The by the dramatic growth in direct

The start of 2008 has seen the U. S.

go into recession. Globalisation has meant that the affects of U. S.

recession will most definitely be felt by other parts of the world as well. The Indian stock market did a classic knee jerk reaction, with the SENSEX index recording a drop of2000 points in one day itself. Despite the reaction of the investors, the Indian prime minister reassured the people that India's fortunes are not hitched to the US economy. The rapid growth that industry has seen, the record profits booked by the corporate sector are reasons enough to believe that the Indian economy can now stand on its own. However, even as the GDP is a record 9% the escalating pressures of inflation loom high over the horizon and one is inclined to believe that the interest rates are going to rise. The escalating cost price of capital is already beginning to deplete retail and corporate borrowing appetites around the country. The Indian economy will definitely feel the pressure of the U. S.

slowdown. It could mean that the 9% growth rate might drop to maybe 7% this year. This could lead to the arrest of industrial growth. It's happened before- a two percentage drop in growth rate.

In the years following the 1994-1997, Asian financial crisis led to exports crashing, new plants set up in anticipation of exporting went bust, and the banks that had lent them the money went bust as well. However, with lower borrowing costs and healthier debt-equity ratios the Indian companies seem much better equipped to handle a slump this time around. Despite the rising costs of inflation there are several who continue to be " bullish on India.

” India’s open door policy has meant that there is a large opportunity for foreign investors to invest in India. The Indian finance minister P. Chidambaram remains optimistic about India’s dream run. He has hinted at income tax cuts in the budget for the year 2008-2009 fuelled by the dramatic growth in direct tax collections in the year 2006. Tax collections jumped 40% in 2006 and are expected to be 42% higher in the year 2007 translating into a rise of Rs. 90, 000 crores just in taxes. To maintain the current 9% growth rate India needs an investment of close to 475 billion dollars in infrastructure in the next five years of which 120-130 billion dollars are expected to come from foreign investment. India has exceeded the goal of 10 billion dollars of foreign direct investment last year and seems poised to maintain the same growth rate.

However, there is much concern over the inflation driven by high oil, commodity and food prices which the government seems to be having tough time keeping a check on. Tlie world’s eyes are focused on India now. The role of the Indian economy in the year 2008 will be important in charting the further course of development of the world’s largest democracy.