GLOBAL RECESSION & INDIAN ECONOMY

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Abstract :- Global recession occurred in 2008 started in US, with the collapse of Lehman Brothers and other Wall Street icons. The principal source of transmission of the crisis has been the real sector, generally referred to as the 'Main Street'. This crisis engulfed the United States in the form of creeping recession and this worsened the situation. As a consequence, US demand for imports from other countries indicated a decline. The whole world is in the fear of recession. It is rightly said that whenever US sneezes, the world catches a cold. The same thing has happened with relevance to US recession. Almost all the nations have been affected by US recession. The Indian economy is no exception.

Key words :- Recession , GDP, **Economic Crises,** Liquidity.

Introduction :- Recession is a contraction phase of a business cycle. Recession is an economic condition when all macroeconomic variables slowdown. The National Bureau of Economic Research defines recession as, "The time when business activity has reached its peak and starts to fall until the time when business activity bottoms out. Hence recession is the impact of expansion and a part of the business cycle. . The recent recession, which started in the US economy, slowly affected other economies of the world. The economy gets distorted giving way to recession, during which all the macroeconomic variables start declining .The most significant effect of recession is on a country's Gross Domestic Product (GDP). Apart from this, recession affects other macroeconomic variables, such as employment rate, the general price level, stock price, foreign investment etc.

Every stage in the business cycle offers opportunities for business persons. If this is recession time, the entrepreneurs must plan for setting up new business enterprise and for expansion of the existing business enterprises – so that they are ready when recovery begins. They can take advantage of boom only when they are well prepared during the recession time and prepare their business organizations at that time. At the same time, this is the time when corporate have to cut their costs and remain competitive in the industry. They have to analyze their business processes and undertake BPR and restructuring in order to be able to remain in the industry. Recession is the test of fitness of the corporate sector. It is also the test of fitness of the manpower. Competent executives must spare their time now for learning, growth, development and knowledge enhancement.

Some economist believed that negative GDP growth for two consecutive quarters led to recession. However, it is said that recession starts – several quarters of slowing down in relation to positive. Recession in a layman language means "A country (in this case) wherein buyers resist to buy, and where the sellers are keen to sell. "So the whole balanced equation get affected and supply become more than the demand. Economic recession is defined as significant decline in the economic activity across a globe, lasting longer than few months.

LITERATURE REVIEW:-

1. **Randeep Shisodia(2008),** published in the newspaper "THE TIMES OF INDIA" on 5th December 2008 in his article titled "Economic slowdown: An Opportunity". He said that current economic slowdown is bound to pose some major challenges for corporate, but it does provide some interesting opportunities too, especially from an HR perspective. The current meltdown provides an opportunity for organizations to 'review the way they work". In order to improve efficiencies and productivity along with the challenge of managing and retaining productive diversified workforce.

2. **Anand R.Patil (2009),**published in International Economy ICRAI Magazine August 2009, in their paper titled "Gripping the recession" discussed about the causes of recession, the impact of US recession on Indian economy and the strategies adopted to fight against the problem of slowdown.

3. **Kiran Nanda (2009),** published in ICRAI Journal "The Analyst" Jan 2009, in their paper titled "Indian Industry: Managing Slowdown" pointed out that a majority of Indian companies feel that the slowdown in Indian markets is a temporary phenomenon even in the face of severe liquidity crunch worldwide.

Objectives and Methodology :- The study is based on proper methodology, which comprises wide discussion with the selected investors, share brokers, industrialists, economists and academicians.

The main objectives of the research work are:

1. impact of recession on the Indian financial markets.
2. find out ways and means to reduce the impact of recession on the economy.

The main findings of the study are presented herewith.

Impact of Global Economic Crises

Governments around the world are trying to contain the crisis, but many suggest the worst is not yet over. Stock markets are down more than 40% from their recent highs. Investment banks have collapsed, rescue packages are drawn up involving more than a trillion US dollars, and interest rates have been cut around the world in what looks like a coordinated response. Leading indicators of global economic activity, such as shipping rates, are declining at alarming rates.

The adoption of international quality trading and settlement mechanisms and reduction of transactions costs have made the investors, domestic and foreign, more optimistic which in turn evidenced a considerable growth in market volume and liquidity. The market features a developed regulatory framework, a modern market infrastructure, removal of barriers to the international equity investment, better allocation and mobilization of resources and increased transparency. All these infer better efficiency of Indian stock market.

With the volatility in portfolio flows having been large during 2007 and 2008, the impact of global financial turmoil has been felt particularly in the equity market. Indian stock prices have been severely affected by foreign institutional investors' (FIIs') withdrawals. FIIs had invested over Rs 10,00,000 crore between January 2006 and January 2008, driving the Sensex 20,000 over the

period. But from January, 2008 to January, 2009, FLLs pulled out from the equity market partly as a flight to safety and partly to meet their redemption obligations at home. These withdrawals drove the Sensex down from over 20,000 to less than 9,000 in a year. It has seriously crippled the liquidity in the stock market. The stock prices have tanked to more than 70 per cent from their peaks in January 2008 and some have even lost to around 90 per cent of their value. This has left with no safe haven for the investors both retail and institutional.

Nature & Importance of Study:

The study is descriptive and entirely based on secondary data sources. The researcher has conducted this study with the intention to know the causes, effects and major challenges ahead in India due to recent US recession. Researcher also tries to suggest ways to cope up with ill effects of recession. Recession is a global phenomena and India is no more exception in this concern. Hence the present study will definitely gives impetus to boost economy growth.

GLOBAL RECESSION & ITS CAUSES:

It is very important to know the main causes responsible for recession Some of these are given below:

1. An economy which grows over a period of time tends to slow down the growth as a part of the normal economic cycle.
2. An economy typically expands for 6-10 years and tends to go into a recession for about six months to 2 years.
3. A recession normally takes place when consumers lose confidence in the growth of the economy.
4. Decreased demand for goods and services, which in turn leads to a decrease in production, increase lay-offs and a sharp rise in unemployment.
5. Low investment rate due to negative sentiments of Investors towards stock market.
6. Negative economic growth for two consecutive fiscal quarters.

Causes of Slowdown in India:

1. Continuous fall in consumer demand for goods and services.
2. Rising problem of Inflation due to increasing gap between market demand and supply.
3. Declining Industrial production, growth rate and profit margins.
4. High fiscal deficit due to excessive imports and foreign debt.
5. Mounting oil prices and decreasing money value.
6. Lower investment and fall in stock prices.
7. Dependency on other economies of the world for trade and import of capital goods.

IMPACT ON INDIAN ECONOMY:

The industries most affected by weakening demand were airlines, hotels, real estate. Besides this, India exports suffered a setback and there was a setback in the production of export-oriented sectors. Industrial production and manufacturing output declined to five per cent in the last quarter of 2008-09. Consequently, a vicious cycle of weak demand and falling output developed in the Indian economy. A weakening of demand in the US affected our IT and Business Process Outsourcing (BPO) sector and the loss of opportunities for young persons seeking employment at lucrative salaries abroad.

The US recession has impacted Indian economy in the following ways:

- Investors spend less as they fear stock values will fall.
- Small BPOs, which are operating at 7-8% of margin, are finding it difficult to survive.

- Fifty two percent of the GDP, is contributed by service sector, is affected.
- Industrial growth rate has declined tremendously to 1.3% which is the lowest in the last 10 years.
- Demand for real estate has declined and the prices of the same have declined by about 15-20%.
- India has a loan application for $5.2 bn with the World Bank.
- Share prices have dropped more than 20% because of US recession.

The economic condition of India is far better than other economies of the world. Like other countries the situation is not panic and only slowdown effect has actually seen in India. Some of the strength of our economy is given below:

1. Stable banking system
2. Prudent lending norms
3. Services driven economy.
4. Agricultural based economy.

Impact of an American Recession on india

The US entered a recession at the end of 2007, and 2008 saw many other nations follow suit.

Like other countries, Indian companies also exaggerated by the bad affects of recent 2008 U.S recession. Indian companies have major outsourcing deals from the US. India's exports to the US have also grown substantially over the years. The GDP of Indian economy has shown a downfall from 9.4% in 2007-08 to 6.3% in the last fiscal year 2008-09. Many Indian giants and multinationals dealing in US has witnessed a substantial downfall in their profit margins.

	Industrial Sector:	**Impact on IT Industries**	**Impact on Export Industries**
	Indian Industrial Sectors were severely affected because of recession as its decrease demand for Indian goods and services from developed and other developing countries and also from within the country. Federation of Indian Chambers of Commerce and Industry (FICCFI) found that, industries like garment, gems, textile, chemicals and jewellery had cut production by **10% to 50%.**Indian Car Industry has seen only 7-8% growth during the recession period comparatively to 17.2% growth rate before 2006-07. Government and other private companies are reluctant in	IT Sector has been seeing low demand during the period of global recession. It suffered 5% decline in manpower utilization. Employment opportunities have also decreased by 3 to 5% during the April-September 2008 period. As 75% demand for the IT companies of India comes from US, these IT companies suffered during the sluggish period. The worse thing to be mentioned here that nearly 43% of Western companies are cutting back their IT spending and nearly 30% are scrutinizing IT project for	Exports for October 2008 contracted by 15% on this should not surprise as the OECD economies that account for over 40% of India's export market have been slowing for months. With the US and EU already entering a phase of recession, India's export growth had to fall sharply. It must be noted this growth contraction has come after a robust 25%-plus average export growth since 2003. Allow-to-negative growth in exports may continue for sometime until

	starting new ventures and starting new projects because of liquidity crunch and decline in profit margins. a) A sharp fall in the sales of car, truck and automobile. b) Rising cost of production due increase in Input cost like steel, cement etc. c) Small and medium sized enterprises are the main victims of US recession.	better returns. Finally we can say downward pressure from the developed countries putting more pressure on Indian IT Industries. The overall growth rate of Industrial sector was reduced from **7.4% in 2007-08** to **4.2%** in 2008-09. This growth rate was 8.5% in first quarter of 2007-08 which is highly reduced to 0.8% in the third quarter of 2008-09.	consumption revives in the developed economies. A decelerating export growth has implications for India, even though our economy is far more domestically driven than those of the East Asia. Still, the contribution of merchandise exports to GDP has risen steadily over the past six years – from about 10% of GDP in 2002-03, to nearly 17% by 2007-08. If one includes services exports, the ratio goes up further. Therefore, any downturn in the global economy will hurt India A sharp fall in export growth could mean job losses in this sector. This would necessitate government intervention. A silver lining here, however, is the global slowdown will also lower cost of imports significantly, thereby easing pressures on the balance of payment. India's overall export growth decreased from 26.9% to 10% due to global economic recession.

Opportunities & Challenges in India During Recession

Challenges:

1. Liquidity crunch and rising cost of capital.
2. Decrease in the percentage of FDI and FII fluctuations.
3. High Inflation and lowering of consumer demand.
4. Export-challenging global demand scenario.
5. Overvaluation of Indian currency against weak dollar.

6. GDP projections lowered.
7. A Sharp decline in stock market business due to negative sentiments of investors.

Opportunities:

- **Cost Control-** Due to financial crises and slowdown in demand every firm or company is trying to produce goods at lesser cost without sacrificing the core value of product quality.
- **Product Innovation-** The increased market competition would force many Indian companies to find unique ways to launch new products with higher value and innovations.
- **Improved Competence Level-** In economic recession only high performing and competitive companies are able to survive in the long run.
- **Better performance-** The panic of job insecurity motivates employees to perform better in terms of target achievement or excellent results.
- **More production and profit-** Rising population of our country itself creates domestic demand for the consumption of various goods and services. More demand will encourage domestic producers for higher production and this will further helps in securing more profits.
- **Economy growth and Development-** The profits of Industries would be utilized in various infrastructural and development of core sectors of an economy.

FINDINGS:

1. Almost two percent downfall witnessed in India's GDP rate from 9.4% to 6.4 in 2008-09.
2. A sharp decline in volume of exports and companies profits margins.
3. Industrial production come down from 13.4% to 4.5% in 2008-09 which is less than half of IIP growth registered in 2007-08.
4. Loss of employment in terms of lay-offs, retrenchment, pink slips, ban on fresh hiring seen in many IT, automobile, Telecom and Airlines Industries of India.
5. Double digit Inflation rate nearly 12% which is more than two times of previous rate 5.5 in 2008-09.
6. Low FDI and FII which adversely affects India's foreign earnings or capital inflows.
7. Huge fiscal deficit and stock market fall on negative sentiments.

Results and Discussion:

The global financial crisis was rooted in the sub-prime crisis which surfaced over three years ago in the United States of America. During the boom years, mortgage brokers attracted by the big commissions, encouraged buyers with poor credit to accept housing mortgages with little or no down payment and without credit checks. A combination of low interest rates and large inflow of foreign funds during the booming years helped the banks to create easy credit conditions for many years. Banks lent money on the assumption that housing prices would continue to rise. Also the real estate bubble encouraged the demand for houses as financial assets. Banks and financial institutions later repackaged these debts with other high-risk debts and sold them to world-wide investors creating financial instruments called CDOs or collateralized Debt Obligations (Sadhu 2008). In this way risk was passed on multifold through derivatives trade (Prasad and Reddy 2009).

The financial meltdown of September 2008 lead to a freeze of credit market in the us and Europe and transmit the sudden liquidity squeeze through out the financial world. Government of these countries launched massive bail-outs of their banks and increased government spending to reduce the impact on the rest of the economy. Despite trillions of

dollars of bailouts and fiscal stimulus, bank credit continued to be almost frozen, leading to sharp fall in consumer spending, investment, production and foreign trade.

Conclusion :-

India Industries are also affected by the global financial crises like other Asian countries. The investors are losing faith in the financial and economic system, production has declined, unemployment is increasing day by day, and all these are signs of a recession. Recession brings both challenges and opportunities in an economy. The government has to go behind the courses and find a solution for the problems. In short, recession is an unavoidable and only temporary phase of a business cycle.

This is a financial crisis that turned into an economic crisis, which is developing into an employment crisis and could soon turn out to be a social and human crisis unless urgent action is taken.

Along with the coordinated fiscal and monetary policy actions, a comprehensive re-examination of the financial regulatory and supervisory framework is also underway around the world.

There is an imperative need to boost the exports, keeping in view its growth impulses and employment potential.

It has been argued that along with the measures to support the financial system, we must increase public spending.

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