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Impact of the Global Meltdown on the Indian Economy

KEYWORDS

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ABSTRACT *Every person, now-a-days taking about global meltdown all over the world . The financial crisis not only affected the U.S.A. economy but also the economies of European and Asia. A global depression is likely to result in a fall in demand of all types of consumer goods. As of now India is facing major problems like the Share Markets are falling everyday, (However on the last day of September 2009 the Sensex was about 17000), Rupee is weakening against dollars and our banks are facing severe crash crunch resulting in shortage of liquidity in the market. Recessions are generally believed to be caused by a widespread drop in spending. Governments usually respond to recessions by adopting expansionary macroeconomic policies, such as increasing money supply, reducing cost and funds, increasing government spending and decreasing taxation.*

INTRODUCTION

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. The financial crisis not only affected the U.S.A. economy but also the economies of European and Asia. A global depression is likely to result in a fall in demand of all types of consumer goods. The impact of global slowdown on India's economy is impacting the employment scenario in India. Many export orders are getting cancelled and laborers depending on this Industry are almost in the verge of loosing their livelihood. Over 90 percent units in the textile and clothing are in the SME sector, which is also the most labour intensive sector in our manufacturing industry as a whole. The entire textile value chain is currently undergoing a grave crisis. A financial crisis could cause workers' earnings to fall as jobs were lost in formal sector demand for services provided by the informal sector declined and working hours and real wages were cut. When formal sector workers who have lost their jobs entered the informal sector, they put additional pressure on informal LABOUR markets.

MEANING OF 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. 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 two 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.

TYPE OF RECESSIONS

The type and shape of recessions are distinctive. In the US, V-shaped, or short-and-sharp contractions followed by rapid and sustained recovery, occurred in 1954 and 1990–91; U-shaped (prolonged slump) in 1974–75, and W-shaped, or double-dip recessions in 1949 and 1980–82. Japan's 1993–94 recessions was U-shaped and its 8-out-of-9 quarters of contraction in 1997–99 can be described as L-shaped. Korea, Hong Kong and South-east Asia experienced U-shaped recessions in 1997–98, although Thailand's eight consecutive quarters of decline should be termed L-shaped.

OBJECTIVES OF THE STUDY

√ To find out the frame work of both the concepts of Global Recession and Indian economy.
√ To analyze the implication of Recession occurred during the period 2007-2009.
√ To analyze the causes and effects of Recession in India.

PERIOD OF THE STUDY

This study is made in order to find out the contribution of the impact of global recession on Indian economy from 2006-2007 to 2010-2011.The recession period was December 2007-July 2009:19 months.

TRENDS IN GDP AT FACTOR COST

The Indian economy has shown negative impact of the recent global financial meltdown. Though the public sector in India, including nationalized banks could somehow insulate the injurious effects of globalization as we are also part of the globalization strategy of neo-liberalization, there is a limit of our ability to resist global recession, which may change into a great depression. The impact of the crisis was significantly different for the Indian economy as opposed to the western developed nations.

TABLE- 1
TRENDS IN GDP AT FACTOR COST IN RS.CRORE

Year	GDP (2005-11 price)	Growth in %
2005-06	3254216	9.5
2006-07	3566011	9.6
2007-08	3898958	9.3
2008-09	4162509	6.8
2009-10	443743	8.0
2010-11	4879232	8.6

Source: Central Statistical Organisation

CHART- 1
TRENDS IN GDP AT FACTOR COST IN RS.CRORE

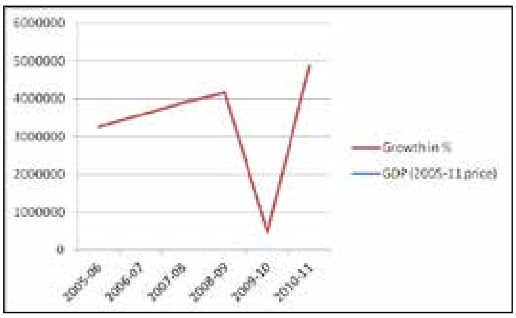

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Table I shows that in 2006-07 the GDP growth rate was 9.6% which became 9.3% in 2007-08 and due to the impact of recent global financial crisis, the growth rate of Indian economy became declining for the year 2008-09, it reduced to 6.8%.

INDEX OF INDUSTRIAL PRODUCTION GROWTH

During recession industrial growth was also faltering. India's industrial sector has suffered from the depressed demand conditions in its export markets, as well as from suppressed domestic demand due to the slow generation of employment. As per the index of industrial production (IIP) data released by CSO, the overall growth in 2008-2009 was 3.2 percent compared to a growth of 8.7 percent in 2007-08

TABLE-2
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%	11.2%

Sources: Central Statistical Organization, Government of India.

CHART-2
INDEX OF INDUSTRIAL PRODUCTION GROWTH

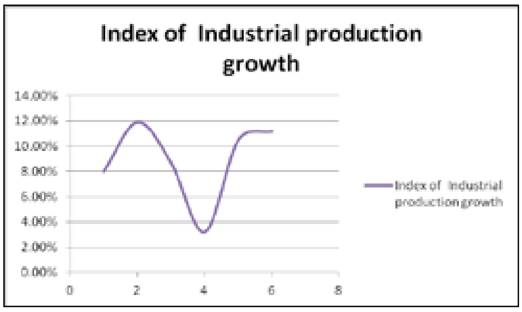

Table 2 shows that in 2006-07 the Industrial production growth rate was 11.6% which became 8.7% in 2007-08 and due to the impact of recent global financial crisis the industrial growth rate was 3.2 % during the period 2008-09.

NET INVESTMENT OF FIIs AT MONTHLY EXCHANGE RATE(IN US $)

The most immediate effect of that crisis on India has been an outflow of foreign Institutional investment from the equity market. Foreign Institutional Investments (FIIs), which need to retrench assets in order to cover losses in their home countries and were seeking havens of safety in an uncertain environment, have become major sellers in Indian markets. As FIIs pull out their money from the stock market, the large corporate no doubt have affected, the worst affected was likely to be the exports and small and marginal enterprises that contribute significantly to employment generation.

TABLE -3
NET INVESTMENT OF FIIS AT MONTHLY EXCHANGE RATE(IN US $)

Year	Amount (Million$)
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

Source: Central Statistical Organisation

CHART-3
NET INVESTMENT OF FIIs AT MONTHLY EXCHANGE RATE(IN US)

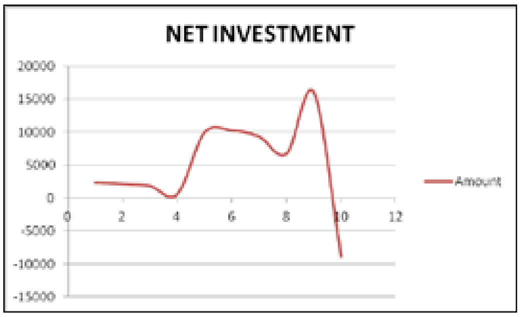

Table 3 shows that in 1999-2000 the Net Investment of FIIs was 2339 million US$ which became 16040 million US$ in 2007-08 and due to the impact of recent global financial crisis the FIIs was negative to -8857 million US$.

MOVEMENTS OF BSE SENSEX

The Indian market is having more potential to meet the demand and also having productive resources compares to any economy. The recent crash in the Sensex was not simply an indicator of the impact of international contagion. There have been warning signals and signs of fragility in Indian finance during that time and those were likely to be compounded by trends in real economy.

TABLE- 4
DAILY MOVEMENTS OF BSE SENSEX IN 2008-11

Year	2008-09	2009-10	2010-11
BSE Sensex	9708.5	17527.8	16944.6

Sources: SEBI Bulletin

CHART- 4
DAILY MOVEMENTS OF BSE SENSEX IN 2008-11

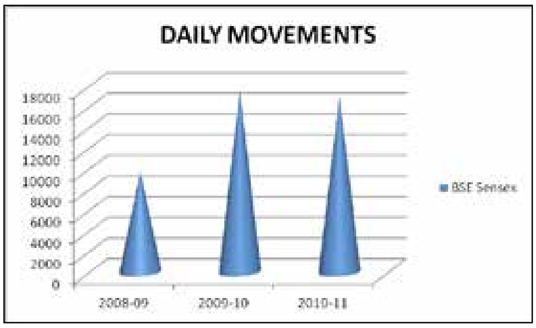

Table 4 highlights the daily movements of BSE Sensex for the year 2008-09 to 2010-11. Due to recession period there was a collapse in stock prices. As a result, the last trading day of 2008-09, the BSE Sensex was 9708.5.

FOREIGN EXCHANGE RATE

Foreign Exchange rates also affected due to global recession. The following table highlights Foreign exchange rate March 2008 to December 2008.

TABLE - 5
FOREIGN EXCHANGE RATE

Month	Rupees per unit of Dollar	Appreciation/ Depreciation
Mar 2008	40.36	-
Apr 2008	40.02	0.85
May 2008	42.13	-4.02
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

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CHART- 5
FOREIGN EXCHANGE RATE

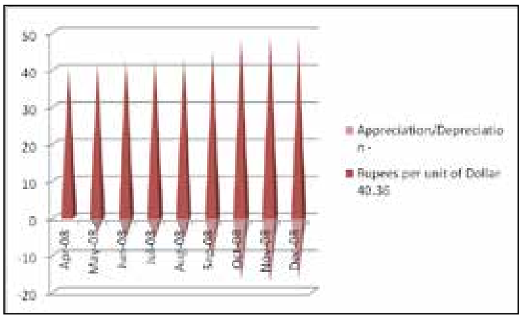


Table.5 also shows that the March 2008 rupee per unit of dollar value Rs.40.36 at the end of the year the value of rupee increased Rs.48.63. The currency depreciation may also affected consumer prices and the higher cost of imported goods, poor individuals and households that spend much of their income on essentials goods.

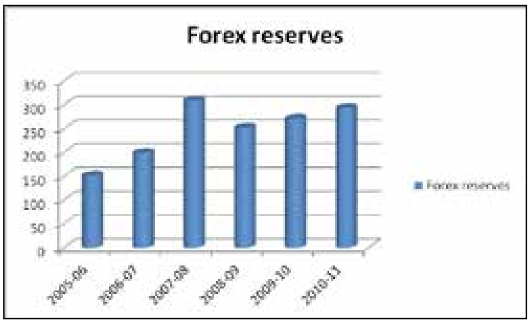
FOREX RESERVES

The foreign exchange market came under pressure because of reversal of capital flows as part of the global decelerating process. Foreign exchange reserves were depleting. It was $ 309.7 billion in 2007-08 and came down to $252.0 billion in 2008-09, which shows the direct impact of the financial crisis on India's foreign exchange reserves. (Table VI and Fig.6)

TABLE - 6
FOREX RESERVES

Year	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Forex Reserves	151.6	199.2	309.7	252.0	271.21	293.3

CHART- 6
FOREX RESERVES



INDIA'S FOREIGN TRADE

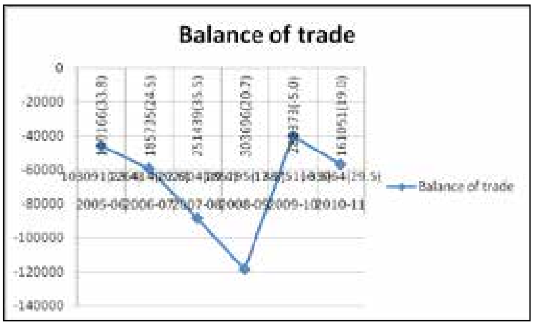
The shrinking of aggregate in the world market as a consequence of the crisis has hurt the exporting, manufacturing industries in the country. Table (VII) shows that in 2007-08, India's export and import were $162904million and $251439 million respectively and balance of payment was $ -88535 million. And in 2008-09, export and import were $185295 million and $303696 million respectively. The balance of payment was $ -118401 million.

The growth rate of export and import also declined to 13.3 percent and 20.7 percent from 29.0 and 35.5 percent respectively during that period. In 2009-10 the export and import further declined very much to $178751 million and$288373 million respectively. In 2009-10 the export growth rate was -3.5 percent and import growth rate was -5.0 percent. The balance of payment was $ -109622. This shows that India's exports are adversely affected by the slowdown in global markets.

TABLE -7
INDIA'S FOREIGN TRADE IN US $

Year	Export	Growth%	Import	Growth %	Balance of trade
2005-06	103091	23.4	149166	33.8	-46075
2006-07	126414	22.6	185735	24.5	-59321
2007-08	162904	29.0	251439	35.5	-88535
2008-09	185295	13.3	303696	20.7	-118401
2009-10	178751	-3.5	288373	-5.0	-40279
2010-11	105064	29.5	161051	19.0	-56620

CHART-7
INDIA'S FOREIGN TRADE IN US$



CONCLUSION

The Indian economy also affected by the spill- over effects of the global financial meltdown. The Indian economy not affected much more due to great saving habit among the people, strong fundamentals ,strong regulatory regime .The other direct impact of the global financial crisis has occurred in the area of credit availability to the small-scale agriculture and other rural livelihoods. The impact of the crisis on the rural sector, originated from the slowdown experienced by secondary and tertiary sectors. The fact that the present crisis adversely affected the manufacturing and service sectors imply that occupational diversification is more difficult to achieve. The most important lesson learn from the global crisis is that we must be of self reliant.

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