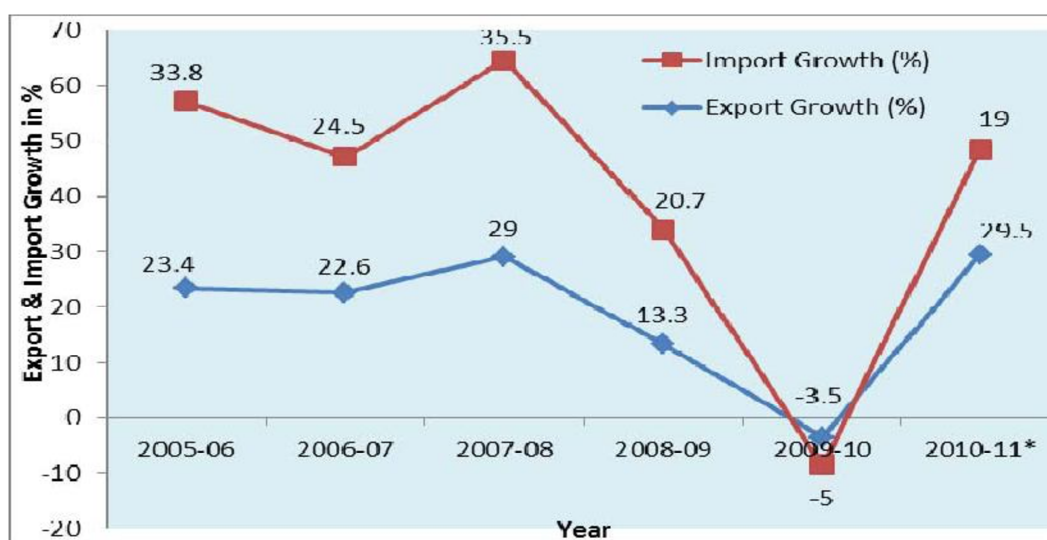
Source: Central Statistical Organization, Government of India

Table clearly indicates that India's GDP growth rate has been consistently ranging between 9.3 to 9.6 % from 2005 to 2007. But it has slowed down to 6.8% from 9.3% in 2008. After a long spell of growth, our economy was experiencing a down turn. This fall in trend has been affected adversely the industrial activity, especially, in the manufacturing, infrastructure and in service sectors mainly in the construction, transport and communication, trade, hotels etc.

Exports in India:

India's export sector has been manifested remarkable resilience and dynamism in 2007-2011. Despite the setback faced by our country's export sector due to international slowdown, merchandise exports recorded a Compound Annual Growth Rate (CAGR) of 20.0 percent from 2004-05 to 2010-11. India's merchandise exports have been reached a level of US $ 251.14 billion during 2010-11 registering a growth of 40.49 % as compared to a negative growth of 3.53 percent during the previous year.

Chart 3: **Growth trends of India's imports and exports**



Trend of India's Export and Import (Growth in %)

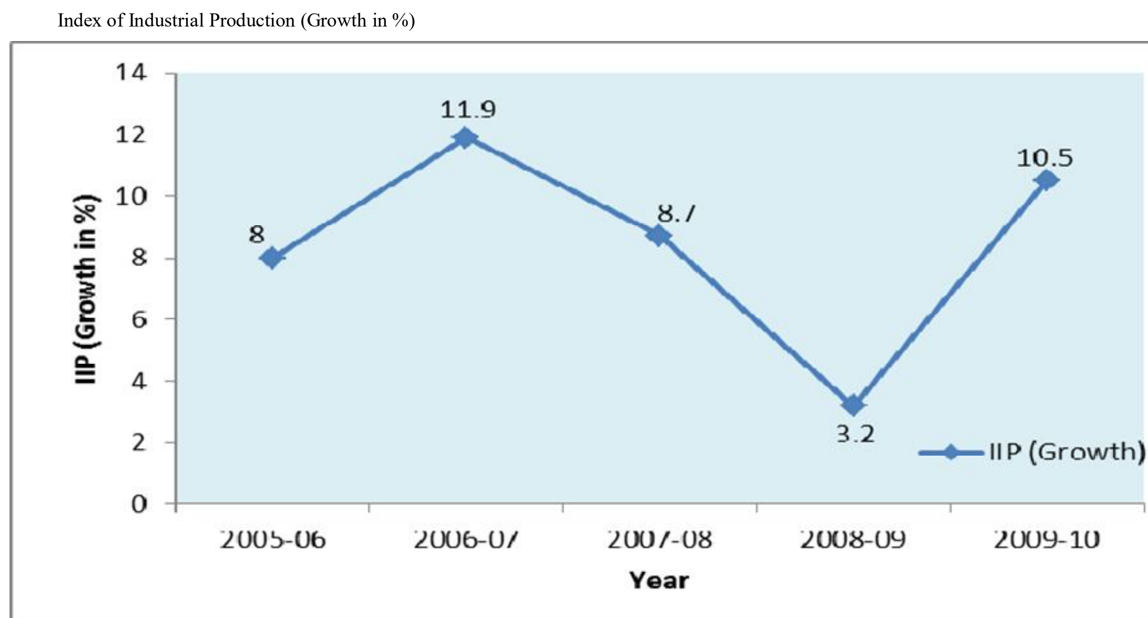
The shrinking of aggregate in the global market as a consequence of the crisis has been hurt the exporting manufacturing industries in the country. In the year 2007-08, India's export and import were $162904 million and $251439 million respectively and balance of payment was $ -88535 million. And in 2008-09, export and import were $185295 million and $303696 million respectively. The balance of payment of Indian Economy was $118401 million.

The growth rate of export as well as import also declined to 13.3 % and 20.7 % from 29.0 and 35.5 % respectively during that period. In the year 2009-10 the export and import further reduced very much to $178751 million and $288373 million respectively. In the year 2009-10 the export growth rate was minus 3.5% and import growth rate was minus 5.0 %. The balance of payment was $ -109622. This shows that India's exports are adversely affected by the recession in global markets. This has been already evident in certain industries like the garments industries where there have been significant job losses with the onset of the crisis.

This along with a compress in the high-income service sectors like financial services, hospitality and also tourism etc. led to a reduction in consumption spending and overall demand with the domestic economy.

Industrial Production:

Chart 4: **Index of Industrial Production (Growth in %)**



Source: Central Statistical Organization, Government of India

The declining trend in India's GDP has adversely affected the industrial activity, particularly, in the manufacturing, infrastructure and in service sectors mainly in the construction, transport and communication, trade, hotels etc. Services sector is considered to be backbone of Indian economy, recession slowed its growth hurting the overall sector. The financial crisis in the advanced economies also slowed down in developing economies has adversely impacted on the IT sector. About 15 to 18 % of the business coming to domestic out-sources includes projects from different sectors like banking, insurance and the financial services sector which was uncertain at that time. Demand for services provided by the informal sector declined and working hours and real wages were cut. When formal sector employees who have been lost their jobs entered the informal sector, they put additional pressure on informal LABOUR markets. During recession industrial growth was also faltering. Our nation's industrial sector has been suffered from the downhearted demand conditions in its export markets, as well as from suppressed domestic demand due to the slow generation of employment. As per the index of industrial production (IIP) data produced by CSO, the overall growth in the year 2008-2009 was 3.2 % compared to a growth of 8.7 % in the year 2007-08. The recent hit in the Sensex was not a simply an indicator of the impact of global contagion. There have been warning signals as well as signs of delicacy in Indian finance during that time and those were likely to be compounded by trends in real economy.

Unemployment:

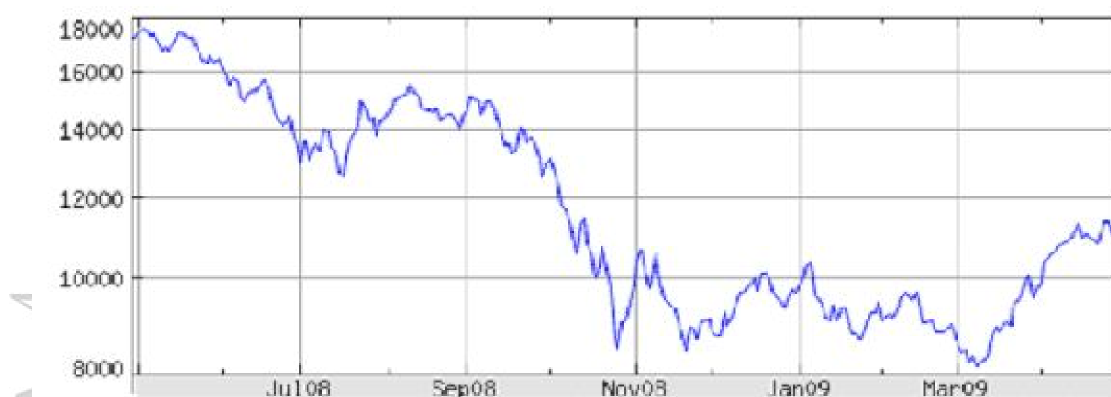
The fact that the global economic crisis adversely affected the manufacturing and service sectors imply that occupational diversification is more difficult to achieve. Crisis in the rural areas, originated from the slowdown accomplished by secondary and tertiary sectors. The economic and

financial crisis, therefore threatens to deepen the income deflation that is already a feature of the rural economy and simultaneously aggregate the alarming levels of hunger and malnutrition that currently exist in India. India's exports are adversely affected by the slowdown in global markets. This is already noticeable in some of the industries like the garments industries where there have been significant job losses with the onset of the crisis. This along with a squeeze in the high-income service sectors like financial services, hospitality and tourism etc. led to a declined in spending and overall demand with the Indian economy. A similar consequence of this was a simultaneous loss of informal jobs and lower generation of new non-farm employment in the economy.

Stock Market Crash:

The effect of the eruption of financial crisis spilled over to India and Share market was also badly hit. The selling pressure of Foreign Institutional investments brought about a crash in Bombay Stock Exchange. The Sensex which was around 6000 in 2004 rose to 8000 in Aug.- Sept. 2005 and went on rising further crossing 10000 mark in 2006, 13000 mark in 2007 and reached the peak of around 21000 mark in January 2008. At around this time, share prices in the US and European markets started falling sharply and the problem of liquidity and credit crunch assumed grave proportions. This led FIIs to sell their shares in the Indian stock market to pull out capital from India. As a result of this selling pressure, Sensex of Bombay Stock Exchange started tumbling. It fell from 21000 in Jan. 2008 to 11000 in Sept. 2008. And its downward march continued throughout the year. In November 2008 it has reached 9000 mark.

Chart 5: **Daily movements of BSE Sensex in 2008-09**



This has been caused huge losses to the domestic companies and investors whose huge wealth was wiped out in a couple of months in the year 2008. Foreign institutional investors sold more than $ 13 billion worth of shares of Indian companies up to November 2008. This also led to the decline in foreign exchange reserves held by RBI to $ 250 billion by the end of 2008.

Depreciation of Indian Rupee:

The effect of capital outflow by FIIs was deeper and devastating. When foreign institutional investors sold their shares in India, they got rupees. They had been to convert their rupees into

dollars to send them out of nation. This led to increase in demand for dollars. Obviously US dollar appreciated in terms of Indian rupee. The Indian importers also demanded dollars to pay for the import of goods. The Indian banks doing foreign exchange operations also bought US dollars to keep their foreign exchange operation afloat since due to credit crunch, no one in foreign countries was willing to lend dollars to any Indian Bank. This further increased the demand for dollars causing instant depreciation of rupee in the months of September, October and November in the year 2008.

Table 2: Foreign Exchange Rate:

Month	Rupees per unit of Dollar	Appreciation/Depreciation
March 2008	40.36	
April 2008	40.02	+0.85
May 2008	42.13	-4.2
June 2008	42.82	-5.74
July 2008	42.84	-5.79
August 2008	42.91	-5.95
September 2008	45.56	-11.42
October 2008	48.66	-17.05
November 2008	49.00	-17.64
December 2008	48.63	-17.01

Source: Monthly Economic Report, Ministry of Finance, Government of India

The Indian Rupee whose value had increased to Rs. 39.4 for a dollar in the month December 2007 depreciated to Rs. 49.3 for a dollar in end October 2008. This depreciation of Indian rupee though made out exports cheaper, made out imports costlier.

India's Response to Global Economic Crisis:

The contagion from the global financial crisis required appropriate monetary and fiscal policy responses to ensure enough liquidity in the economy, the orderly functioning of markets, and the financial stability. The government of India as well as Reserve Bank of India responded to the challenge strongly through its fiscal and monetary policies.

Monetary policy Measures:

The RBI took various steps to prevent instant depreciation of Indian rupee. The problem was diagnosed as the lack of liquidity in the money market which adversely affected the flow credit to industries.

1. Therefore, RBI cut Cash Reserve Ratio four times in October 2008 to January 2009 by 400 basis points from 9 % to 5 % to increase liquidity of the banking system. Thus the RBI Infused liquidity of Rs. 160000 crores in the banking system.

2. RBI reduced Statutory Liquidity Ratio from 25% to 24% which enabled banks to get Rs. 20000 crores from Reserve Bank of India against Government securities for lending to mutual funds.
3. Reserve Bank of India released Rs. 25000 Crores to the banks in connection with the farm surrender scheme of the Central Government.

   In this way, almost Rs. 2, 00,000 crores had been permeate into the Indian money market to alleviate the pressures brought on by deterioration on global financial environment. Banks could provide credit to industries for financing working capital and fixed investment projects with infusion of adequate liquidity.

   However, it was felt that the lending rates of banks need to be lowered to reduce the cost of borrowing.
4. Hence, repo rate was cut five times by 4 % point from 9 to 5 %. As a result, various Indian Banks reduced their prime lending rate to around 12 to 12.5%. With this banks lowered their lending rates so that cost of borrowing from the banks fell and more credit was created for investment by the companies and there was more demand for durable consumer goods such as houses, cars etc.

   So the financial sector has been come out without much damage.

Fiscal Stimulus:

The fiscal stimulus is in keeping with Keynesian macroeconomics as Keynes emphasized increase in government expenditure to get rid of depression in 1930s. To keep the growth momentum and to ensure 7% growth rate in the year 2008-09, the Indian government came out with three fiscal stimulus packages which involved increase in government expenses and cut in indirect taxes to boost both consumption demand and investment demand.

1. **First fiscal stimulus package** was announced on Dec. 6, 2008. This primarily involved increase in government expenditure by Rs. 30700 Crores. The intension of this government expenditure was to help growth of infrastructure, housing, automobiles, textiles and small and medium enterprises.

   An important measure in the first fiscal stimulus package was all round cut in excise duty to raise the demand for goods and services. Further this package provided for subsidizing interest costs of exporters to counter slump in exports due to global financial crisis.

   It was hoped that lower interest costs of exporters would make the Indian exports more competitive in international market.
2. **The second fiscal stimulus package** was announced on 2nd January 2009. This package sought to improve supply of finance to some organizations. This package focused on increase expenditure on infrastructure by providing finance to non-banking finance companies dealing

exclusively with infrastructure finance. IIFC (Indian Infrastructure finance company) was allowed to borrow Rs. 30000 crores form the market by issuing tax free bonds to assist in funding of projects worth of Rs. 75000 crores.

A higher depreciation rate of 50 % for Commercial Vehicles like trucks buses and vans bought in the period, Jan- March 2009 was allowed. And extra line of credit to non-banking financial companies was permitted for purchase of commercial vehicles and assistance by it for the purchase of buses for urban transport system under governmental urban renewal scheme. All these steps were expected to boost demand for commercial vehicles.

An Indirect push to realty and infrastructure sectors was given by removing exemption from countervailing duties (CVDs) along with special CVDs for steel and cement. Secondly the government increased the limit on investment by foreign institutional investors in rupee dominated corporate bonds issued by the Indian companies from $8 billion to $ 15 billion.

3. **The third fiscal stimulus package**:

   The third fiscal stimulus package was announced on 24 Jan. 2009. The government expected to boost demand by cutting central excise duty, service tax, and custom duty through this package.

   - Central excise duty was reduced by 2 % from 10 % to 8%. And 4% cut in central excise duty announced in Dec. 2008 was extended till 31 March 2009. This would lead to the price reduction and will stimulate demand for goods.
   - Service tax was also cut across the board by 2 % point from 12 to 10 %.
   - Payout was declared following the Sixth Pay Commission report for stimulating demand in the economy.

Recovery of the Indian Economy:

Indian Economy recovered from the slowdown caused by global financial crisis in the second half of the year 2009-10. This was a result of government's fiscal stimulus measures and accommodative expansionary monetary policy of RBI. During the financial crisis, our nation was less affected than others solely on the back of the rural sector and also due to the domestic demands, strict banking rules and the mindset of the people. The Indian banking system is so regulated and it didn't blindly follow the USA, so we didn't face similar problems with mortgage issues as USA. Thanks to the IT as well as other sectors that have been began exploring the European countries and less dependent to USA. It gives credit to the Indian government's aim to achieve twice digit development. On the other negative side, an appreciating exchange rate as well as rising real interest rates weighs on the recovery. The Indian economy recovered from the crisis first due to increase in governments expenditure under fiscal stimulus and later due to pick up in private consumption and investment demand as a result of multiplier effect of increase in government expenditure especially

incurred on infrastructure projects. India's economic performance in 2009-10 shows that the recovery from the slowdown during the global financial crisis is well underway. India's GDP growth in the year 2009-10 has downtrodden expectations by reaching 8.0 percent compared with 6.8 percent in the previous year. (Ref. Table 1) in 2010-11, GDP growth rate is 8.6 percent with Rs.4879232 crores on the basis of a resurgent industrial sector. In the year 2009-10 as per the index of industrial production (IIP) data the industrial growth became 10.5 % which was only 3.2 % in 2008-09. (Ref. Chart 4). The manufacturing as well as mining sectors were the main mechanism of growth, while services sector growth was lower i.e. 9.6 % in the year 2009-10 than in the year 2008-09, when due to fiscal stimulus package it was 10.1 %.

Table 2 shows that in 2009-10, the foreign exchange reserves increased to $279.1 billion and as on 31st December, 2010, INDIA'S foreign exchange reserves was $297.3 billion and according to the Reserve Bank of India's (RBI) Weekly Statistical Supplement it is $303.51 billion on March 18, 2011. The BSE Sensex revived and reached to 17527.8 in last trading day of 2009-2-10 from 9708.5 on the similar day in the year 2008-09. On 30th April, 2010, the Sensex was 17558.7. So, we can say that the trade and external sector of our country also observed heightened momentum because of the growth in exports, increase in capital inflows and addition in the foreign exchange reserves. International investors are also getting better returns from our nation. The UNCTAD World Investment Report (WIR) 2010, in its analysis of the global trends and sustained growth of Foreign Direct Investment (FDI) inflows, has also reported that India was rated as one of the most attractive destinations across the globe and preferred to be the second most attractive location for FDI for 2010-2012.

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