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Global Recession: Indian Scenario

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Abstract- The word 'Recession' denotes a temporary period of economic decline during which trade and Individual activities are reduced. Till date, the world has witnessed a number of economic recessions that brought the trade market to a standstill and left the economists and analysts with valuable lessons to be learnt for future. Globalization and liberalization have contributed a lot in making the entire world a close knit economic unit. In an interconnected global economy recession and economic turbulence in one part of the world has the potential to disrupt the economies of other countries in a major way. The economic slowdown in US economy in 2008 caused by the burst of housing bubble engulfed the entire world in its grip. This research paper attempts objectives, US crisis in 2008 and its impact on Indian economy, facts of global recession in 2013, RBI's initiative, India and Global recession in 2013, benefits of recession and some conclusions.

Index Terms- global recession, causes, US crisis, Impact, Benefits and Conclusion

I. Introduction

America is the most effected country due to global recession, which comes as a bad news for India. India have most outsourcing deals from the US. Even our exports to US have increased over the years. Exports for January declined by 22 per cent.

RECESSIONS ARE the result of reduction in the demand of products in the global market. Recession can also be associated with falling prices known as deflation due to lack of demand of products. Again, it could be the result of inflation or a combination of increasing prices and stagnant economic growth in the west. 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 Organisations (FIEO), which says that it has carried out an intensive survey. The textile, garment and handicraft industry are worse effected. Together, they are going to lose four million jobs by April 2009, 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.

WHAT IS A RECESSION?

A recession is a decline in a country's gross domestic product (GDP) growth for two or more consecutive quarters of a year. A recession is also preceded by several quarters of slowing down. Recession is a slowdown or a massive contraction in economic activities. A significant fall in spending generally leads to a recession. Description: Such a slowdown in economic activities may last for some quarters thereby completely hampering the growth of an economy. In such a situation, economic indicators such as GDP, corporate profits, employments, etc., fall. This creates a mess in the entire economy.

HOW DOES THIS HAPPEN?

Normally, when consumers lose confidence in the growth of the economy and start to spend less, there is a decrease in demand for goods and services. This, in turn, leads to a decrease in production. On the other hand, the profit margin of companies is due to a rise in costs and they try cost cutting measures. The equity / stock markets react negatively to this. A lay-off (asking people to leave) leads to a rise in the unemployment rate and a decline in real income.

WHAT CAUSES IT?

An economy which grows over a period of time tends to slow down the growth as a part of the normal economic cycle. An economy typically expands for 6-10 years and tends to go into a recession for about six months to 2 years. A recession normally takes place when consumers lose confidence in the growth of the economy and spend less. This leads to a decreased demand for goods and services, which in turn leads to a decrease in production, lay-offs and a sharp rise in unemployment. Investors spend less as they fear stocks values will fall and thus stock markets fall on negative sentiment.

II. OBJECTIVES OF THE STUDY

The researcher has made the following for the study purpose

a) To know the causes of recession.
b) To analyze the emerging economic trend due to global recession.
c) To understand the recession in the global perspective.
d) To provide suggestions and comments on the study.

III. IMPACT ON INDIAN ECONOMY

The impact of the crisis is deeper than estimated by our policy makers although it is less severe than in other emerging market economies. Further, the Indian banking system is one of the least affected in the whole world and has been praised by many of the economists and financial experts. The banks were saved from this downturn because of the financial policies which were very well formulated that acted as an insulator for the Indian banks. The extent of impact has been restricted due to several reasons such as-

- Indian financial sector particularly our banks have no direct exposure to tainted assets and its off-balance sheet activities have been limited. The credit derivatives market is in nascent stage and there are restrictions on investments by residents in such products issued abroad.
- India's growth process has been largely Domestic Demand Driven and its reliance on foreign savings has remained around 1.5 per cent in recent period.
- India's comfortable Foreign Exchange Reserves provide confidence in our ability to manage our balance of payments notwithstanding lower export demand and dampened capital flows.
- Rural demand continues to be robust due to mandated agricultural lending and social safety & Rural Employment Generated programs.
- India's Merchandise Exports are around 15 per cent of GDP, which is relatively modest.

Despite these mitigating factors, India too has to weather the negative impact of the crisis due to rising two-way trade in goods and services and financial integration with the rest of the world. Indian economy is experiencing the following incidental effects of the Global Crisis.

IV. GLOBAL RECESSION DAMPEN INDIAN EXPORT PROSPECTS IN 2013: (HTTP://WWW.FIRSTBIZ.COM/ECONOMY/GLOBAL-RECESSION-MAY-DAMPEN-INDIAN-EXPORT-PROSPECTS-IN-2013-35388.HTML)

Indian exports, which was hit by global slowdown last year, are likely to remain sluggish during 2013 as well due to challenging economic conditions in western economies, though policymakers have drawn a strategy to diversify exports. The year started on a double-digit growth for exports, but gradually declined and finally entered the negative territory in May. In January 2012, outbound shipments grew by 10 percent before contracting by about 5 percent in May, with no major turnaround since then.

The government's effort to diversify from the traditional markets of the US and Europe yielded positive results but dependence on the western economies have led to decline in the country's overall merchandise shipments. These two market accounts for about one-third of India's exports. Although India's exports surpassed the $300-billion mark and reached $307 billion during 2011-12, the country's trade deficit also touched an all-time high of $185 billion in the period. During January-November 2012, the trade gap has widened to $175.5 billion compared to $146.9 in the comparable period last year. For government, it is a major cause of concern, as widening trade gap directly impacts current account deficit (CAD) and domestic currency. CAD stood at 3.9 percent of GDP in the April-June quarter.

Due to the global demand slowdown, India's exports during the current fiscal are likely to barely cross $300 billion against the ambitious target of $360 billion for the current fiscal. According to the Commerce Secretary S R Rao, any ripple worldwide will impact India's commerce as the country's integration with the global trade has reached a high level. Slowing global output growth has led to World Trade Organisation (WTO) cut its 2012 forecast for world trade expansion to 2.5 percent from 3.7 percent and to scale back the 2013 growth estimate to 4.5 percent from 5.6 percent.

"In an increasingly interdependent world, economic shocks in one region can quickly spread to others," WTO Director General Pascal Lamy has said. Federation of Indian Export Organisations (FIEO) has said the year 2012 had been difficult for exporters. "Domestic issues like poor infrastructure, increasing transactions cost and some procedural hurdles are huge challenges for exporters," FIEO President Rafeeq Ahmed said. Sharing similar views, Rakesh Mohan Joshi, internal trade expert and Professor with India's prestigious Indian Institute of Foreign Trade (IIFT) said the ballooning trade deficit poses serious challenges to the government. "2012 was not a good year for India's exports.

Trade deficit touched an all-time high. It is matter of serious concern for the government and I do not even see 2013 as a better for them (exports). Situation may improve, but marginally," Joshi said. He said the condition in Europe is not satisfactory and there are no signs of improvement.

"Along with global issues, domestic conditions are also not good. There is a strong need to boost investments in the manufacturing sector," he added. Apparel Export Promotion Council (AEPC) Chairman A Sakthivel too said 2012 was one of the most challenging years. "We witnessed lower buyer sentiments due to sluggish market condition," he said. Sectors which contribute maximum in the country's exports have been registering negative growth since April-November period of this fiscal. While exports of engineering and gems and jewellery items contracted by 5.3 percent and 10 percent, respectively, that of cotton yarn, jute, readymade garments and handicrafts shrunk by 11 percent, 14 percent, 8 percent and 65 percent, respectively, during April-November period of the current fiscal.

"This is a matter of serious concern to us. They are directly linked to job creation and job sustenance," Commerce and Industry Minister Anand Sharma has said. However, the government is making every effort to support exporters. Sharma has recently announced several measures including extension of cheap loan facility for one more year till March 2014.

The minister said those incentives will help in bridging the trade deficit. The two per cent interest subsidy scheme, which was to end on March 2013 has been extended for one more year. Besides, more sectors have been covered under it with the engineering exporters being the major beneficiaries. Merchandise shipments to the US, European Union and the Asian markets will now qualify for additional sops. Exporters are facing a demand slowdown in these markets. "With these measures, we should be able to give a push to our exports in the last quarter of this financial year. The objective is to stabilise the situation and try and move from the negative territory to positive," Sharma has said. Rising trade deficit has been cited by several global rating agencies like S&P as a key area of concern for the Indian economy.

V. GLOBAL RECESSION 2013

Is a global recession a real possibility in 2013? Absolutely, with some even calling a 2013 global recession a 100% certainty. Even the International Monetary Fund (IMF) is bearish, noting the global economic slowdown is a serious threat and warning U.S. and European policymakers that a failure to fix their economic malaise would prolong the slump. The IMF said the world economy in 2012 would grow just 3.3%, down from the previous estimate of 3.5%; making 2012 the slowest year of growth since the Great Recession began in 2009. In 2013, the IMF predicts only a modest pickup to 3.6%, below its July 2012 estimate of 3.9%.1

Why pay attention to any IMF forecasts? The IMF accurately projected U.S. growth would be little more than two percent in 2012 and predicts the same for 2013. It also expects modest euro growth in 2013 of just 0.2%. While Germany has been the economic engine for the eurozone (the 17-nation currency union), its slowing economy could join the rest of the region in recession—or at least, that's according to the Deutsche Bundesbank, Germany's central bank. Thanks to the deep recessions in the other eurozone countries and austerity programs, Germany's ability to carry the region is in serious jeopardy

The Bundesbank is predicting growth of just 0.4% in 2013; down from a June 2012 forecast of 1.6%. Not surprisingly, unemployment is running in step. The Bundesbank also expects the jobless rate to hit 7.2% in 2013, up from 6.8% in 2012.2. The rest of the eurozone is faring much worse. The jobless rate in the eurozone as a whole is at 12%, the highest level since the euro was created in 1999. Europe's debt crisis has also had a serious impact on North America. For American companies with operations in Europe, a weaker euro translates into weaker European sales. At the same time, American banks have lent money to Greece as well as other eurozone countries and would lose billions if the country went bankrupt. The American economy would face even greater threats if other eurozone countries followed suit.

VI. VARIOUS STEPS TAKEN BY RBI TO CURB THE PRESENT RECESSION IN THE ECONOMY AND COUNTER ACT THE PREVAILING SITUATION

The sudden drying-up of capital inflows from the FDI which were invested in Indian stock markets for greater returns visualizing the Potential Higher Returns flying back is continuing to challenge liquidity management. At the heart of the current liquidity tightening is the balance of payments deficit, and this NRI deposit move should help in some small way.

To curb the liquidity crises the RBI will continue to initiate liquidity measures as long as the current unusually tight domestic liquidity environment prevails. The current step to curb these being lowering of interest rates and reduction of PLR.However, the big-picture story remains unchanged – all countries in the world with current account deficits and strong credit cycles are finding it difficult to bring cost of capital down in the current environment. India is no different. New measures do not change our view on the growth outlook. Indeed, we remain concerned about the banking sector and financial sector. The BOP- Balance of Payment deficit – at a time when domestic credit demand is very high – is resulting in a vicious loop of reduced access to liquidity, slowing growth, and increased risk-aversion in the financial system.

In total the recession have turned down the growth process and have set the minds of economists and others for finding out the real solution to sustain the economic growth and stability of the market which is desired for the smooth running of the economy.

Complete businesss/ industry is in dolledrum situation and this situation persist for a longer duration will create the small business to vanish as they have lower stability and to run smoothly require continous flow of liquidity which is drived from the market.

In present situation down fall in one sector one day leads to a negative impact on the other sector thus alltogether everyone feel the impact of the Financial crises with the result of the current recession which started in US and slowly and gradually due to linked global world have impacted everyone.

VII. RECESSION – BUSINESS OPPORTUNITIES

a) Realty Sector: The worst hit industry in India and abroad is Realty Sector. It is a time to introspect for everybody. There have been things to learn, relearn and unlearn for all the concerned viz., End Users, Investors and Developers. Recession brings the much needed discipline to people's way of life, while for corporate across various sectors, there are many positive ripple effects - for instance it allows people to analyze and identify their core competencies. End Users are more cautious and looking for value for their investment and Lenders are exercising prudence while selecting the borrowers. Developers have started focusing attention on affordable and mass housing with attracting plans. More cautious spending and greater saving by consumers, more prudence by lenders, shift in focus from premium to lower and mid-end segment of housing by developers, is exactly what our economy needed for its long-term health and recession is having the desired impact. The End User is going to be benefited as the supply chain started addressing the real demand in market - affordable housing.

b) Innovation: The consumption of basic requirements such as Food, Shelter, Clothing, Water, Electricity and Health etc., is always going to stay the same even in the recession, which forces the consumers to look for cost effective alternatives. Hence the providers of the basic needs are required to focus their attention to offer them at affordable cost. Recession is an opportunity to produce cost effective / innovative products and services to the consumers.

c) Mobile & Internet Users: India has over 550 million cell phone subscribers, which is next to China. It provides ample opportunity to the entrepreneurs / technocrats to build viable business models on present and prospective Mobile/Internet Users. India's Internet infrastructure is a revolution. India has over 70 million internet users and expected to increase to 200 million in the next 5 years. This means that even the individuals from India's remotest regions can now showcase and offer their businesses to customers based anywhere globally.

d) Financial Discipline: The crisis has opened the eyes of the Individuals, Corporate and Governments and made them to focus their attention on need of Savings & Investments, which was completely ignored in the past. Now they realized the importance of savings and financial discipline, which definitely paves the way for better future. The concept of "Spend – Earn – Save – Repay", which is prevalent in the present consumerism era, need to under go a change into "Earn – Save – Spend".

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.

VIII. HOW TO TACKLE THE GLOBAL SLUMP?

"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," Obama said. "With the stakes this high, we cannot afford to get trapped in the same old partisan gridlock."

The following measures can be adopted to tackle the recession:

- Tax cuts are generally the first step any government takes during slump.
- Government should hike its spending to create more jobs and boost the manufacturing sectors in the country.
- Government should try to increase the export against the initial export.
- The way out for builders is to reduce the unrealistic prices of property to bring back the buyers into the market. And thus raise finances for the incomplete projects that they are developing.
- The falling rupees against the dollar will bring a boost in the export industry. Though the buyers in the west might become scarce.

The oil prices decline will also have a positive impact on the importers.

IX. OBSERVATIONS

1. Recession will have its plus point and minus points. The minus points are that, there will be job scarcity, retrenchment will be all time high, liquidity in the market will be low, export market will be severely hit etc etc. The plus point is that cost of living will come down. Things we were exporting will be forced to be sold locally, bringing the price of products down. Real estate which was out of reach for the common man, will be within his reach.
2. During time of recession, hold on the what ever job we have. Those who have lost their jobs, please do not be choosy. Take up any job that comes by. Remember every day has a night and every night has a day. This is all temporary and will pass soon.
3. All industries which depend heavily on exports, are likely to suffer for at least 2-3 years. Consider Software companies, jewellery, textiles, brass ware, auto Component manufacturers etc. Orders will dry up, factories will have to be shut down, albeit temporarily, jobs will be lost and so on. It is already happening on a large scale. You must have heard latest. Foreign governments (US and Saudi Arabia are latest) are advising employers in their countries to fire expatriates (Indians are in large numbers) first, if they are to downsize.
4. Indian industries shall also slow down, especially the IT, call centres, transportation like airlines, service industry like hotels, the banking industry etc. The share market and real estate also have dropped many staff have been retrenched
5. Impacts of global recession on India are multifold.
6. The first and the foremost effect was felt on the stock exchanges when Foreign Institutional Investors, most of whom are based in US and Europe started pulling back money from Indian Markets as they needed to add liquidity. The sudden sale of lot of stocks caused stock markets to crash and Industries in general are having a hard time raising cash for several ongoing projects. As a result many have shelved several projects for the lack of funds.
7. Export oriented Industries have suffered the most. The financial meltdown has caused reduced demand in US and western European Countries. So these Industries are experiencing a reduced cashflow than they had anticipated and they have been forced to look to other markets.
8. The negative sentiments had created a situation where even banks would not trust each other in lending money. Government had to take several steps like cutting CRR rate in order to infuse more money into the economy. Increased interest rates have made it difficult to borrow money in order to start new ventures, even though government has tried to bring the interest rate down.
9. Industries with significant cash flow problems had to layoff several employees. Existing employees are being forced to work longer hours with lesser pay. Many companies have deferred the yearly increments in an effort to cut costs.
10. In the age of globalization, no country can remains isolated from the fluctuations of world economy. Heavy losses suffered by major International Banks is going to affect all countries of the world as these financial institutes have their investment interest in almost all countries.
11. As of now India is facing heat on three grounds: (1) Our Share Markets are falling everyday, (2) Rupee is

weakening against dollars and (3) Our banks are facing severe crash crunch resulting in shortage of liquidity in the market.

12. Actually all the above three problems are interconnected and have their roots in the above-mentioned global crisis.
13. India will become more strong as exporter will try to find out the way in Indian Market. This is the time when we should see our own strengths and move a step ahead in making INDIA "a self dependent country". Another point which falsh in my mind is NON IT units will improve their quality @ low price to make their product available across the globe as our labour cost is much more less than others.
14. The HR & MKTing ppl are having a tough time finding EXCUSES to fire employees .Employees are informed about their pink slips on as short a notice period as 15days.
15. The major impact of global economic recession in India or economic slowdown is with the small exporters and importers in the country as most of them are facing the problem of heavy duties
16. A lethal cocktail of the falling sales, rising inflation, increasing input costs and drying cash flow topped with US economy slowdown is hurting India industry hard.
17. The weaking of rupee has helped comapnies to show a PROFIT in terms of the dollar to rupee revenue but the operating ratio has come out for most organisation.
18. The global recession will have the least impact on the Indian economy. It is generated by artificial development activity. Nothing can have much impact on these indians than their own economy. It is strong. There will be little impacts on it could be felt but not for long. Because, this is India. Nothing is permanent here. Indians are immune to these recession and can make living in any desert. This bloody recession has little impact, except for those who live in high style abroad.
19. The impact will be mediocre. It depends a lot on our politician. If they make right economical decisions, we can say either there will not be any impact or even this recession can be used to become more powerful nation. Government claims there will not be any impact, but at least people working for software companies especially MNCs are definitely vulnerable to this recession.
20. Its because of the Lehman brothers it has lead to bankruptcy of many companies and hence leading to a downfall of global economy resulting in recession. Thats how it happened. Lot of companies are dependent on outsourcing. When there economy goes down, it shows the impact on us. The sol. for this is we have to create more projects within India.

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