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GLOBAL ECONOMIC RECESSION AND ITS IMPACT ON INDIAN ECONOMY

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Abstract: *With the increasing integration of the Indian economy and its financial markets with rest of the world, there is recognition that the country does face some downside risks from these international developments. The risks arise mainly from the potential reversal of capital flows on a sustained medium term basis from the projected slow down of the global economy, particularly in advanced economies, and from some elements of potential financial contagion. In India, the adverse effects have so far been mainly in the equity markets because of reversal of portfolio equity flows, and the concomitant effects on the domestic forex market and liquidity conditions. The macro effects have so far been muted due to the overall strength of domestic demand, the healthy balance sheets of the Indian corporate sector, and the predominant domestic financing of investment. It has been recognized by the Prime Minister of India that ...it is a time of exceptional difficulty for the world economy. The financial crisis, which a year ago, seemed to be localized in one part of the financial system in the US, has exploded into a systemic crisis, spreading through the highly interconnected financial markets of industrialized countries, and has had its effects on other markets also. It has choked normal credit channels, triggered a worldwide collapse in stock markets around the world. The real economy is clearly affected. ...Many have called it the most serious crisis since the Great Depression.*

Most of the countries all over the world are going through this phase of economic recession. Many old and big companies have already been brought down on their knees to bite the dust. Many companies as well as countries have become bankrupt or are on the verge of it. Millions and millions of people have lost their jobs. Many people have lost millions and billions of dollars. People in general are scared and fearsome. This is not the first time that the global economy is going through recession and this is also not the last time. There is a pattern involved in it. On an average it is happening after every 8-10 years. This article is an attempt to highlight some of the issues involved and some of the possible solutions. This paper deals with the causes of recession, the emerging economic trends due to global recession and to know the impact of global recession on employment and entrepreneurship and on the others.

Keywords: *Global recession, causes, impact, employment, forex market etc.*

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INTRODUCTION

A Recession is a contraction phase of Business cycle, a general slowdown in economic activity over a period of time. A global recession is period of global economic slowdown in prosperity. Recession is the economy shrinking for two consecutive quarters (six months) with a decrease in GDP.

GDP = Value of the all the reported goods & services produced by the people operating in the country.

GDP = Money value of { C+I+G+(X-M)},

C = Consumables, I = Gross Investment, G = govt. Spending, X = Exports, M = Imports

The macroeconomic indicators during the recession are production as measured by GDP, employment, investment spending, capital utilization, household incomes, business profits and inflation all fall during recession, while bankruptcies and the unemployment rise.

According to National Bureau of Economic research **(NBER)** defines a economic recession as

" A significant decline in the economic activity spread across the country, lasting more than a few months normally visible in real GDP, growth real personal income, employment, industrial production on wholesale – retail sales".

"A global recession is a period of global economic slowdown. The IMF takes many factors into account when defining a global recession, but it states that global economic growth of 3% or less is equivalent to a global recession."

OBJECTIVES OF THE STUDY

- To know the causes of recession
- To analyze the emerging economic trends due to global recession
- To understand the recession in the global perspective
- To know the impact of global recession on employment and entrepreneurship and,
- To offer suggestions for major findings.

CAUSES OF GLOBAL RECESSION:

1. Economy typically tends to go into a recession for 6 months to 2 years.
2. Consumers lose confidence in the growth of the economy and spend less
3. Decline in demand for goods and services, in-turn decline in production
4. Lay-offs, downsizing the work force and rise in unemployment

5. Investors spend less as they fear fall in stock values.

America is the most effected country due to global recession, Recession in the West, specially the United States, is a very bad news for our country. Our companies in India have most outsourcing deals from the US. Even our exports to US have increased over the years. Exports for January have declined by 22 per cent. There is a decline in the employment market due to the recession in the West. There has been a significant drop in the new hiring which is a cause of great concern for us. Some companies have laid off their employees and there have been cut in promotions, compensation and perks of the employees. Companies in the private sector and government sector are hesitant to take up new projects. And they are working on existing projects only. Projections indicate that up to one crore persons could lose their jobs in the correct fiscal ending March. The one crore figure has been compiled by Federation of Indian Export Organizations (FIEO), which says that it has carried out an intensive survey. The textile, garment and handicraft industry are worse affected. Together, they lose four million jobs by April 2010, according to the FIEO survey. There has also been a decline in the tourist inflow lately. The real estate has also a problem of tight liquidity situations, where the developers are finding it hard to raise finances.

IT industries, financial sectors, real estate owners, car industry, investment banking and other industries as well are confronting heavy loss due to the fall down of global economy. Federation of Indian chambers of Commerce and Industry (FICCI) found that faced with the global recession, inventories industries like garment, gems, textiles, chemicals and jewellery had cut production by 10 per cent to 50 per cent.

"Our economy is shrinking, unemployment rolls are growing, businesses and families can't get credit and small businesses can't secure the loans they need to create jobs and get their products to market," - Barrack Obama - President –USA

Globalization and market forces are creating these opportunities across countries on a scale never seen before. Unfortunately, there is also a widening skills gap. India is poised to reap the benefits of the 'demographic dividend' but this begets the question, how can a country with a billion people be facing such a severe talent crunch? One of the reasons can be observed easily - only 17 per cent of the relevant age group in India goes on to undertake higher education. Another cause for the skill gap lies in the quality of talent being churned out. Every year, India produces more than 2.5 million university graduates, of which 20%

are engineering majors. NASSCOM estimates that only 25% of these technical graduates and approximately 15% of other graduates are considered employable by the rapidly growing IT and IT enabled companies.

NASSCOM predicts that India's IT sector will face a shortfall of half a million professionals by 2010

IMPACT OF RECESSION ON SEVERAL AREAS:

Unemployment

The full impact of recession on employment may not be felt for several quarters. **Research in Britain shows that** low skilled and low educated workers and the young and most vulnerable to unemployment in a downturn.

The 2008 report of the recession in the **US is perceived to increase the national employment rate from 2.1 to 3.8 percentage points. This is equivalent to an increase from 3.2 million to 5.8 million unemployed Americans.** Calculated risk contained in the report and the history of the US recession which is based on the economic crises measured how high no. of unemployed persons increased.

Based on this the unemployment rate rose in US from 0.5% to 0.6% and this year the US unemployment rate is about 1.15.

Economists have not yet been officially marked a down turn in US as an economic recession. Amid falling home equity, the rising cost of food, health, housing to an alarming number of unemployment that economists still argue that, there is a still a developing economy though small. We saw no need for an official announcement really feel the recession coming in.

According Miamy Herald, the unemployed receive the depression. The number of people out of work for 6 months or more increased by 160000 between July and August . There is a 10.7 % people who want to make a full time job but they are unable to do so due to lack of opportunities.

Depression is something that was very difficult for everyone to digest or absorb. We hope that economic realty should be recognized immediately in order to adequately address and resolve.

IMPACT OF FINANCIAL CRISIS ON INDIAN ECONOMY

There was also an impact on

- **Stock market** (it crashed from high of 20000 to a low of around 8000 points)

- **Forex market** – exchange rate declined from Rs. 45.99 to Rs. 40.26 per USD in 2008, which is the biggest annual loss for the rupee since 1991
- **Money market** – Lehmann Brother's Sub prime lending case.
- **Slowing down in GDP** – (earlier – 8% – 9%, and 6.7% in 208-09)
- **Strain on Balance of payments** (2008-09 – CAD was 36.5 billion US dollars, 2007-08 – it was 15.5 US Billion Dollars)

- **Reduction in import and exports**

2006-07	22. 6 %
2007-08	28.9 %
2008-09	3.6 %

The grave financial crises began in June 2007 when two bear streams hedge funds mishappened. Federal Reserve Bank and European central bank injected $100 million in liquidity in to the system reassured the market down for a short period. Lehmann Brothers slow fall downward began as the mortgaged market crisis outspread during the summer of 2007 on june 9, 2008, Lehmann announced a second quarter loss of $2.8 billion, far higher than analysts had expected. The situation becomes worse after the Govt. on declaration on September 8 a takeover of Fannies Mac. Lehmann stock down ward as the market wondered whether the move to save those mortgage giants made it less likely that lehmann might be bailed out. Merrill Lynch shortly after Lehmann Brothers filed for Bankruptcy, Merrill Lynch complained of suffering from alike decease and before the effects could become destructive. It cut a deal with the bank of America for $ 50 billion far below its value.

The Govt. of India is worried the ongoing crisis would have an adverse impact on Indian banks. PSUs banks like bank of India, bank of Baroda has exposure towards derivatives. ICICI bank is the worst hit as of now. With Lehmann Brothers filling for bankruptcy in the US, the country's largest private bank ICICI bank is expected to lose roughly $80 million (Rs. 375 Cr), invested in Lehmann's bonds through the banks' UK supplementary. The IT big-wigs which had all these investment banks as their clients are TCS, WIPRO, Satyam, and Infosys Technologies, HCL seems to have escaped the loss as neither Lehmann nor ML were their clients.

IMPACT OF AMERICAN RECESSION ON INDIA

Indian companies have major outsourcing deals from the US. India's exports to the US have also grown substantially over the years. The India economy is likely to lose between 1 to 2 percentage points in GDP growth in the next fiscal year. Indian companies with big tickets deals in the US would see their profit margins shrinking. The worries for exporters will grow as rupee strengthens further against the dollar. But experts note that the long-term prospects for India are stable. A weak dollar could bring more foreign money to Indian markets. Oil may get cheaper brining down inflation. A recession could bring down oil prices to $70.

The only silver lining is that the recession will happen slowly, probably in six months or so. As of now, IT and IT-enabled services, textiles, jewellery, handicrafts and leather segments will suffer losses because of their trade link. Certain sections of commodities could face sharp impact due to the volatile nature of these sectors. C.J. George, managing director, Geojit Financial Services, says profits of lots of re-export firms may be affected. Countries like China import commodities from India do some value-addition and then export them to the US.

The IT sector will be the worst hit as 75 per cent of its revenues come from the US. Low demand for services may force most Indian Fortune 500 companies to slash their IT budgets. Zinnov Consulting, a research and offshore advisory, says that besides companies from ITeS and BPO, automotive components will be affected.

During a full recession, US companies in health care, financial services and all consumers demand driven firms are likely to cut down on their spending. Among other sectors, manufacturing and financial institutions are moderately vulnerable. If the service sector takes a serious hit, India may have to revise its GDP to about 8 to 8.5 per cent or even less.

CONSEQUENCES OF US RECESSION ON INDIA JOB MARKET

Worst affected because of US recession will be the service industry of India. Under service industries come BPO, KPO, IT, ITeS etc. Service industry contributes about 52% to India's GDP growth. Now if that is going to get hurt then it will also hurt India's overall growth but very slightly. India is not going to face a major impact due to US recession. People may say that there is going to be a huge job loss due to recession. and will cite the example of TCS firing about 500 employees but these were employees who didn’t perform and for cost cutting one have to reduce Non performing asset and that exactly what has been done. There is no threat to the skilled people. According to NASSCOM India will have a shortage of about 5 million skilled people in IT/ITeS. So there are lots of opportunities.

Apart from this India's travel, tourism and power industry is going to grow at a better rate. This is again a good sign. India has a huge population so a huge consumer base so we don't have to always depend on US for our growth. India's GDP is expected to grow at the rate of 8.9 % which is again way above the growth rate of US and only second highest in the world after China.

This recession gives us opportunity to be innovative and to think out of box so that the US directly doesn't affect our robust growth. Due to increasing Rupee exporters are having a hard time but it has been noted that our exporters are not that efficient and in past they got the benefit of depreciating rupee. So now it's time to be innovative and more effective and increase the overall efficiency and go for systematic cost cutting to balance the rupee effect. In fact there are lots of scope for improvement. In West Africa goods at departmental stores are sold at the rate 5 times than Indian price and Indian goods are not exported to several countries in West Africa. It's an excellent opportunity for our exporters.

INDIAN INDUSTRIES DID WELL DURING RECESSION

In the current global economic slowdown, every sector of business is being affected and is witnessing a hard time. But IKON Marketing Consultants reports that in India there are few sectors which will grow in this adverse situation. AS EVERY business sector is affected by present global crisis and everybody is talking of slowdown in business, still in India there are few sectors which will grow in this adverse situation. Let's have a look.

1. Food

No one can survive without basic food material like milk, vegetables and drinking water. Food processing companies will not be affected much and rather will earn profits by increasing the prices. These are the basic needs which we as a common man cannot produce by our self.

According to Ministry of Food Processing Industry (MFPI), the food processing industry in India was seeing growth even as the world was facing economic recession. According to the minister, the industry is presently growing at 14 per cent against six to seven per cent growth in 2003–04.The Indian food market is estimated at over US$ 182 billion and accounts for about two thirds of the total Indian retail market. Further, the retail food sector in India is likely to grow from around US$ 70 billion in 2008 to US$ 150 billion by 2025.

2. Railway

As the aviation sector has been affect much badly and resulting in sharp rise in the air ticket rates the frequent travelers' will prefer railways to cut the cost of traveling and this will result in increased traffic in railways and long queues at railway booking counters. The freight traffic of Indian Railways has continued to grow in the last few months, albeit at slow pace, indicating only marginal impact of the global recession on the Indian economy.

The railways registered 13.87 per cent growth in revenue to Rs 57,863.90 crore in the first nine months ended December 31, 2008. While total earnings from freight increased by 14.53 per cent at Rs 39,085.22 crore during the period, passenger revenue earnings were up 11.81 per cent at Rs 16,242.44 crore. The railways have enhanced freight revenue by increasing its axle loading, improving customer services and adopting an innovative pricing strategy.

3. PSU Banks

As seen in the private sector much of the job cuts due to global slowdown, it's the public sector undertaking (PSU) banks which gained much confidence due to job safety and security. More and more people are likely to turn towards government institutions, particularly banks in the quest for safety and security. Company, RNCOS, forecasts that the Indian banking sector will grow at a healthy compound annual growth rate (CAGR) of around 23.3 per cent till 2011.

4. Education

As education is considered as the basic necessity and in India it is seen as a long term investment by parents and with respect to the demand still there is a huge supply gap. The craze to study in foreign university among the Indian youth still alive which will prompt foreign education institute to target India provided vast young population willing to join. We will see more and more foreign educational institutions coming up in India in recent coming years. Huge government as well as private investment is likely to flow into the Indian educational system. D E Shaw, a US$ 36 billion, global private equity firm is planning to invest around US$ 200 million in the Indian education sector.

5. Telecom

People will not stop to communicate with each other due to global crises rather it has been seen that it will increase much particularly with mobile communication. With cheap cell phones available in the Indian market and cheaper call rates, the sector has become the necessity and primary need of everyday life. Telecom sector, according to industry estimates, year 2008 started with a subscriber base of 228 million and will likely to end with a subscriber base of 332 million – a full century. The telecom industry expects to add at least another 90 million subscribers in 2009 despite of recession. The Indian telecommunications industry is one of the fastest growing in the globally by 2010.

6. IT

Recent news shown that Indian IT sector will grow 30 to 40 per cent in near future. And on the other side to survive in current slowdown, industries have to decrease the cost and for that they will resort to customized IT solutions which will further boost up the software solution demand. India is fast becoming a hot destination for outsourced e-publishing work.

7. Health care

India in case of health care facilities still lakes the adequate supply. In health care sector also there is huge gap between demand and supply at all the levels of society. Still there are so many urban areas were you could hardly find any multi specialty hospital. And in case of metros the market sentiments itself created a need of psychological consultation. Healthcare, which is a US$ 35 billion industry in India, is expected to reach over US$ 75 billion by 2012 and US$ 150 billion by 2017. The healthcare industry is interestingly poised as it strives to emerge as a global hub due to the distinct advantages it enjoys in clinical excellence and low costs.

8. Luxury products

The high and affluent class of society will not be affected much by this global crises even if their worth is reduced significantly. They will not change their lifestyle and will not stop spending on luxurious goods. So luxurious product market will not be affected and in fact to maintain the lifestyle those affluent will spend more for it. Luxury car makers are pouring in to woo the nouveau riche (Audi, BMW are the most recent entrants).

9. M&A & Marketing Consultants

As in the current business slow down survival will be the main focus, the marketing and management consultants will be called for to reduce the costs and to show the ways to survive and stay in market. Others may join hands to fight with this situation together will call for the Marketing & M&A consultants. In a booming market there are growth strategies and M&A opportunities to advise on. When businesses are cutting back, consultancies will be right there to help clients decide where to wield the axe. According to Ministry of Commerce and Industry’s estimation, the current size of consulting industry in India is about Rs 10000 crores including exports and is expected to grow further at a CAGR of aproximately 25 per cent in next few years.

10. Media and Entertainment

In current bad times, where people are losing jobs and getting enough time to watch TV, they will seek entertainment at home and hence advertising revenues will increase for the commercial channels. Also businesses like production of religious texts and religious materials, religious channels will do well. The TRP of religious channels will increase compare to the other entertaining/commercial channels. According to a report published by the Federation of Indian Chambers of Commerce and Industry (FICCI), the Indian M&E industry is expected to grow at a compound annual growth rate (CAGR) of 18 per cent to reach US$ 23.81 billion by 2012. According to the PWC report, the television industry was worth US$ 5. 48 billion in 2007, recording a growth of 18 per cent over 2006. It is further likely to grow by 22 per cent over the next five years and be worth US$ 12.34 billion by 2012.

CONCLUSION

The whole of Asia would be hit by a recession as it depends on the US economy. Even though domestic demand and diversification of trade in the Asian region will partly counter any drop in the US demand, one simply can't escape a downturn in the world's largest economy. The US economy accounts for 30 per cent of the world's GDP. In the globalised world, complete decoupling is impossible. But India may remain relatively less affected by adverse global events. In fact, many small and medium companies have already started developing trade ties with China and European countries to ward off big losses. if the US economy contracts much more than anticipated, the whole world's GDP growth-which is estimated at 3.7 per cent by the IMF-will contract, and India would be no exception.

India has by-and-large been spared of global financial contagion due to the sub-prime turmoil for a variety of reasons. India's growth process has been largely domestic demand driven. The credit derivatives market is in nascent stage; the innovations of the financial sector in India is not comparable to the ones prevailing in advanced markets; there are restrictions on

Investments by residents in such products issued abroad; and regulatory guidelines on securitization do not permit rabid profit making. Financial stability in India has been achieved through perseverance of prudential policies which prevent institutions from excessive risk taking, and financial markets from becoming extremely volatile and turbulent. Despite all these, the global economic slowdown has hit the vital sectors of our economy, posing serious threats to economic growth and livelihood security. The crisis is forcing countries around the world to test the limits of their fiscal and monetary tools. India is no exception. A series of fiscal and monetary measures have been taken by the Government and the RBI to minimize the impact of the slowdown as also to restore the economic buoyancy.

India has been consciously pursuing a high growth path in order to achieve the key objectives of rural regeneration, poverty alleviation, inclusiveness and sustainable development. Only growth without inclusiveness, or growth without jobs, will not ensure balanced and all-round development of all sections of the society. That's why, in the current crisis, the questions that how long it would last and how much it would impinge on the growth rates has assumed critical significance. The present impact of the slowdown on India's growth rate is certainly not alarming. India still is one of the fastest growing economies in the world. There is a just prediction in the World Bank's report 'Global Development Finance 2009' that India would clock the highest GDP growth rate of 8 per cent in the year 2010. The sheer size of Indian economy would help regain its lost ground. With the right mix of monetary and fiscal policies plus domestic reforms of the productive sectors, as an economy, India has the potential to emerge from this global recession stronger than before.

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