Thus, the fallout of the global financial crisis on the Indian economy has been palpable in the industry and trade sectors and has also permeated the services sector. While some segments, especially the export-oriented industries, suffered during the second half of the year, the Indian economy has withstood the adverse global economic situation and posted a growth rate of 6.7 per cent in 2008-09 and is expected to record a higher growth in the year 2010. However, the economy continues to face wide-ranging challenges-from improving its social and physical infrastructure to enhancing the productivity in environmental concerns. Meeting these challenges will be critical for improving India's social and human development indicators and the quality of life.

A two-day National Seminar is scheduled to be organized at the Department of Economics, S.V. University, Tirupati during 8-9 March 2010, *inter alia, to* deliberate on:

- **i Nature of Global Financial Crisis and its Direct and Indirect Impact on the Indian Economy;**
- **ii Impact of the Global Financial/Economic Crisis on Specific Sectors of Indian Economy – Imports, Exports, Foreign Exchange, Industry, Service Sector, Infrastructure, Tourism *etc*;**
- **iii Indian Economic Policy Response to Alleviate the Impact of Global Financial Crisis on the Indian Economy – Monetary Policy, Foreign Exchange Policy, Fiscal Policy, Trade Policy, Price Controls *etc*; and**
- **iv Adjustment of the Indian Economy to the Global Financial Crisis – Overall economy and Individual Sectors.**

Papers are invited on the above themes from the University Faculty and Researchers, Administrators, Politicians, Bankers, Policy Analysts and other serious researchers on Indian Economy. While there is no limit on the size of the papers, we would appreciate if the papers do not exceed 15 pages each (A4, Single Space). We would also appreciate if a small Abstract of the paper in about 300 words is submitted. The papers may kindly be sent by e-mail or by CD to the Seminar Director at the earliest, but preferably before **25th February 2010**. While we are trying to mobilize funds to meet local hospitality and travel cost (economy) of the prospective paper presenters, we would appreciate if the paper writers could get their travel funded by their home institutions.

Prof. P. DEVASENA NAIDU
Head & Seminar Director
Department of Economics
S.V. University College of Arts
TIRUPATI – 517 502, INDIA

Ph: 0877-2248547 & 9440755923
Email: profpemmasani@yahoo.com

UGC SPONSORED NATIONAL SEMINAR
ON

ECONOMIC MELTDOWN AND ITS IMPACT ON INDIAN ECONOMY

08-09 March 2010

Seminar Director

Prof. P. DEVASENA NAIDU

DEPARTMENT OF ECONOMICS
S.V. University, Tirupati – 517 502

ECONOMIC MELTDOWN AND ITS IMPACT ON INDIAN ECONOMY

The Central Theme

The sub-prime crisis that surfaced around August 2007 had affected financial institutions in the United States and Europe, including the shadow banking system comprising, *inter alia,* investment banks, hedge funds, private equity and structured investment vehicles. The collapse of the Lehman Brothers in mid-Sept.'08 further aggravated the situation leading to a crisis of confidence in the financial markets. The resulting heightened, uncertainty cascaded into a full blown financial crisis of global dimensions that stymied prospects of an early recovery.

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 (such as CDOs), whose failure had set off the chain of events culminating in global crisis.

The effect on the Indian economy was not significant in the beginning. The initial effect of the subprime 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", where it was believed that the emerging economies could remain largely insulated from the crisis and provide an alternative engine of growth to the world economy. The argument soon proved unfounded as the global crisis intensified and spread to the emerging economies through capital and current account of the balance of payments (BoP). The net portfolio flows to India soon turned negative as FIIs rushed to sell equity stakes in a bid to replenish overseas cash balances. This had a knock-on effect on the stock market and the exchange rates through creating the supply-demand imbalance in the foreign exchange market. The current account was affected mainly after September 2008 through slowdown in exports. Despite setbacks, however, the BoP situation of the country continues to remain resilient.

The global crisis also meant that the economy experienced extreme volatility in terms of fluctuations in stock market prices, exchange rates and inflation levels during a short duration necessitating reversal of policy to deal with emergent situations. Before the onset of financial crisis the main concern of the economy was excessive capital inflows, resulting in enlargement of foreign exchange reserves (US$ 309.7 billion at end Mar.'08). This had contributed to monetary expansion which fueled liquidity growth and WPA inflation. Therefore, since first half of 2008, the policy had focused on controlling monetary expansion (altering repo and reverse repo rates and CRR) and fiscal and administrative measures. The surge in the supply of foreign currency in domestic market led inevitably to rupee appreciation in terms of dollar (fall in the rupee-dollar exchange rate from Rs.46.54 per dollar in Aug.'06 to Rs.39.37 in Jan.'08).

A related major factor that affected the Indian economy was the unwinding of stock positions by the FIIs to replenish cash balances abroad. The outflow foreign exchange, as fall out of crisis, also meant tightening of liquidity situation in the economy. The RBI responded to changing situation by facilitating monetary expansion through CRR, repo and reverse repo rates and the SLR. In addition, sector specific credit measures for promoting exports, housing and infrastructure were also taken. The monetary measures had a positive effect on the liquidity situation.

On the fiscal front, the extraordinary situation that emerged due to crisis had led to a sharp shrinkage in the demand for exports, leading to a down turn in the industry and service sector. Domestic demand also moderated considerably affecting the industry. A series of fiscal response measures were taken to revive the demand (such as payment of VI Pay Commission Arrears, Farm Loan Waiver, Increasing fiscal deficit by amending FRBM Act, Reduction in indirect taxes *etc.*,). There were concomitant changes in the credit flows. The growth in bank credit recorded a significant decline during 2008-09.

The overall balance of payments situation remained resilient during 2008-09 despite strains in the current and capital account due to the global crisis. A positive development was higher private transfers and software earnings. Together with the lower crude oil prices and decline in imports, the overall BoP situation was manageable during 2008-09 and the best part of the year 2009. However, the impact of global financial crisis on Indian exports continued to be significant up to during Dec.'09.

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Prof. P. DEVASENA NAIDU
HEAD & SEMINAR DIRECTOR
DEPARTMENT OF ECONOMICS
S.V. UNIVERSITY COLLEGE OF ARTS
TIRUPATI – 517 502, INDIA

PH: 0877-2248547 & 9440755923
E-mail: profpemmasani@yahoo.com