
**RECESSION AND INDIAN ECONOMY: IMPACT ON PLACEMENTS,
JOB OPPORTUNITIES AND IT INDUSTRY**

Aastha Gupta*

Vivek Gupta**

Vinny Mittal***

ABSTRACT

A recession is a decline in a country's gross domestic product (GDP) growth for two or more consecutive quarters of a year. This two-quarter metric is now a commonly held definition of a recession. A recession is also preceded by several quarters of slowing down. Recession is a phase in which currency depreciates, cash crunches, money market slows down, inflation comes. All in all it becomes difficult to take out money from the pocket of an individual. The present paper speaks about various reasons behind recession and its impact on placements, job opportunities and IT sector in particular. Some suggestions have also been provided in this regard.

*Asstt. Professor, Deptt. of Commerce, Arya Kanya Mahavidyalya, Shahabad

**Asstt. Professor, Deptt. of Commerce, Arya P.G. College, Panipat,

***Asstt. Professor, Deptt. of Commerce, D.A.V. (P.G.) College, Karnal

INTRODUCTION

A Recession is a general slowdown in economic activity in a country over a sustained period of time or a business cycle contraction. During recessions, many macroeconomic indicators vary in a similar way. Production as measured by Gross Domestic Product (GDP), employment, investment spending, capacity utilization, household incomes and business profits all fall during recessions.

While the recession has intensified in the advanced economies, emerging economies have been dented by the collapse in external demand and commodity prices, the tightening constraints on access to external financing and the retrenchment of capital flows.

The United States accounts for one-fourth of the world GDP and any significant slowdown in it is bound to have reverberations everywhere. On the other hand, interdependencies between the US economy and emerging economies like India and China has reduced considerably over the last two decades. Thus, the effect may not be as drastic as it would have been in 1980s.

Reasons of Recession

Recession may arise on account of the following reasons.

- Less spending by consumers due to lack of faith in the economy.
- Decreased demand for goods and services leading to decrease in production and a sharp increase in unemployment.
- Low level of Investments due to fear of fall in the stocks values and thus stock markets fall on negative sentiment.
- The defaults on Sub-Prime Mortgages (Home loan defaults) have led to a major crisis in the US. Sub-prime is a high risk debt offered to people with poor credit worthiness or unstable incomes. Major Banks have landed in trouble after people could not pay back loans.
- Rising oil prices at 100\$ a barrel also slowed down the growth of the US economy.

In a research paper, Barclays Capital expected the recovery in Asia to arrive slightly earlier than the rest of the world reflecting relatively stronger balance sheets and the significant fiscal and monetary stimulus. Also according to a report brought out by British Financial Services Major

Barclays Bank, India and China are no longer witnessing slump and this will lead the global recovery.

Indian Economy and ITES (IT Enabled Services)

In Indian economy, a large part of economic growth depends on outsourcing or off shoring of key business processes and software development activities. Software development is a process in which software developers develop software by some computer programming which fulfill the requirement of clients. Computer software or just software is a collection of computer programs and related data that provide the instructions telling a computer what to do and how to do it. We can also say software refers to one or more computer programs and data held in the storage of the computer for some purpose. In other words software is a set of programs, procedures, algorithms and its documentation.

Software development field is known to be most profitable field. Software professionals build their careers at a very fast pace as compared to other fields. The demand for new softwares and techniques will never decline. So they have bright future in this field.

Reasons of Establishment of Software Companies in India

The main reasons for the successful establishment of software companies in India and its strong performance can be attributed to the following:

Cost Advantage: In India, educated and trained engineers are available comparatively at a low salary. So Software development in India is cost effective.

Ease of Scalability: The vast and trained labour pool of technically competent, English speaking people has made it easy for the Indian companies to enter and exit this industry. So a company can increase the scale of its operations according to its desire.

Quality of Process: Indian software developers provide good quality softwares. India has highest number of ISO certified companies.

In recent years, all of us have seen the adverse effects of recession on every Software Development Company and its aftermaths can easily be seen by loss in the jobs of all the software professionals. Every Software Development Company in the present years has been affected by recession in one or the other way.

The field of software development has undergone many changes due to recession. Since every Software Development Company requires projects on a regular basis for its smooth functioning, in this state of the world where the economies are lacking profits, thinking of undertaking new projects is absolutely meaningless. Different software firms have seen an extreme down-fall in their project undertaking. These firms are unable to receive projects from the different IT-oriented countries which have already been hit by recession. The IT Enabled Services sector has been hit the most since a majority of Indian IT firms derive maximum of their revenues from the United States. It is quite similar to the famous saying of having put all eggs in one basket. If Fortune 500 companies slash their IT budgets, Indian firms could be adversely affected.

The Indian IT software and services industry which has seen a Compounded Annual Growth Rate (CAGR) of around 30% over the last three or four years is now showing a growth of 20%. Indian IT sector derives approximately 61% revenues from the US based BFSI (Banking, Financial Services and Insurance) clients. The revenue contribution from US clients to the top five Indian IT companies is approximately 58%. Hence, the impact of the slowdown in the US is likely to have a deep impact on the prospects of the Indian IT sector.

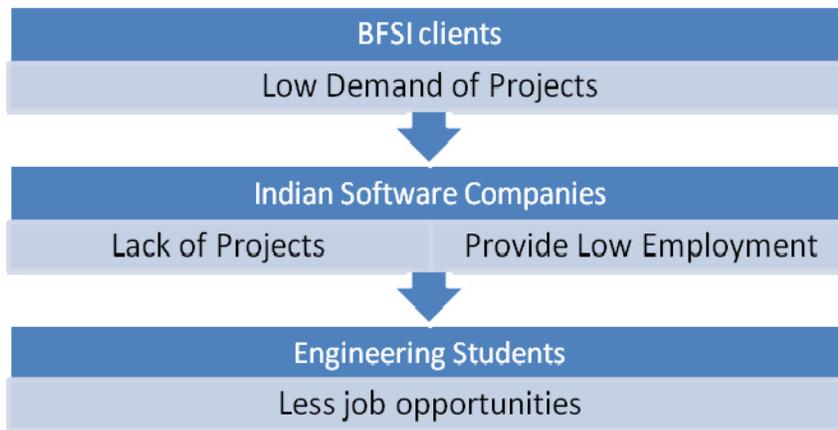
Table: 1

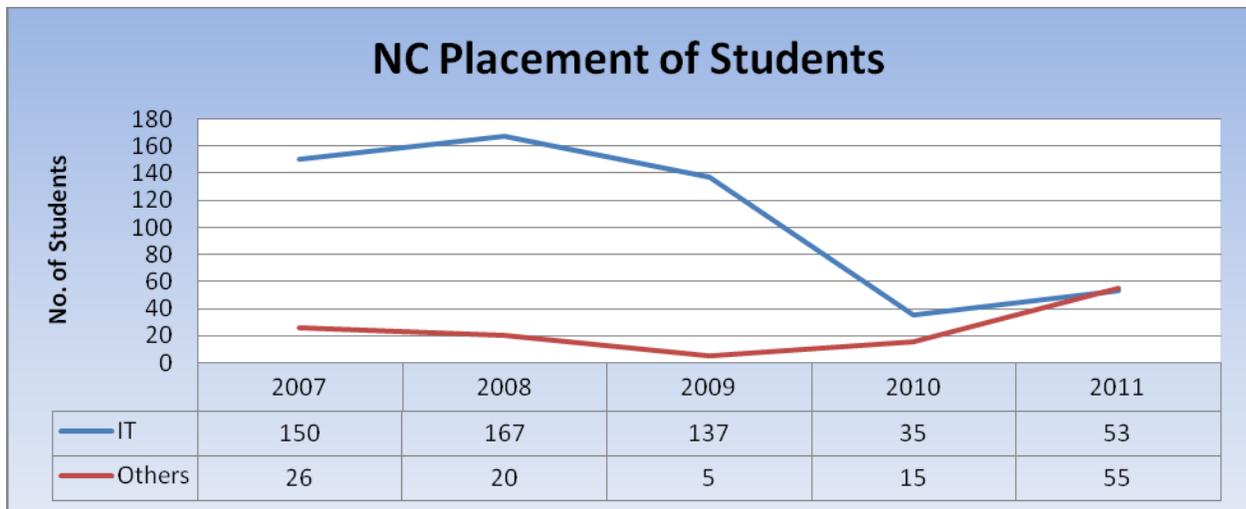
Companies	BFSI share	Exposure of BFSI* (in USD million)			Key BFSI client
		Jan-Mar 2008	Apr-Jun 2008	Change(%)	
Cognizant	46	292.4	314.2	7.46	American Express, Citigroup, Credit Suisse, JP Morgan, Metlife
Infosys	34	387.1	398.5	2.94	ABN Amro, Bank of America, JP Morgan, Washington Mutuals, UBS
TCS	42	664.4	648.2	-2.44	AIG, American Express, Bank of America, Citigroup, Deutsch Bank, Fortis, JP Morgan, Merrill Lynch
Wipro	25	256.8	271.1	5.57	Credit Suisse, Lehman Brothers, UBS

*BFSI (Banking, Financial Services and Insurance)

From table 1, it can be seen that most of the clients of Cognizant, Infosys, TCS and Wipro are from American BFSI. As a result, Indian IT companies faced problems due to the recession in America.

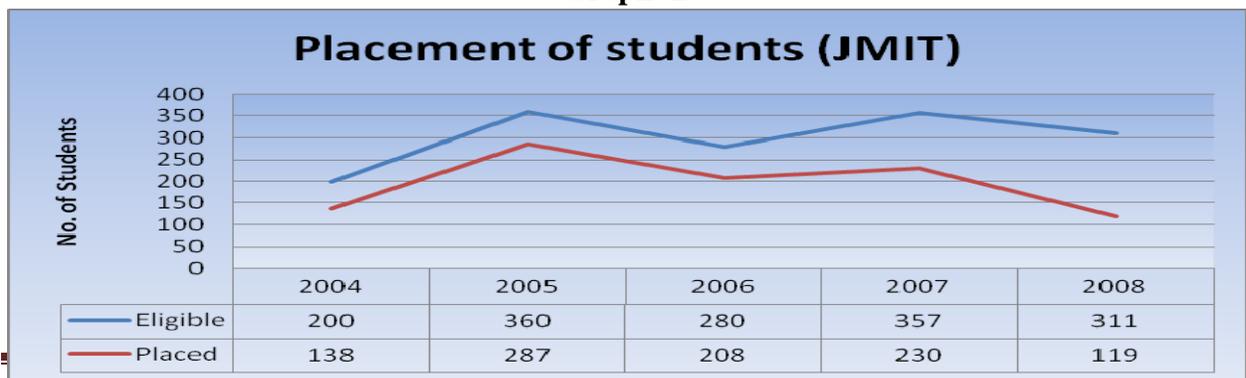
Also the impact of recession on new employment opportunities can be seen. Due to recession, BFSI have lowered the demand for new projects. As a result, ITES (Information Technology Enabled Services) provide low employment opportunities because even existing employees have become surplus then what to talk of providing new employment. Continuing the chain, new engineering students face problems of unemployment. To support this fact, placement data of past few years of two Engineering colleges i.e. JMIT (Seth Jai Parkash Mukand Lal Institute of Engineering and Technology), Radaur (Haryana) and N. C. College of Engineering, Panipat (Haryana) have been shown.





Graph 1 clearly indicates the downfall in placements after the year 2008. Recession hit the economy after the first half of the year 2008. In IT sector, Year 2008 depicts highest number of placements which may be due to the fact that a normal tendency among the companies is to go for a campus selection which for the year 2008 could have been done even before the recession. But after the year 2008, there is a trend of downfall in the number of placements particularly in the IT sector. Year 2010 onwards, placement graphs of IT sector and others have started rising upward depicting that the effect of Recession has started fading away. Among others' category, the significant contribution is from the banking sector. Actually, the banking sector had a two way impact on the placements. Firstly, number of placements in the banks themselves went down on account of recession. Secondly, due to the failure of major BFSI clients like Merrill Lynch, Lehman Brothers etc., the demand for softwares in abroad went down. As a result, Indian IT companies had to loose a significant chunk of their market share and thus left with no alternative but to go for downsizing in the service sector.

Graph: 2



From the placement graph of JMIT, it can be observed that for years 2004 to 2007, the gap between the eligible and placed candidates is nominal but the same has increased drastically in the year 2008 owing to recession. This is attributed to less job opportunities because of the US recession.

Table: 2

	JMIT (Selection by different major companies)				
	TCS	Wipro	Infosys	Satyam	Tech Mahindra
2004	12				
2005	35				
2006	71		27	12	18
2007	20	20	29	13	13
2008	68	28			
2009	0		1		

Table 2 shows the selections made by different companies in JMIT, Radaur. TCS showed a major contribution during 2004 to 2008 but in 2009 this company could not provide even a single job. Year 2009 clearly witnessed the ill effects of recession on the campus selections. Many big companies did not even emerge for the campus placements.

SUGGESTIONS:

The manufacturing sector can face the recession by concentrating on improving its scale, productivity and operational efficiency. To offset the loss of revenue from US recession appropriate pricing strategies should be adopted as the demand for apparels, consumer electronics and appliances is huge.

A stronger Rupee would reduce the import bill and narrow the overall trade deficit. The Indian central bank can intervene anytime and cut interest rates, increasing liquidity in the economy, and catalyzing domestic demand. A strong domestic demand would also help in competing globally when the recession is over.

Governments usually respond to recessions by adopting expansionary macroeconomic policies, such as increasing money supply, increasing government spending and decreasing taxation. Most mainstream economists believe that recessions are caused by inadequate aggregate demand in the economy, and favour the use of expansionary macroeconomic policy during recessions.

Apart from the Government measure, the onus lies on the companies also to focus on full capacity utilization to reap the benefits of economies of production. Improvement in processes, reduction of wastes, recycling of materials and quality monitoring are the better options for cost cutting than the employee retrenchment.

Some concrete suggestions particularly for IT industry.

1. Nowadays due to easiness, students prefer to learn .Net for software development. But this language is not platform independent. Hence most of the BFSI (Banking, Financial Services and Insurance) clients do not prefer it. As a result, all major projects are developed in Java language which is now a part of Oracle. Java is a little bit tough to learn but it is completely platform independent.
2. Indian IT professionals are mainly concentrating on the maintenance of the software. But if they enhance their software development skills too, then the ill effects of Recession can be minimized.
3. ITES of India should improve its quality in software development. So that we can explore new markets in the form of other developed nations.
4. During boom period, maximum number of companies made selection on the basis of Aptitude tests and Group Discussions for fresh candidates. But these days, companies have become more peculiar regarding technical knowledge during interviews so students are suggested to improve on this ground so that the quality of HR improves.
5. Instead of looking at the scenario as a threat, the sector should do well to focus on product innovation (as opposed to merely providing services). If this is done, India can emerge as a major player in the IT products category as well.

CONCLUSION:

IT industry plays an important role in the Indian economy. In recent years, all of us have seen the adverse effects of recession on every Software Development Company. But by improving our

skills in latest technology we can improve ITES. Increased expenditure with more focus on improved outcomes in physical and social infrastructure and safety nets will speed up the recovery consistent with the long-term growth. There is a popular saying that ‘Crisis’ represents two symbols i.e. ‘Danger’ and ‘Opportunity’, Choice is yours.

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