

India's response to the crisis

As an emerging economy, India has not been as adversely hit by the global financial crisis as European and North American countries. India registered sustained record GDP growth of over 9 % for 3 consecutive years. This year's growth rate is expected to be smaller but still at a high level of 7.1%.¹

And, unlike some developing countries, the impact of the financial and economic crisis on remittances is not expected to be large either. Some newspapers actually predict a positive impact; although jobs abroad are assumed to decline, this might mean that non-resident Indians will bring in foreign inflow since they will bring back their accumulated savings upon their return.² Other sources are saying that remittances will only be marginally affected by the current financial crisis.³

Yet, due to its integration in the global markets, India is certainly starting to feel the impacts of the crisis. There are reports about private sector companies who have stopped hiring people and first hints about unpaid leave in some major companies, such as Air India.

¹ all figures from: http://www.indiaonestop.com/Federal%20Budget/Interim_india_budget-2009-10_more.htm

² <http://news.in.msn.com/international/article.aspx?cp-documentid=2613863>

³ A prominent Indian daily, *The Hindu* reported that it was likely that only a 5-10% decline should be expected in remittances. <http://www.thehindubusinessline.com/2009/04/04/stories/2009040450840800.htm>

Impact of and responses to the crisis in India

At the same time, India has been held up as an example of a country that has managed to weather the financial crisis adequately because of its strict fiscal and monetary policy as well as its timely reaction to the financial crisis.

As a response to the financial and economic crisis, India has come out with several fiscal stimulus packages. The most recent one was unveiled in late February and is worth Rs. 29,100 crore.⁴

Whether India's reaction in the field of social security has been as quick is debatable, though. Indeed, India is suggesting in its 2008-2009 interim budget report that as part of its response to the financial crisis it is expanding its existing social security programs. However, it is unclear whether these actually are responses to the financial crisis or if this was already planned as part of general activities.

Social security and the crisis in India

Although India has a fairly developed social insurance system it is only available to small part of the population (about 10%). So far, it appears as though these existing schemes have not been unduly affected by the financial crisis. However, as a reaction to the crisis, the government decided to extend health insurance benefits to workers receiving either rehabilitation, vocational rehabilitation or unemployment allowances of below Rp. 100,000 per months.

But, the brunt of the Indian workforce works either in (subsistence) agriculture, or the informal economy – dubbed the unorganized sector in India – and is not insured in the organized sector social security system. Over the past years, for this part of the workforce several programmes have been implemented. These include the National Rural Employment Guarantee Scheme and a new health insurance scheme called Rashtriya Swasth Bhima Yojana for below poverty line (BPL) families.

Therefore, India is largely viewed as a country that is able to protect itself from the social fallouts of the financial crisis and retains one of the more positive forecasts as far as vulnerability to the financial crisis is concerned. It is, however, looking at extending and intensifying its social security efforts in the face of the financial crisis.

Social security measures of the past and this year include the following:⁵

- The Aam Aadmi Bima Yojana has provided death and disability cover to over 60 lakh (100.00) rural landless. The Rashtriya Swasthya Bima Yojana health insurance scheme for BPL families was launched in 2007. Up to January 15 2009, 22 States had initiated the implementation process of the scheme.
- Furthermore, two new schemes were announced, the Indira Gandhi National Widow Pension Scheme and the Indira Gandhi National Disability Pension Scheme. Both are launched in 2009 to provide pensions to widows and severely disabled persons.

⁴ source: <http://www.rediff.com/money/2009/feb/25pranab-unveils-third-fiscal-stimulus-package.htm>

⁵ All information in this section from:

http://www.indiaonestop.com/Federal%20Budget/Interim_india_budget-2009-10_more.htm

- The National Rural Employment Guarantee Scheme (NREGS) gets Rs. 30,100 crore (10 million) for the year 2009-10. This Scheme generated 138.76 crore person days of employment covering 3.51 crore households in 2008-09.
- After the general elections of May 2009, a possible extension of NREGS to urban areas has been announced. The extension is currently in the planning process.
- Credit disbursement to the farm sector has gone up from Rs. 87 thousand crore in 2003-04 to about Rs. 2.5 lakh crore in 2007-08 marking a three fold increase. Furthermore, the finance minister announced, “that the Government will continue to provide interest subvention in 2009-10 to ensure that farmers get short term crop loans up to Rs. 3 lakh at 7 per cent per annum.”
- Also, the government announced that the Agricultural Debt Waiver and Debt Relief Scheme for farmers, which was implemented by June 30, 2008 as scheduled, has been able to restore institutional credit to indebted farmers. Early reports indicate that the total debt waiver and debt relief so far amounts to Rs. 65 thousand three hundred crore covering 3.6 crore farmers.
- Also, a number of programs have been designed to help improve the living conditions of the rural population. The budget of the Rural Infrastructure Development Fund has increased from Rs. 5,500 crore in 2003-04 to Rs. 14 thousand crore for the year 2008-09 ensuring greater availability of funds for developing rural infrastructure.

Conclusions

Right now, India is not exactly reeling from the financial crisis as many European and North American countries are. Its social security and fiscal responses are thus moderate, and more insulated. Although it is difficult to separate already planned expansions from crisis induced discretionary measures, the Indian case shows once again, that where social security structures are in place, these can be scaled up under crisis conditions and thereby effectively shield vulnerable parts of the population from the worst effects of the crisis.