



Greece Crisis- Well Placed India to Ride Out

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ABSTRACT

In an increasingly interdependent financial world the recent Greece economic crisis has had a cascading effect on the economies across nations. The crisis also impacted the Indian economy, this paper attempts to analyze the various issues and factors that led to the crisis in the Greece and its varied impacts on the Indian economy. The research has done to know does this crisis in Greece have any safe mode for India. The crisis responses by the government and the RBI as also the policy options have been outlined to facilitate proper understanding of the subject and its wider ramifications.

KEYWORDS : Reserve bank of india, Greece crises, positive impact on india**Introduction:-**

The Greece economy had traditionally been stable. In the past, there has been a certain degree of attractiveness in Greece as an investment destination. The country has a robust legal and tax framework offering incentives, such as subsidies or grant exemptions for attracting foreign investors. More importantly, it was a part of the EU and therefore considered a safe market. This crisis brings to the forefront thoughts on how fragile the economy really was. There could be some "knock-on impact" on India but it would be transient, the crisis in Greece could result in two absolutely diverse situations the crisis in the European nation might trigger large outflows from India if foreign investors became risk averse. Also India could attract large inflows since it was a stable emerging economy with high growth potential, the country had enough buffers, including foreign exchange reserves, to protect against any possible adverse impact due to the Greece crisis would do the exchange rate, how the Euro would react to any Greece issue, and how any untoward developments in Greece could lead to a risk of sentiments among the global investors- all these could have indirect impact.

Importants fact about Indian economy:-

- 1. Interest rate differential:-** overall situation in India and the kind of interest differential is one of the more attractive which is there between India and other emerging markets or even developed country for markets when it comes to debt inflow.
- 2. Foreign inflow:-** Indian policy has been very prudent on foreign inflows. There have been substantial foreign inflows well over \$60 billion into the Indian debt and equities over the last more than last few months
- 3. Foreign debt:-**foreign debt as a percentage of GDP is under control in India and the expected growth is 7.10%, GDP considered as a yardstick for the standard of living for the population of a country.
- 4. Foreign reserve:-**with foreign exchange reserves of \$355.46 billion, relatively stable currency and improved fundamentals as of June 19, India's Economy would be able to withstand any impact from the crisis in Greece because of stronger foreign exchange reserves.
- 5. Exposure to Greece:-**India's direct exposure to Greece is very limited and unless there is a contagion impact to other European countries, should not be much of a worry. Possibility of outflows could be there if bond yields rise in Europe. But overall macro Economic parameters decent for India.
- 6. Plan for aggregator NBFCs in offing:-**the Governor also announced that the RBI would put in place a regulatory framework to allow a new kind of non banking finance company (NBFC), which could act as an account aggregator to enable the common man to see all his accounts across financial institutions in a common format. The idea of such an NBFC had emanated from the Financial Stability and Development Council.
- 7. Euro effect:-**Europe has been caught in a severe debt crisis that has hit the Euro. Euro the 16 nation common currency, tumbled to a four year low against the greenback after it slid below the \$1.2150 level as we are seeing, the effects of

this crisis have been felt throughout Europe. It is important to gauge the effect of this crisis on India. If the value of Euro goes down, trade between the member countries and India would be largely affected. The uncertainty may lead investors to Gold and Dollar to be on the safer side. This, in turn would make Dollar stronger as compared to Indian rupees, which in turn would make imports expensive and exports cheap. Likewise, oil prices would be affected. As the clock ticks by, the worlds wait in apprehension of an approaching upheaval in the world Economy. In the currency market, Euro turned weak against the Indian rupee to RS 70.97, from Rs 71.25 in the last trading session, even as the US Dollar and British pound gained. The fair value of tangible assets, securities, intellectual property is linked with the euro. Cash flows of banks and companies have been impacted. For example the Indian rupee has appreciated from Rs 70 to Rs 56 vis-à-vis the euro in just a few months. The impact of this variation on the fair value of securities and inventories can be substantial. Banks for example, are affected on market-to market losses on the sovereign assets they own. Credit losses can lead to drying up of bank funding raising solvency and liquidity concerns. Overall, the complete effect of the crisis is yet to be felt. While one can be content with the defense that Indian fundamentals are strong, it will be wise not to ignore some of the ominous warnings. Indeed if the government reacts to this crisis similar to how it had two years earlier, it will help negate the plausible adverse impact on the Indian Economy substantially.

- 8. Market effect:-** the markets in India, however saw up and down in reaction to Greece 's announcement that it would not pay the loan installment to IMF. As a result, on 29 June sensx dropped 600 points before closing the day down 167 points, while Nifty dropped 62 points, to close the day at Rs 8,318. The rupee lost 0.29 paise to the dollar closing at Rs 63.73. Gold traded at Rs 26,950 per 10 grams, Rs 240 higher, while silver gained Rs 300 to touch Rs 36,700 per kg. Global markets, were heading south on 29 June, with the low industrial average 1.97 % lower, S&P 500 2.09% lower, and the Nasdaq composite ending 2.4% down. India, with its \$355 billion in forex reserves, CAD at less than 1.5% and inflation remaining in control, is better placed to handle any emerging situation. The resilience was showing on 30 June with the markets showing a recovery as on 1100 hrs IST, with sensx up 37 points around 27,679 regions and the Nifty in the region of 8,333 up 14 points. India may see a slowdown in the global Economy which will impact its projected growth, however, with the economy growing mainly on account of domestic demand, India is better placed to ride out the impending international slowdown,. The extent of the impact remains to be seen.
- 9. Trade effect:-** as a result of the depending global financial crisis in 2008, India's export growth rate started plummeting from the high 40 per cent to 63 per cent range witnessed during April to August 2008 to 26.1 per cent in September, turning negative from October 2008 to October 2009 with a low 4.2 per cent. As per the Economic Survey 2010, this type of situation has not been witnessed in the last 24

years. Growth in world trade volume of 5.8 per cent and 6.3 per cent for 2010 and 2011, It is expected that the effect on trade will be lesser than that on the markets. Therefore, the effect of trade cannot be wholly ignored but needs to be managed appropriately. The question one needs ask is whether Greece matters from a trading perspective. Greece is not one of the larger trading partners of India. Only 0.05 per cent of India's exports go to Greece and Indian banks have virtually no direct exposure to Greece. Therefore purely from a trade perspective, the direct effect is expected to be minimal. Subsequent concerns of the crisis spreading to Spain and Portugal may result in larger ramifications for India. Importantly, the focus should be India's trade with the Euro zone region. One of the largest trading partners of India is Germany which incidentally is also one of the rescuers for Greece in this crisis. If Germany suffers, the effect on India is going to be harsher. Couple this with the fact that of the top ten trading partners for India; at least three are directly from the Euro zone. Any long term economic downturn or instability in Europe is bound to affect India's trade position. It may be expected that if Europe does not recover, the macro-economic impact could have a more severe effect on the Indian economy than the financial impact.

10. Strength and indirect effect:-

- The manufacturing sector and service sector has been performing better.
- The foreign institutional investors have put in almost 484.2 million US Dollar in buying Indian equities in the ongoing financial year.
- Fall in crude oil prices.
- The dollar has strengthened.
- High expected growth rate above 7%.

Trouble for India:-

- Flow of money:-** Financial markets get screwed if one market goes down. Investors in US and elsewhere would pull out money out of India and other foreign stocks for the losses in Greece, when investors pull money away, Indian stock markets will crash at some extent that will affect Indian companies.
- Export:-** India's largest trading partner is the EU. Trouble will affect India's exports nearly \$40 billion every year to EU (2.4 lakh crores).
- Inflation:-** when world bond markets get into a problem, Indian government would find it tougher to borrow money and that would affect domestic investment & growth. It would also push down the currency and cause inflation.

ASSOCHAM forecasts for the economic growth of India:- the forecasts of the apex body ASSOCHAM, according to the paper "ASSOCHAM projections – Indian's growth performance in 2013-2014 Q2, furnished by the ASSOCHAM economic research bureau (AERB) are slightly more encouraging;; the paper confirms an agricultural growth of 4.25%, industrial growth of 3 % and services sector growth of 7% in the second quarter of the 2013-2014 fiscal year. The ample monsoon of 2013 had made it possible for 74% of the 622 districts of the nation to receive adequate rainfall. This had resulted in an increased cultivation of kharif crops covering an area of 1,033.6 lakh hectares as compared to the 979 lakh hectares for the same period last year. As confirmed by the ASSOCHAM report, such bumper agricultural yield will also contribute to the Economic growth of the country.

Expert opinion:-

"Since Greece issue is well known for some time, it is unlikely to cause as much correction as the 2008 global crisis,"

Nilesh Shah, MD, Kotak Mutual Fund.

"As the Greek debt crisis unfolds, India still remains a strong story and might be able to bounce back after a knee jerk reaction in case Greece' voters decide to leave the European Union."

Analysts on Dalal Street

"There is nothing to worry about this time (crisis) as India is well positioned compared to the previous crisis. This time we have foreign exchange reserves of \$355 billion, relatively stable currency and improved fundamentals,"

Rohit Gadia, Founder and CEO, Capital Via Global Research Ltd.

"India's growth story would be better than other economies as he sought to allay concerns over fall-out of Greek crisis on India."

Governor of Reserve Bank of India (RBI) Raghuram Rajan

"India from economic view point of view should not have any impact at all from Greece. If the monsoons are okay, oil prices lower, we could see another 25-50 bps cut in interest rates very quickly,"

Andrew Holland - CEO, Ambit Investment Advisors.

Conclusion:-

There could be some indirect effects on trade flows depending on how European Economies perform in the future.

The Greece debt crisis is not likely to have any direct impact on the Indian economy. There could be some indirect effects on trade flows depending on how European economies perform in the future.

The Indian financial markets have been stable and movements in equity markets have been orderly and in line with the economic fundamentals. In view of the fresh bailout agreement reached between Greece and its creditors, the prospects of stock market volatility looks unlikely in the near future.

Macroeconomic outcome in India remain strong and provides the required resilience to cope with the external shocks. Adequate foreign exchange reserves are there to manage the volatility that may arise in the exchange rate from such external stocks.

In short, while the potential for the economic growth of the country cannot be doubted, high inflation rates, a nearly unmanageable CAD, and the slump of the rupee in the international market are likely to reflect on the economic recovery of the country. Such deterring factors will evidently cause economic deceleration in the absence of prudent implementation of necessary economic reforms.

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