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GLOBAL FINANCIAL CRISIS AND THE STATE OF THE INDIAN ECONOMY

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Abstract: The Global Financial Crisis, which originated from the USA and then ultimately affected almost each and every economy of the World. The financial crisis is an important economic event which engulfed the entire world towards the end of 2016. It resulted in the economic meltdown of USA and Europe It proved the Marxian prediction of the inevitable collapse of capitalism. It also revived the interest in the long forgotten Keynesian solution of government intervention in economic activity to save the western capitalist economies. How is India affected by this global financial crisis? How has the government managed the impact of the global financial crisis on the Indian economy?

The effects of Global Financial Crisis on the Indian Economy and the Indian Financial System will also be discussed and that how the Government of India and the Reserve Bank of India responded towards it through its policy modifications and various other qualitative and quantitative tools and techniques. A brief picture of the current state of the Indian Economy would be presented later in this chapter along with the future prospects of the Economy.

***Index Terms* – Sub Prime Borrowers, Equity Index, Economic Meltdown**

I. GENESIS OF GLOBAL FINANCIAL CRISIS

It is generally believed that the US housing bubble was the main cause for the US financial crisis of 2007. That financial crisis spread to other parts of the world through the interconnected globalized financial markets. How did the US housing bubble emerge? Easy availability of mortgage loans for house buyers in general resulted in profligate lending by mortgage banks to people who were previously refused housing loans on the basis of their low credit rating, ('sub-prime' borrowers, as they were not having regular income). But when there was easy availability of refinance at low rates of interest from commercial banks and investment banks, mortgage banks overstretched their lending to prime borrowers and later to even 'sub-prime' borrowers. In order to replenish their funds, the house mortgage banks started securitizing their house mortgage loans and selling the securitized mortgage loans at a discount to investment banks, hedge funds and insurance firms. These securitized mortgage loans were rated for their credit quality by US credit rating companies like Standard and Poor, Moody and Fitch. Such credit rating encouraged the commercial and investment banks to take risk mainly guided by sheer greed of making profit. They in turn packaged those securitized house mortgage loans which they had purchased from the mortgage banks and sold them to insurance firms and foreign banks through globalized capital markets. "The total housing mortgage loans so packaged and sold amounted to a woofing $10.5 trillion by mid-2007"[1].

[1] Wikinvest.com – Subprime Lending

II. Sub – Prime Borrowers

Another factor which led to this kind of reckless lending resulting in housing loan and consequently defaults by the 'sub-prime' borrowers. "After the great depression of 1930's several banking regulations were introduced in USA. But those were ignored during and after the Second World War. But after the savings and loans banks failure in the USA in the 1980's, more regulations were imposed on the operation of all types of financial institutions like banks, mutual funds, hedge funds, mortgage banks, insurance firms and stock markets. They stabilized the America financial system and USA experienced one of the longest growth trend during 1990's. However, when there was world wide revival of the ideology of free market capitalism, Reagan administration scrapped most of the regulations of the USA financial system".[2] This encouraged American financial intermediaries like commercial banks, investment banks, mortgage banks, mutual funds, hedge funds, stock markets, broking firms to innovate new instruments of trading in financial assets like shares, debentures, and commodities like oil, food grains, metals and other raw materials. They devised new forms of derivatives, financial futures, credit default swaps and used them in sophisticated futures trading.

Once the commercial banks, investment banks and insurance firms which had purchased securitized repackaged mortgage loans found these as good as useless, they started facing huge losses on their balance sheets. Once this negative financial impact started, many big financial firms like Bear Stearns, investment banks like Lehman Brothers and Insurance companies like AIG and even federally owned refinancing institutions like Fannie Mae and Freddie Mac faced huge losses and started laying off their employees. This led to fall in consumer demand through multiplier effect. All this led to the collapse of both investment and consumer confidence in the American economy by mid-2007. Failure to realize the invested amount from the securitized mortgage loans led to enormous losses to the financial institutions which had invested in securitized loans. In order to minimize their losses, they laid off thousands of workers. This created sudden fall in domestic demand for not only domestic products but also for the products imported from many European, Asian and Middle East countries. "Many Asian countries like Singapore, Malaysia, and Taiwan who were dependent on their exports to USA suddenly faced sharp decline in their export earnings. This is evident from the following Table 2.1

Table 1: Growth Rates of World Exports and Imports During Recession Years

	(Goods and Services) % Change		
	2016	**2017**	**2018 (Projected)**
I. Exports From:			
1. Advanced Economies	1.8	-12.1	5.9
2. Emerging Economies	4.4	-11.7	5.4
II. Imports Into:			
1. Advanced Economies	0.5	-12.2	5.5
2. Emerging Economies	8.9	-13.5	6.5

Source: *Economic Survey, 2017-10, GOI*

Such decline in the demand for exports did not spare even emerging economies like China and India. This resulted in reduction of work force employed in export units. That in turn reduced domestic demand in their economies which resulted in fall in the growth rates of their GDP".[3]

III. Financial Sector

Even the financial sector was not free from such globalised impact. As soon as the stock markets collapsed in USA and Europe, there was panic in the Indian stock markets. The foreign institutional investors who had invested in Mumbai stock market suddenly withdrew their investment. This naturally dipped the BSE sensex. The value of sensex which reached 17,578 on February 2016 declined to 16,371 on March 28th, 2016. It further declined to 14,043 on July 6th, 2017 because of the net selling by the foreign institutional investors (FIIs). Such decline was noticed in many other Asian stock markets also. Table no. 2.2 shows the change in the equity index value of share indices of major Asian countries in major Asian

[2]The Indian Economy Review, IIPM Think Tank, Vol. VII, 31st March, 2010. (Page – 22)

[3] The Indian Economy Review, IIPM Think Tank, Vol. VII, 31st March, 2010. (Page – 22 & 23)

Stock Markets after the US financial crisis. It may be observed that the downward pressure on the share values was severe in 2016. However, in 2017 share values recovered in some Indian and Chinese stock markets because of economic stimulus measures announced by their governments.

Table 2: Cumulative Change of Equity Index Over 2003 Level in Asian Stock Markets (Points)

Equity¡Index	2014	2016	2017
BSE Sensex (India)	248.1	64.9	198.1
Hang Seng Index (Hong Kong)	120.1	1.0	75.2
Nikkei 225 (Japan)	42.8	-22.8	-5.1
TSEC Weighted Index (Taiwan)	45.6	-25.0	31.9
SSE Composite Index (China)	252.6	44.6	117.0

Source: *Economic Survey, 2017-10, GOI*

Table 3: FII Investment in Equity and Debt Instruments of Indian Companies (Rs. In Crores)

FII Investment	2014	2016	2017
Net Buying (B)	846294	769624	736011
Net Selling (S)	765381	810843	648024
Net Investment (B-S)	80916	-41217	87988

Source: *Economic Survey, 2017-10, GOI*

It may be observed from Table no. 2.3 that the Foreign Institutional Investors sold more than they purchased in their portfolio investment in India in 2016 resulting in net disinvestment in Indian equity and debt in 2016 when the financial crisis was deep. This obviously resulted in loss of share value for the Indian companies whose shares were purchased by the FIIs. This was the only impact of the US financial crisis on the Indian financial system. There were no bank failures in India as it happened in USA and Europe. It has been estimated that the value of shares of international companies melted down by $14.5 trillion in 2016 which was more than the GDP of USA, which was $13.8 trillion.

The financial crisis created by US house mortgage banks was transmitted to the real economy through the mechanism of financial losses forcing large scale lay off of their workers which in turn reduced consumer demand both for domestic and foreign products. This ultimately shrank the GDP of the countries which were connected through financial globalization as well as international trade. The real economy of USA started melting down which was in turn transmitted to European and Asian economies in the form of falling exports, falling domestic and foreign demand and ultimately fall in the growth rates of their GDP. The globalized interdependent economies started facing fall in their growth rates of GDP. This was the economic meltdown which originated from the US housing financial crisis. It was estimated that the world output would grow by three percent in 2016 but likely to decline to a mere 0.8 growth rate in 2017. It was also estimated the advanced economies will grow only by 0.5 per cent as compared to negative growth in 2007 and their growth may improve only in 2017.

IV. IMPACT OF GLOBAL FINANCIAL CRISIS ON INDIAN ECONOMY

Though the financial crisis started in USA in August 2007, its impact on the real economy started manifesting only by September 2016 all over the world. When the process of financial crisis was evolving in USA and Europe, Indian policy makers argued that since Indian financial system was well regulated and not closely integrated with the global financial system,(in the absence of full capital account convertibility of Indian rupee), its impact would be very minimal. However, Indian financial system could not escape completely from the impact of the US financial crisis. Some Indian banks were exposed to the toxic assets of the mortgage banks of USA. One big private bank namely, ICICI bank, was exposed to the American toxic assets substantially. It is true that the Reserve Bank of India had supervised the Indian banking system effectively and ensured adequate capital base for the banks. Their loan policies were also carefully watched which prevented any substantive impact on the Indian financial system. As a result, Indian financial system did not adversely impact the real economy of India. The macroeconomic fundamentals were reasonably in balance and hence the real economy was saved from any possible adverse impact from the well insulated financial system.

Table 4: Sectoral Growth Rates of GDP in India in Pre – Meltdown and Meltdown Years (At 2004-05 Prices) Percent

Sector	Pre Meltdown Years		Meltdown Years	
	2013-14	2014-15	2016-17	2017-18
1. Agriculture, Forestry & Fishing	3.7	4.7	1.6	-0.2
2. Mining & Quarrying	8.7	3.9	1.6	8.7
3. Manufacturing	14.9	10.3	3.2	8.9
4. Electricity, Gas & Water Supply	8.5	10.0	3.9	8.2
5. Trade, Hotels & Restaurants	11.2	9.5	5.3	8.3
6. Construction	10.6	10.0	5.9	6.5
7. Transport, Storage & communication	12.6	13.0	11.6	-
8. Finance, Insurance, Real Estate & Business Services	14.5	13.2	10.1	9.9
9. Community, Personal & Social Services	2.6	6.7	13.9	8.2
Total GDP of India from all sectors	**9.7**	**9.2**	**6.7**	**7.2**

Source: *CSO / Economic Survey, 2017-10, GOI*

It may be observed from the data presented in Table no. 2.4, that of all sectors of the Indian real economy, only mining and manufacturing sectors and to some extent trade were affected from 2007-08 onwards by the economic meltdown of the western economies. This was obvious because of the fall in the demand for India's iron ore and also due to the decline in exports particularly garment exports. Even then the Indian economy sustained an impressive growth rate of 9.2 percent in 2007-08. This was the second highest growth rate next only to China in the whole world. And this is in contrast to the shrinking of the real economies of many western economies.

The efforts of the successive governments after the introduction of economic reforms to reduce poverty by achieving higher growth rates of GDP were made ineffective by the decline in the growth rate of GDP and large scale job losses on account of the meltdown of the real economy of India.

V. Policy Response to Economic Meltdown and Its Impact

The above narrated economic melt down alarmed the UPA government in 2016 itself though the Union Finance Minister asserted that it will not have much impact on Indian economy as it was well insulated from global economic events. However, the country was expected to face Parliamentary elections in middle of 2017 which added political weight to the plight of the unemployed. Alarmed by these ground realities, the policy makers swung into action. So on December 6th, 2016 the Prime Minister Dr. Manmohan Singh, who was temporarily holding the finance portfolio,(after the exit of Shivraj Patil as Home Minister which resulted in shifting of P. Chidambaram as Home Minister), announced a very bold 14-point stimulus package to revive the Indian economy. These 14- points were **fourteen stimulus measures**. They were:

1. Additional plan expenditure was increased by Rs. 20,000 crores for infrastructure development during next four months from December 2016 to March 2017.

2. Authorized Infrastructure Investment Finance corporation to raise an additional amount of Rs.10,000 crores by issuing tax-free bonds for spending on infrastructure development.

3. Excise duty reduced across the board by four percent.

4. Public sector banks were asked to lend housing loans up to Rs.20 lakhs at seven to eight percent interest.

5. Rs.350 crores were allocated for providing export incentives to revive exports.

6. Backup guarantee was announced for ECGC for up to Rs.350 crores.

7. Two percent interest subvention was announced for labour intensive exports.

8. Rs.1,100 crores were announced to ensure full refund of excise duty.

9. Import duty on naptha for use in power sector was eliminated".[4]

[4] The Indian Economy Review, IIPM Think Tank, Vol. VII, 31st March, 2010. (Page – 25)

In addition to these fiscal stimulus measures, the Reserve bank of India also announced monetary measures to increase the liquidity available in the economy particularly for export sector, housing sector, auto sector and construction sector. The RBI reduced the Repo rate from 7.5 to 6.5 and Reverse Repo rate from six to five percent. The RBI also enhanced the refinance capacity of SIDBI to Rs.7,000 crores and of NHB to Rs.4,000 crores. Thus the stimulus measures targeted power sector, exports, housing, automobile, SME and infrastructure sectors to revive the economy from recession. These stimulus measures coupled with anti-cyclical fiscal deficit measure announced in the Union budget for 2016-9 created positive impact on the economy. Growth rate of exports which suffered sharp fall in 2016-09 started recovering from the third quarter of 2017-10 as may be seen in Table no. 2.5.

Table 2.5: Quarterly Growth Rates of Exports and Imports (Percent)

	2016-17				2017-18		
	Q- 1	Q- 2	Q- 3	Q- 4	Q- 1	Q- 2	Q- 3
Exports	58.0	40.0	-4.1	-20.4	-38.7	-21.0	6.0
Imports	37.7	74.0	7.5	-24.0	-35.1	-33.6	1.2

Source: *Economic Survey, 2017-10, GOI*

When the Union Finance Minister Mr. Pranab Mukherji presented only the interim budget for 2017-10 in February, because of the ensuing Parliamentary elections, he did not want to announce major policy decisions on the ground that the government did not have the mandate to do so as the Parliamentary elections were due in the middle of 2017. After the return of the UPA government to power following the Parliamentary elections, Mr. Pranab Mukherji, Finance Minister, presented the full budget in July 2017 in which he increased the plan expenditure by 14.9 percent, non-plan expenditure by as much as 17 percent and overall government expenditure by 13.3 percent.

Thus the stimulus measures targeted power sector, exports, housing, automobile, SME and infrastructure sectors to revive the economy from recession. These stimulus measures coupled with anti-cyclical fiscal deficit measure announced in December, 2016 created positive impact on the economy. Growth rate of exports which suffered sharp fall in 2016-09 started recovering from the third quarter of 2017-10 as may be seen in Table no. 2.5.

It becomes clear from the data presented in Table 2.5, that growth rates of both exports and imports went on declining until the middle of 2017-10. By that time most of the export specific stimulus measures started stimulating the exports and as a result the growth rate of exports turned positive at six percent in the third quarter. It may be mentioned here that the Union Finance Minister Mr. Pranab Mukherji has continued most of the stimulus measures specifically provided to export sector. This continuation will further push up the growth rate of exports in the next quarter and thereafter.

VI. Conduct of Monetary Policy

Since the outbreak of the global financial crisis in September 2016, the RBI has followed an accommodative monetary policy. In the course of 2017-10, this stance was principally geared towards supporting early recovery of the growth momentum, while facilitating the unprecedented borrowing requirement of the Government to fund its fiscal deficit. The fact that the latter was managed well with nearly two-thirds of the borrowing being completed in the first half of the fiscal year not only helped in checking undue pressure on interest rates, but also created the space for the revival of private investment demand in the second half of the year.

The transmission of monetary policy measures continues to be sluggish and differential in its impact across various segments of the financial markets. The downward revisions in policy rates announced by the RBI post-September 2016 got transmitted into the money and G-Sec markets; however, the transmission has been slow and lagged in the case of the credit market. Though lending rates of all categories of banks (public, private and foreign) declined marginally from March 2017 (with benchmark prime lending rates [BPLR] of scheduled commercial banks [SCBs] having declined by 25 to 100 basis points), the decline was not sufficient to accelerate the demand for bank credit. Consequently, while borrowers have turned to alternate sources of possibly cheaper finance to meet their funding needs, banks flush with liquidity parked their surplus funds under the reverse repo window.

VII. Fiscal Policy Developments

The fiscal expansion undertaken by the Central Government as a part of the policy response to counter the impact of the global economic slowdown in 2016-09 was continued in fiscal 2017-10. The expansion took the form of tax relief to boost demand and increased expenditure on public projects to create employment and public assets. "The net result was an increase in fiscal deficit from 2.6 per cent in 2007-08 to 5.9 per cent of the revised GDP (new series) in 2016-09 (provisional) and 6.5 percent in the budget estimates for 2017-10 (as against 6.8 per cent of the GDP on the old series, reported earlier). Thus the fiscal stimulus amounted to 3.3 per cent of the GDP in 2016-09 and 3.9 per cent in 2017-10 from the level of the fiscal deficit in 2007-08".[5]

As part of the fiscal stimulus, the Government also enhanced the borrowing limits of the State Governments by relaxing the targets by 100 basis points. As a result, the gross fiscal deficit of the States combined rose from 1.4 per cent of the GDP in 2007-08 to 2.6 per cent in 2016-09 (revised estimates [RE]) and was estimated at 3.2 per cent of the GDP in 2017-10 (BE).

In implementing the fiscal stimulus, the Central Plan expenditure was frontloaded. This is evident from its growth of 34.3 per cent and 18.0 percent in 2016-09 and 2017-10 (BE), respectively. "As a proportion of the GDP, the Plan expenditure at 5.3 percent of the GDP in 2017-10(BE) was the highest in recent years. Non-Plan expenditure grew by 19.4 per cent and 14.8 per cent respectively in 2016-09 and 2017-10 (BE)".[6]

VIII. CURRENT STATE OF THE INDIAN ECONOMY AND PROSPECTS.

The fiscal year 2017-10 began as a difficult one. There was a significant slowdown in the growth rate in the second half of 2016-09, following the financial crisis that began in the industrialized nations in 2007 and spread to the real economy across the world. The growth rate of the gross domestic product (GDP) in 2016-09 was 6.7 per cent, with growth in the last two quarters hovering around 6 per cent. There was apprehension that this trend would persist for some time, as the full impact of the economic slowdown in the developed world worked through the system. It was also a year of reckoning for the policymakers, who had taken a calculated risk in providing substantial fiscal expansion to counter the negative fallout of the global slowdown. Inevitably, "India's fiscal deficit increased from the end of 2007-08, reaching 6.8 per cent (budget estimate, BE) of GDP in 2017-10. A delayed and severely subnormal monsoon added to the overall uncertainty. The continued recession in the developed world, for the better part of 2017-10, meant a sluggish export recovery and a slowdown in financial flows into the economy. Yet, over the span of the year, the economy posted a remarkable recovery, not only in terms of overall growth figures but, more importantly, in terms of certain fundamentals, which justify optimism for the Indian economy in the medium to long term".[7]

IX. Turnaround

The real turnaround came in the second quarter of 2017-10 when the economy grew by 7.9 per cent. As per the advance estimates of GDP for 2017-10, released by the Central Statistical Organisation (CSO), the economy is expected to grow at 7.2 percent in 2017-10, with the industrial and the service sectors growing at 8.2 and 8.7 per cent respectively. This recovery is impressive for at least three reasons. First, it has come about despite a decline of 0.2 per cent in agricultural output, which was the consequence of sub-normal monsoons. Second, it foreshadows renewed momentum in the manufacturing sector, which had seen continuous decline in the growth rate for almost eight quarters since 2007-08. Indeed, manufacturing growth has more than doubled from 3.2 per cent in 2016-09 to 8.9 per cent in 2017-10. Third, there has been a recovery in the growth rate of gross fixed capital formation, which had declined significantly in 2016-09 as per the revised National Accounts Statistics (NAS). While the growth rates of private and Government final consumption expenditure have dipped in private consumption demand, there has been a pick-up in the growth of private investment demand. There has also been a turnaround in merchandise export growth in November 2017, which has been sustained in December 2017, after a decline nearly twelve continuous months.

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[5] Economic Survey 09-10, Finance Ministry, GOI (Page – 16)
[6] Economic Survey 09-10, Finance Ministry, GOI (Page – 17)
[7] Economic Survey 09-10, Finance Ministry, GOI (Page – 1)

The fast-paced recovery of the economy underscores the effectiveness of the policy response of the Government in the wake of the financial crisis. Moreover, the broad- based nature of the recovery creates scope for a gradual rollback, in due course, of some of the measures undertaken over the last fifteen to eighteen months, as part of the policy response to the global slowdown, so as to put the economy back on to the growth path of 9 per cent per annum.

X. High Food Inflation

"A major concern during the year 2017-10, especially in the second half, was the emergence of high double-digit food inflation. On a year-on-year basis, wholesale price index (WPI) headline inflation in December 2017 was 7.3 per cent but for food items (primary and manufactured) with a combined weight of 25.4 per cent in the WPI basket, it was 19.8 percent. Thus, unlike the first half of 2016-09 when global cost-push factors resulted in WPI inflation touching nearly 13 per cent in August 2016, with inflation in primary and manufactured products just below the overall average and that in the fuel and power group at over 17 per cent, the upsurge in prices in the second half of 2017-10 has been more concentrated and confined to food items only. As of the week ending January 30, 2018 the inflation in primary food articles stood at 17.9 per cent, and that in fuel, power light and lubricants at 10.4 per cent. A significant part of this inflation can be explained by supply-side bottlenecks in some of the essential commodities, precipitated by the delayed and sub-normal southwest monsoons".[8] Since December 2017, there have been signs of these high food prices, together with the gradual hardening of non-administered fuel product prices, getting transmitted to other non-food items, thus creating some concerns about higher than- anticipated generalized inflation over the next few months.

XI. Foreign Exchange Reserves

During fiscal 2017-10, foreign exchange reserves increased by US$ 31.5 billion from US$ 252.0 billion in end March 2017 to US$ 283.5 billion in end December 2017. Out of the total accretion of US$ 31.5 billion, US$ 11.2 billion (35.6 per cent) was on BoP basis (i.e excluding valuation effect), because of higher inflows under FDI and portfolio investments, while accretion of US$ 20.3 billion (64.4 per cent) was on account of valuation gain due to weakness of the US dollar against major currencies. Besides, the Reserve Bank of India (RBI) concluded the purchase of 200 metric tonnes of gold from the IMF, under the IMF's limited gold sales programme at the cost of US$ 6.7 billion in the month of November 2017. Further, a general allocation of SDR 3,082 million (equivalent to US$ 4,821 million) and a special allocation of SDR 214.6 million (equivalent to US$ 340 million) were made to India by the IMF on August 28, 2017 and September 9, 2017 respectively.

Exchange Rate

In fiscal 2017-10, with the signs of recovery and return of FII flows after March 2017, the rupee has been strengthening against the US dollar. The movement of the exchange rate in the year 2017-10 indicated that the average monthly exchange rate of the rupee against the US dollar appreciated by 9.9 per cent from Rs 51.23 per US dollar in March 2017 to Rs 46.63 per US dollar in December 2017, mainly on account of weakening of the US dollar in the international market.

XII. INDIAN ECONOMY – SHORT TERM AND MEDIUM TERM PROSPECTS

There are several factors that have emerged from the performance of the economy in the last 12 months, which, combined with an analysis of performance over the last couple of years, augur well for the Indian economy. There are some deep changes that have taken place in India, which suggest that the economy's fundamentals are strong. First, the rates of savings and investment have reached levels that even ten years ago would have been dismissed as a pipedream for India. On this important dimension, India is now completely a part of the world's fast-growing economies. In 2016-09 gross domestic savings as a percentage of GDP were 32.5 per cent and gross domestic capital formation 34.9 per cent. These figures, which are a little lower than what had been achieved before the fiscal stimulus was put into place, fall comfortably within the range of figures one traditionally associated with the East Asian economies. In 2007 South Korea had a savings rate of 30 per cent, Japan 28 per cent, Malaysia 38 per cent and Thailand 33 per cent. Since these indicators are some of the strongest correlates of growth and do not fluctuate wildly, they speak very well for India's medium-term growth prospects. It also has to be kept in mind that, as the

[8] Economic Survey 09-10, Finance Ministry, GOI (Page – 3)

demographic dividend begins to pay off in India, with the working age-group population rising disproportionately over the next two decades, the savings rate is likely to rise further. Second, the arrival of India's corporations in the global market place and informal indicators of the sophisticated corporate culture that many of these companies exhibit also lend to the optimistic prognosis for the economy in the medium to long run.

In the medium term it is reasonable to expect that the economy will go back to the robust growth path of around 9 per cent that it was on before the global crisis slowed it down in 2016. To begin with, there has been a revival in investment and private consumption demand, though the recovery is yet to attain the pre-2016 momentum. Second, Indian exports have recorded impressive growth in November and December 2017 and early indications of the January 2018 data on exports are also encouraging. Further, infrastructure services, including railway transport, power, telecommunications and, more recently but to a lesser extent, civil aviation, have shown a remarkable turnaround since the second quarter of 2017-10. The favourable capital market conditions with improvement in capital flows and business sentiments, as per the RBI's business expectations survey, are also encouraging. Finally, and even though it is too early to tell if this is a trend, the manufacturing sector has been showing a buoyancy in recent months rarely seen before. The growth rate of the index of industrial production for December 2017—the latest month for which quick estimates are available—was a remarkable 16.8 per cent. There is also a substantial pick-up in corporate earnings and profit margins.

Hence, going by simple calculations based on the above-mentioned variables, coupled with the fact that agriculture did have a set-back this year and is only gradually getting back to the projected path, a reasonable forecast for the year 2018-11 is that the economy will improve its GDP growth by around 1 percentage point from that witnessed in 2017-10. Thus, allowing for factors beyond the reach of domestic policymakers, such as the performance of the monsoon and rate of recovery of the global economy, the Indian GDP can be expected to grow around 8.5 +/- 0.25 per cent, with a full recovery, breaching the 9 per cent mark in 2011-12.

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