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IMPACT OF GLOBAL RECESSION ON INDIAN ECONOMY

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A B S T R A C T

Financial crises gripped United States and European countries, India could not remain isolated. Financial crises started from US sub-Prime Housing Loans bubble. World economy and Indian economy came into a recession. Impact of Global Recession on various sectors in Indian economy. Bombay stock market started fumbling. It fell from around 21000 in Jan 2008 to 9000 mark in Nov 2008, that is 60% fall since Jan 2008. Recession impact on Indian rupees, depreciation held of Indian rupee. The Indian rupee whose value had appreciated to 39.4 for a dollar in Dec 2007 depreciated to Rs 50.6 for a dollar in mid-Nov 2oo8. Due to recession Indian banking system declined, causing liquidity problem in the banking system which affected credit flow to the industry. Millions of Indian people lost job in India during recession period Oct-Dec 2008, 500000 people lost their jobs, in Jan 2009, 100000 Indians and Aug 2008-Feb 2009 4,11,33/ Indians lost their jobs, Indian employment sector badly affected due to recession, Indian economic growth rate is lower it around 7% as against targeted 9 percent. Recession impact on manufacturing sector, slowdown in manufacturing sector textiles, metal and metal product, leather and leather product and other manufacturing sectors register negative growth. Indian export declined in 2007 and 2008. The RBI has played a significant role in controlling financial crises and implementing economic liberalization policy with wisdom so world recession impact on Indian economy is less compared to other countries.

Key Words:- Recession, Financial crises, FII, Depreciation, Liquidity crunch, Liberalization.

Introduction

Since 1991 following the policy of globalization, the Indian economy was also opened up to foreign capital and foreign trade of goods and services and thereby got integrated with the United States and European and other countries to a greater degree than before. Therefore, when financial crises gripped United States and European countries, India could not remain isolated. Financial crisis started from US housing market witnessed on unprecedented run-up in Prices from the mid 1990's Low interest rates borrowing money cheap and fueled the rise in home prices. Home buyers took on risky adjustable rate mortgage. Becausing of refinancing and easy credit advertisement the US. Was in a massive housing bubble. Subprime lending grew rapidly during the housing bubble. The crises spread to engulf the mortgage and banking industry. The New Century Financial Corporation was one of the Ist bank to fail. After Lehman failed, the Floodgates opened all insolvencie.

Impact of Global Recession On Various Sectors in Indian Economy.

Stock-market Crash:-Following the eruption of financial crisis when the Wall Street of the U.S and stock markets of the European countries Crashed its effect spilled over to India our stock market was badly hit. Few years ago FIIs had invested on a massive scale in the equity shares of several Indian Companies. As a result of the buying spree of shares of Indian Companies by FIIs, share prices rose to new heights. The Sensex which was around 6000 in 2004 rose to 8000 in Aug-Sept 2005 and went on rising further crossing 10,000 mark in 2006,13,000 mark in 2007 and reached the peak of around 21,000 mark in January 2008. At around this time, share prices in U.S. and European market started falling sharply and the problems of liquidity and credit crunch assumed grave Proportions. As mentioned above, this led FII to sell shares held by them in the Indian stock market to pull out capital from India. As a result of this selling pressure, Sensex of Bombay stock market started tumbling; it Fell from around 21,000 in Jan 2008 to 11,000 in Sept 2008 and in its downward march it fell below 10,000 in Oct 2008 and 9,000 mark in Nov 2008, that is 60 percent fall since Jan 2008.

Depreciation of Indian Rupee:- Effect of capital outflow by FII was not confined to drastic fall in share prices but was more deeper and divesting when foreign. Institutional investors (FIIs) sold their share in India they got rupee. They had to convert their rupee into dollars to send them abroad. This led to the increase in demand for dollars. Rupee-dollar exchange rate being determined by demand for and supply of currencies, the increase in demand for dollars caused appreciation of US dollar in terms of rupees, that is, rupee depreciated against US dollar. The Indian importer also demanded dollars to pay for the imports of goods. The Indian banks doing foreign operations also bought. US dollars at home to keep their foreign exchange operations afloat since due to credit crunch no one in foreign countries was willing to lend dollars to any Indian bank. This further raised the demand for dollars causing fast depreciation of rupee in the months of Sept, Oct and November 2008. The Indian rupee whose value had appreciated to Rs 39.4 for a dollar in Dec. 2007 depreciated to Rs 49.3 for a dollar in end-Oct.2008 further to all low high to Rs. 50.6 for a dollar in mid-Nov 2008. This depreciation of Indian rupee though made our exports cheaper, made our imports costlier. In Oct. and Nov. 2008, crude oil price declined from all time high of $ 147 per barrel to around 50 US dollar in Nov 2008. But due to heavy depreciation of rupee as against US dollar crud oil prices remained relatively high in terms of rupees.

Liquidity Crunch in the Banking Sector:- As a result of large outflow of dollars fast depreciation of rupee against dollar began. To prevent fast depreciation of rupee and maintain relative exchange rate stability, RBI intervened and supplied dollar from its foreign exchange reserves with this too much depreciation of rupee was prevented but in this process of supplying more dollars in the foreign exchange market, it got rupees in return. As a result the quantity of rupees with the banking system declined causing liquidity problem in the Indian banking system which affected credit flow to the industry for financing of working capital and fixed investment project. This broplem became so severe that inter-bank liquidity to tide over contingencies and this restricted credit flow to the industries. Risk aversion by banks in India also played an important role in restricting credit flow to consumer for buying cars, houses etc. and companies making investment. Thus the cause of liquidity and credit crunch that arose in India was the sale of bilious of dollars from its reserves by the RBI which withdrew rupees from the banking system in the process.

Impact On Employment Sector In India:- Technically economist and Government of India asserted that there was no recession in Indian economy because growth rate was not negative in last two consecutive quarters. The financial sectors in India were not hit to the seveare extent as in developed countries because of strict regulatory mechanism of the RBI, Public sector institutions like banks and Insurance under nationalization. However returns of Indians specially employed in IT sector that had gone to Silicon Valley accompanied by NRIs compounded already serious unemployment problem in India. The automobile, telecom, gems and jewellery sectors thus reducing production level resulting in retrenchment in these areas. The reduction in jobs also affected other sector of economy. The job losses in India during recession period are indicated as under According to Mr. Suresh Tendulkar committee constituted by the planning commission have stated that 78% of people are having an earning of Rs.20 per day and

37% of population lives below poverty line as against old estimate of 27%.

Impact On Indian Economic Growth:- In September 2008 IMF gave the bleak assessment of the global economy whose growth rate was expected to hit 3 percent in 2008 and hear zero in 2009. In September 2008 IMF also predicted lower growth of 7.7 percent for India for the year 2008-2009 which was later further lowered to 7 percent as against over 9 percent growth in the previous 3 years (2005-08). However as against the 11th plan target of 9 percent annual growth, fall in India's growth to 7 percent in 2008-2009 and 7.3 percent in 2009-10 is a matter of concern as it will badly affect the targets of employment generation and poverty reduction.

Job Losses in India During Recession Period.
Table No 1

Period	No. of Jobs lost	Source
Oct-Dec.2008	5,00,000	Sample survey figures of Labour Bureau, Ministry of Labour and Employment.
Jan-2009	1,00,000	Sample survey figures of Labour Bureau, Ministry of Labour and Employment
Aug 08-Feb 09	4,11,331	Figures from Department of Commerce (Govt. of India)

Impact on the manufacturing Sector:- According to a survey conducted by Federation of Indian Chambers of Commerce and Industry (FICCI), the manufacturing sector comprising industries like textiles, metals and metal products leather and leather products, jewellary and automobiles has seen a steep slowdown. As seen from Table No.2 the textiles, leather and leather products, metals and metal product are expected to register negative growth of 3.9%, 13% and 30% respectively. Not only has domestic demand come down even export order have fallen substantially due to recession in the developed countries. The other important causes of slowdown in manufacturing are that banks are not willing to gibe credit and lack of adequate power supply and high inputs cost. In the leather segment the survey has found the export orders have declined by more than 60 percent. Besides, in the fiscal year 2008-09 large production cuts in five months (Nov 2008 to March 2009) are expected in the manufacturing sector ranging from 10 percent to 40 percent in various industries as shown in Table No.2

Table No. 2 Slowdown in Manufacturing Sector

Sector	Change in Production in Oct-2008 Vis-à-vis Oct. 2007(%)	Expected Production Cuts for five months % (Nov.08 to Mar.09)
Textiles	-3.9%	10-40%
Metal and metal Product	-30%	10-50%
Machinery and equipment	5%	40%
Chemical and allied Products	17%	15-25%
Leather and leather product	-13%	15-50%
Other manufacturing sectors	-6 to -30%	10%

Conclusion:-Recession has grabbed almost all organization of the world. In India several people have lost their jobs facing the financial problem, Govt. doing best to come out of the problem and banks are providing business loan at lower rate, Govt. also providing money packages to various business organization, However situation in India is still satisfactory as compared with other countries of the world. Though various sector like IT, Banking, Insurance, textile and automobile companies have been hit due to recession but the impact is less as compared to other countries. US Economy are being affected badly but. Indian Economy had been safe up to 2009-10. The main reasons for this were implementing economic liberalization policy with wisdom. India did not blindly follow other nation's ways of adopting the economic liberalization. Indian economy is accelerated the liberalization in only needy development sector.

Indian economy is less dependent on foreign countries, the savings are 35% of GDP in India and India's capital formation was 38% of GDP boatn are high in the world. The RBI has played a significant role in controlling these financial crises, so world recession impact on Indian Economy is less compared to other countries.

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