International Journal of Applied Research 2016; 2(11): 178-183


**ISSN Print:** 2394-7500
**ISSN Online:** 2394-5869
**Impact Factor:** 5.2
IJAR 2016; 2(11): 178-183
www.allresearchjournal.com
Received: 29-09-2016
Accepted: 30-10-2016

**Devanshi Dixit**
(M.Com Final) Dayalbagh Educational Institute
Dayalbagh, Agra,
Uttar Pradesh, India

**Correspondence**
**Devanshi Dixit**
(M.Com Final) Dayalbagh Educational Institute
Dayalbagh, Agra,
Uttar Pradesh, India

# Global economic recession: It's impact on Indian economy

## Devanshi Dixit

### Abstract
The world is presently facing economic crisis due to which economics world over are considered to be entering into prolonged slowdown in economic activities. The intensity of present economic crisis is so high that is being compared with the global economic recession in 1873, great depression of 1930s and East Asian crisis of 1990s. The current economic slowdown is considered to be subprime mortgage crisis in the financial sector of United States. Global economics recession and its impact on Indian economy, in this paper we tries to explain the impact of three distinct channels, that is the capital flows, sectoral growth and financial sector.

**Keywords:** Recession, global economy, GDP, exchange rate

### Introduction
The global economic recession has taken its toll on the Indian economy that has led to multi-crore loss in business and export orders, tens of thousands of job losses, especially in key sectors like the IT, automobiles, industry and export-oriented firms. Indian economy also passed through these stages during the year 2008. The economic growth rate, which was above 8% for consecutive period of three years since 2006, suddenly plunged to an average of 5.5%. Developed world is under the fear that recession may not turn out to be continuous process resulting into great depression. Generally recessions are for two quarters, but depression is a severe economic downturn that lasts several years. Earlier India was affected less by external world depressions as it relied more on internal consumption, saving and import substitutions. However, after 1991 India opened up its economy to global players, share of exports, both goods and services, in GDP grew significantly.

The effects of the global financial crisis have been more severe than initially forecast. By virtue of globalization, the moment of financial crisis hit the real economy and became a global economic crisis; it was rapidly transmitted to many developing countries. India too is weathering the negative impact of the crisis. There is, however, an important difference between the crisis in the advanced countries and the developments in India. While in the advanced countries the contagion traversed from the financial to the real sector, in India the slowdown in the real sector is affecting the financial sector, which in turn, has a second-order impact on the real sector. The paper is an attempt to analyze the variables responsible for India's recent growth, impact of world recession on these variables and their significance. It needs to validate whether India's economy has shifted away from consumption and saving to external sector dependence.

Evaluating the impact of domestic and external shocks on the growth of developing. Economies is of utmost importance, as the consequences of these shocks push millions of People into abject poverty and deprivation. Broadly, there are five distinct types of shocks that have affected the performance of the Indian economy, sometimes working in tandem. The first two types are domestic shocks:

1. Drought, i.e., below normal rainfall. Since the agricultural sector is still significant part of the economy and has strong demand and supply interlinks ages with the rest of the economy, this is perhaps the shock that causes maximum damage to the Indian economy.
2. Fiscal profligacy of the government, which is a non-developmental expenditure undertaken due to political economic compulsion or to mitigate the effect of other shocks, leading to a fiscal burden. The next three types are external shocks

- Hike in the international price of oil (petroleum). This is a major import item and is highly price inelastic as a result of which it has a strong impact on the economy.
- Stagnation or fall in world trade. World trade is a strong determinant of Indian exports and hence any fluctuation in this also affects the economy adversely.
- Sudden capital outflow induced foreign exchange market shock. This is phenomenon that has precipitated a crisis in many developing economies and India is no exception to that.

**Recession**

A drastic slowing of the economy. Where gross national or domestic product has fallen into consecutive quarters. A recession would be indicated by a slowing of a nation's production, rising unemployment and falling interest rates, usually following a decline in the demand for money. A popular distinction between recession and depression is:' Recession is when your neighbors lose his job; depression is when you lose yours.

**Causes of Recession**

An economy which grows over a period of time tends to slow down the growth as a partof the normal economic cycle. 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 Background of the Global Financial Crisis

**What is it all about?**

Gradually these financial giants in this business started feeling the heats "sub-prime" clients started defaulting in their repayment of loans. A lot is being debated about the impact this fluctuation on the Indian Economy. We will take an overview of Forex - Inflow and Outflow, mainly in conjunction with the Dollar Trade and the effect of USD-INR Exchange rates. Since there is a huge inflow of foreign capital into India in USD. The main Inflow and Outflow can be categorized as follows:

- Export earnings:
- IT Sector Earnings
- NRI Remittances
- Foreign Direct Investments (FDI)
- Portfolio Investment
- Loans from other governments, IMF, World Bank, etc
- External Commercial Borrowings (ECB)

**Methodology**

The study is based on secondary data. Secondary data had been collected from various books and journals. The study covers the thoughts and writings of various authors in the stream of industry, academician, and research. The Journals and books have been referred were described in the bibliography.

**Objectives**

- To find out the frame work of both the concepts of Global Recession &Indian economy.
- To find out the literature in getting the foundation of understanding the global economic recession &its impact on Indian economy.
- To discuss the causes of global crisis to be experienced by the global economy.
- To elucidate the nature & scope of practices of Rapid financial innovation& Growing culture of weak regulation.
- To know the Emergence of a new economy& Expose of weaknesses in the economy.
- To evaluate the Global Recession &Indian economy Performance Appraisal is gaining ground &Austerity is the targeted path.

**Causes of the Global Crisis**

There are several underlying causes of the current global crisis. It will debate the importance of each of these causes for many years. Today let us give you a very summary view. Most people believe that the major causes of the crisis include the following:

- Prolonged boom in house prices.
- Massive borrowing binge in the United States and European countries.
- Rapid financial innovation.
- Growing culture of weak regulation.
- Old fashioned greed.

**Nature and Dimensions of the Crisis**

In the winter 2006/7 US housing prices started to fall for the first time in fifteen years. As a result many of the subprime housing loans became bad loans. This meant that hundreds of billions of dollars of financial derivatives which were based on these underlying mortgage loans also lost most of their value. Thus, by the summer of 2007 "*the house of financial cards"* began to collapse and a growing number of American and European banks announced huge losses on their mortgage related securities and investments.

Despite trillions of dollars of bail-outs and fiscal stimulus, bank credit continued to be almost frozen, leading to sharp falls in consumer spending, investment, production and foreign trade. The sharp slowdown in economic activity in the US and Europe quickly spread across the world through the channels of a global credit squeeze and a massive drop in demand for goods and services from major exporting nations like China, Japan, Germany and India. In this way the financial crisis in the US and parts of Europe not only damaged production and growth in these countries but led to sharp drops in exports and production throughout all those countries. Nothing like this has been experienced by the global economy in the last 75 years. It really is an extraordinary economic crisis.

**Economic Prospect: 2010**

Global economy is seems to be expanding after a recent shock. Indian Economy, however just felt the blow of the global economic recession and the real economic growth have seen a sharp fall followed by the lower exports, capital outflow and corporate restructuring. It is expected that the global economies continue to stay strong in the short-term as the effect of stimulus is still strong and the tax cuts are working. Due to strong position of liquidity in the market, large corporations now have access to capital in corporate credit markets. The India's Economic Outlook Projection is as below:

| India's Economic Outlook Projection | | | | |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| GDP Growth | 9.40% | 7.30% | 7.60% | 8.30% |
| CPI | 6.40% | 9.30% | 5.50% | 4.90% |

The Indian approach current scenario
Today India stands erect to face this financial crunch with many advantages and strengths. One of the major strength is its nuclear technology which will aid India to battle out its biggest problem-power. According to us a recession is defined as two successive quarters of contraction of GDP. Giving a positive projection on the country's economic scenario, India could regain its annual growth rate of 8% to 9% as the world's economy could recover partially the present crisis by September this year.
As far as economic growth is concerned, the downturn in the world economy is going to have an impact on India and unlike the last year, the country would not get 9 per cent growth rate during the current fiscal. Still, the growth rate could fall below 8 per cent at 7.7 per cent. Positive impact on Indian economy is some issues as below:

- Emergence of a new economy
- Expose of weaknesses in the economy
- Cost stabilization in real estate market.
- Rationalization of Salary Structure in IT Industry
- Performance Appraisal is gaining ground
- Austerity is the targeted path
- Best place for outsourcing
- Opportunities for International trade.

**Table I:** Trends in GDP at Factor Cost In Rs. Crore

| Year | GDP (at 2004-05 Price) | Growth in% |
|---|---|---|
| 2005-6 | 3254216 | 9.5 |
| 2006-7 | 3566011 | 9.6 |
| 2007-8 | 3898958 | 9.3 |
| 2008-9 | 4162509 | 6.8 |
| 2009-10 | 4493743 | 8.0 |
| 2010-11 | 4879232 | 8.6 |

**Source:** Central Statistical Organization, Government of India

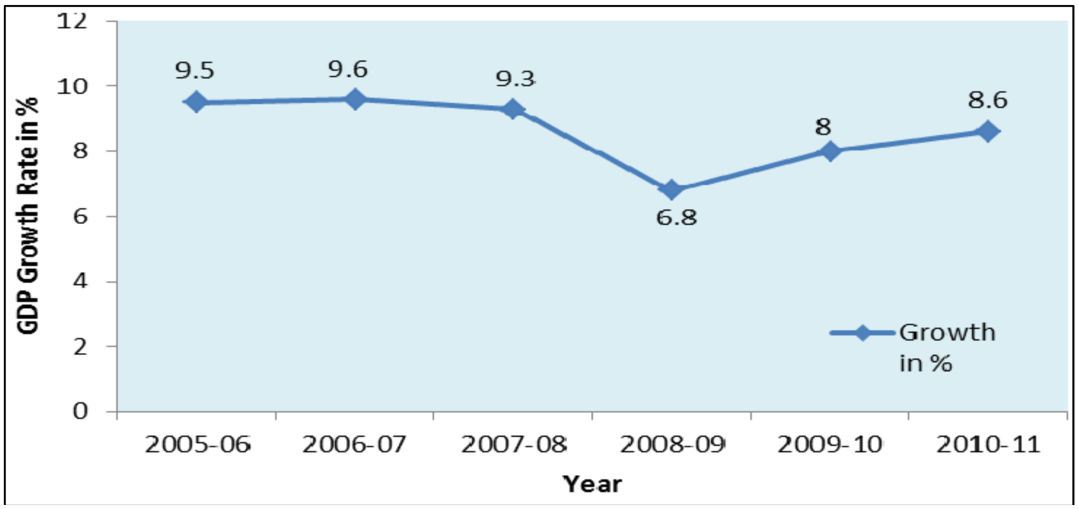



**Table II:** Index Of Industrial Production (Growth)

| Year | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|---|
| Index of Industrial Production (Growth) | 8.0% | 11.9% | 8.7% | 3.2% | 10.5% | n.a |

**Source:** Central Statistical Organization, Government of India

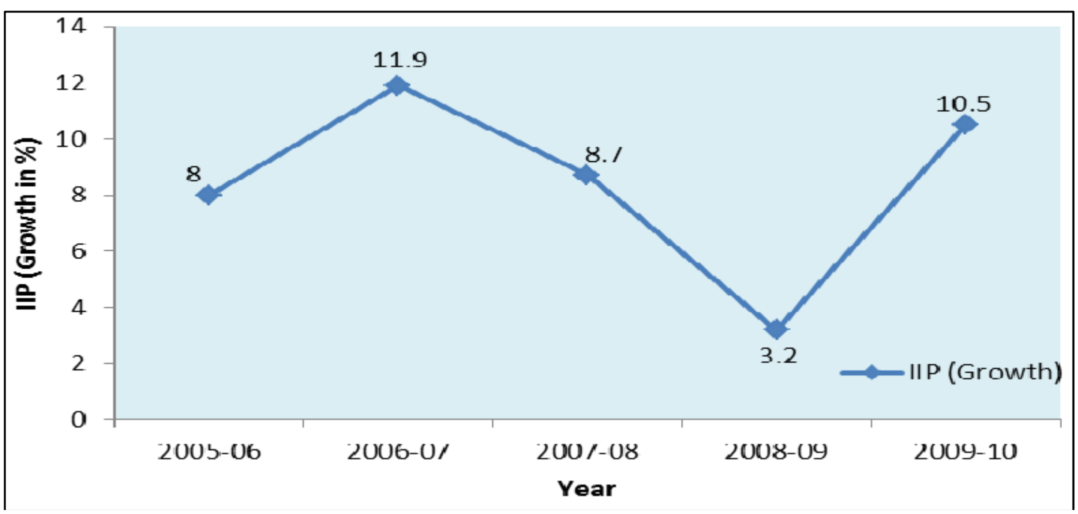
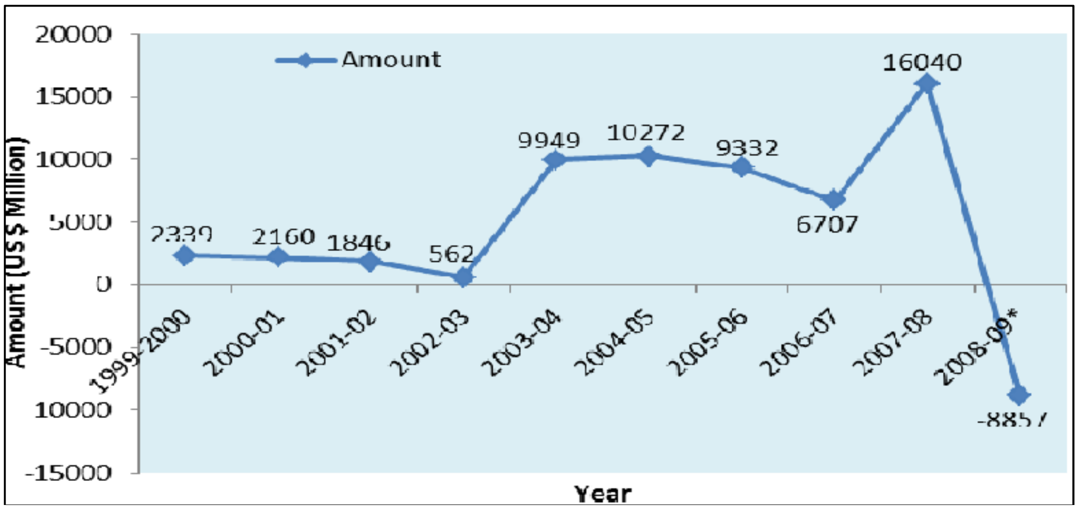



**Fig 2:** Index of Industrial Production (Growth in%)

**Table III:** Net Investment of FIIS at Monthly Exchange Rate (In Us $ Million

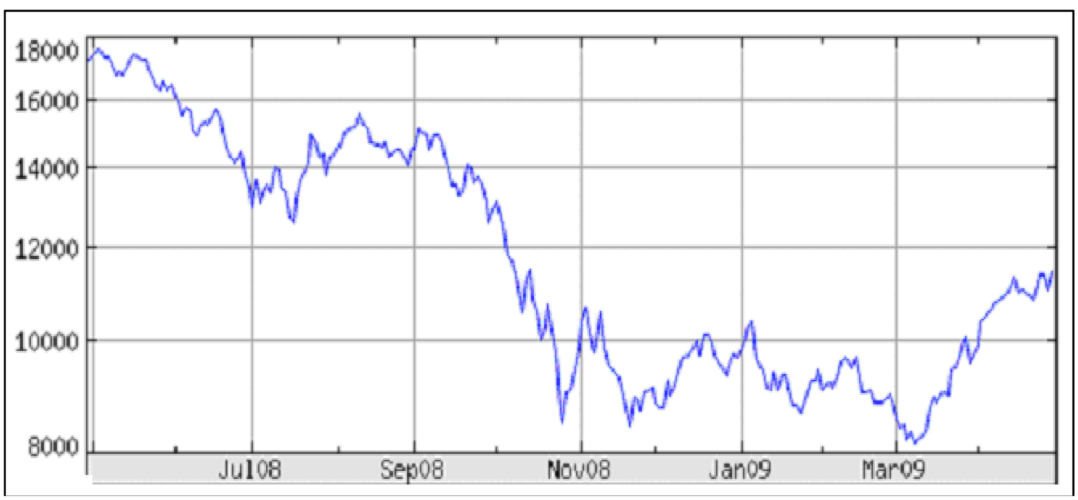
| Year | Amount |
|---|---|
| 1999-2000 | 2339 |
| 2000-01 | 2160 |
| 2001-02 | 1846 |
| 2002-03 | 562 |
| 2003-04 | 9949 |
| 2004-05 | 10272 |
| 2005-06 | 9332 |
| 2006-07 | 6707 |
| 2007-08 | 16040 |
| 2008-09* | -8857 |

*April-November, 2008-09




**Source:** Security and Exchange Board of India (SEBI)

The Sensex fell from its closing peak of 20873 on January 2008 to nearly 8000 in October-November 2008.




**Source:** Bombay Stock Exchange, India

**Fig 4:** Daily movements of BSE Sensex in 2008-09

**Table IV**

| Year | 2008-09 | 2009-10 | 2010-11** | May 2010* |
|---|---|---|---|---|
| **BSE Sensex*** | 9708.5 | 17527.8 | 17558.7 | 16944.6 |

**Source:** SEBI Bulletin, June 2010, Vol.8, Number-06
*As on the last trading day of respective financial year
** As on April 30, 2010

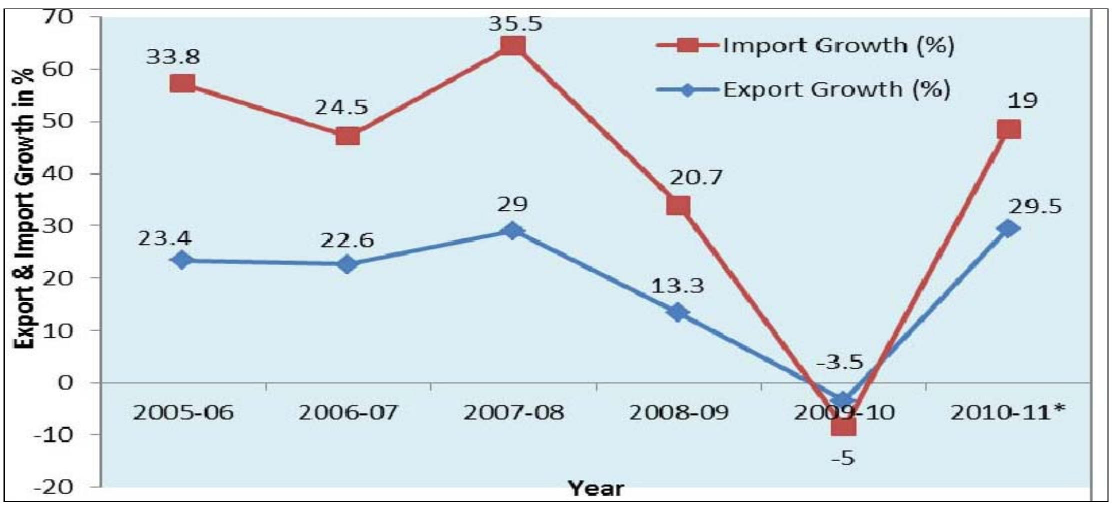
TABLE V: FOREIGN EXCHANGE RATE

| Month | Rupees per unit of Dollar | Appreciation/ Depreciation |
|---|---|---|
| March 2008 | 40.36 | - |
| April 2008 | 40.02 | +0.85 |
| May 2008 | 42.13 | -4.2 |
| June 2008 | 42.82 | -5.74 |
| July 2008 | 42.84 | -5.79 |
| Aug 2008 | 42.91 | -5.95 |
| Sep 2008 | 45.56 | -11.42 |
| Oct 2008 | 48.66 | -17.05 |
| Nov 2008 | 49.00 | -17.64 |
| Dec 2008 | 48.63 | -17.01 |

Source: Monthly Economic Report, Ministry of Finance, Government of India

**Fig 5:** Foreign Exchange Rate (Rupees per unit of Dollar)

Trend of India's Export and Import (Growth in %)




**Impact on Indian Economy**

The main Inflow and Outflow can be categorized as follows:

Main USD Inflow:

1. Export earnings:
2. IT Sector Earnings
3. NRI Remittances
4. Foreign Direct Investments (FDI)
5. Portfolio Investment
6. Loans from other governments, IMF, World Bank, etc
7. External Commercial Borrowings (ECB)

**The Recession**

India is facing the position of recession as globalization showing its negative scenario. As it was started in US and now it's touching the boundary of India also. Recession is a phase in which rupee depreciate, cash crunches, money market slowdown, inflation comes. All in all it's become difficult to bring money from the pocket of an individual. As we know price of the steel, iron goes up, we would like to postpone our purchasing but if we won't spend, how producer could makes his bread. If the producer starts reducing the price of the commodity with such belief that customer buy the product in all case. This will bring only when he starts cutting its cost of production. Cost cutting means reduction in variable cost. As price of steel, iron, equipments, machinery, are

touching sky, only way to reduce the cost is the reduction in employees. Hence people fear of their job security.

In fear of the job security, people are generally shifting their purchasing. All of them either producer, investor, customer, employee posing each other to create recession Negative Aspect of Recession on Indian Economy As recession have various negative effects on Indian economy. The capital market was facing the downfall, liquidity is dropping down, an individual don't have money to spend, producers are increasing their price, but to cope with market they are creating deployment. Positive effect of recession on Indian economy The recession in US led to decrease in demand... Economic Slowdown/Recession of 2008 The recent slowdown (2008) in the North American macroeconomic environment also follows the same trends as its predecessors. Typically an economic slowdown is defined as an economy which has

- Declining aggregate demand
- Contracting employment/rising unemployment
- Sharp fall in business confidence & profits including a reduction in investment spending
- Reduced inventory levels and heavy discounting,
- Falling demand for imports
- Increased government borrowing
- Lower central banks interest rates.

**Conclusion**

Indian economy has been hurt by the global financial recession, but India may be in better position with quick recovery and for future growth than many of the other economics as Indian banks did not have significant exposure to Sub-prime loans in the U.S. RBI's decisions to appropriate use of a range of instruments such as CRR, Repo/Reverse Repo rate, SLR MSS and LAF are in the right direction and taken in time. There is currently a high level of activity amongst the business support community with a key focus on ensuring businesses survive the downturn. A challenging and critical focus on the basics, or fundamentals of businesses, is likely to give local companies the best chance of survival over the next year.

After watching so many positive points we Indians can ourselves that we are quite in a safer place in comparison to many developed countries economy. To conclude lets hope for a stronger India by rectifying all its economic weaknesses after this so called financial crunch. Hence, the growth of the public sector and the narrow reliance on financial services for growth needs to change, with manufacturers and exporters having particular attention paid to them. After watching so many positive points we Indians can ourselves that we are quite in a safer place in comparison to many developed countries economy.

**References**


1. Patnaik, Prabhat. The Value of Money, Tulia Books, New Delhi, 2008.
2. Reserve Bank of India Annual Policy Statement for the Year 2008-09, April. Reserve Bank of India, Mumbai, 2008,
3. Reserve Bank of India, Weekly Statistical Supplement, Reserve Bank of India, Mumbai.
4. SEBI Bulletin, Security and Exchange Board of India (SEBI). Mumbai. 2010; 8(06)
5. Economic Survey 2010-11, Ministry of Finance, Government of India, New Delhi.
6. Hand Book of Statistics on Indian Economy 2009-10, Reserve Bank of India.
7. Table I: Trends In GDP At Factor Cost In Rs. Crore Source: Central Statistical Organization, Government of India
8. Table 2: Index of Industrial Production (Growth) Source: Central Statistical Organization, Government of India
9. Table 3: Net Investment of FIIS at Monthly Exchange Rate (In Us $ Million Source: Bombay Stock Exchange, India, Fig.4. Daily movements of BSE Sensex in, 2008-09
10. Table 4: As on the last trading day of respective financial year ** As on April 30, 2010 Source: SEBI Bulletin, 2010; 8(6).