The Impact of Economic Recession on Different Sectors of Indian Economy

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ABSTRACT

These are indeed times of economic turbulence. Unstoppable India Increase has hit a speed-breaker and the slowdown is there for all to see. Loan load worries, job search constraints, and making frequent fund value and investment assessment for more liquidity options in portfolio management - all these are features of the global financial meltdown, proof that we are in the midst of one of the worst economic disasters or what is called the "worst global financial crisis since the Great Depression". The volatility of the developed economies has come to the developing economies in the era of transnationalisation. Indian job market are based on Wall Street, is clearly impacting on the Banks to folding up. Deals are getting postponed. Outsourcing Industry is feeling the insidious effect of banks going out of business and everyone is trying to protect his/her job. Just how bad is the financial crunch? What are its ingredients? What is its impact on Indian economy in general and the banking, food and railway sectors in particular? Some of the questions are addressed in this paper. Besides making an assessment of the current economic situation, this paper also tries to suggest some rational solutions to the problems at hand and the implementing ones.

INTRODUCTION

The current global financial crisis is rooted in the subprime crisis which seeming over a year ago in the united states of America. For the duration of the boom years, mortgage brokers attracted by the big commissions, encountered buyers with poor credit to accept housing mortgages with little or no down payment and without credit checks**.** Low interest rates and large inflow combinations of foreign funds during the booming years helped the banks to create easy credit conditions for many years.

HISTORY

There is no specific definition of a global recession, although the International Monetary Fund (IMF) regards periods when global growth is less than 3% to be global recessions. Global recessions seem to occur over a cycle through IMF fromlast 8 and 10 years. The past global recessions from three decades, global per capita output growth was become zero or negative.

According to economists, since 1854, the U.S. encountered 32 cycles of expansions and contractions of recession, with an average of 17 months of contraction and 38 months of expansion. However, since 1980 there have been only eight periods of negative economic growth over one fiscal quarter or moreand four periods considered recessions:

- July 1981 – November 1982: 14 months

- July 1990 – March 1991: 8 months
- March 2001 – November 2001: 8 months
- December 2007 – June 2009: 18 months

For the three decades of recessions, the NBER decision has approximately conformed to the definition involving two consecutive quarters of decline. In 2001 recession did not involve two consecutive quarters of decline, it was preceded by two quarters of alternating decline and weak growth.

United States

The United States housing market correction and subprime mortgage crisis has significantly contributed to a recession.The private consumption fall for the first time in 2008-09 recessions saw nearly 20 years. This indicates the severity &depth of the current position of recession. The impact of recession on consumer confidence causes low purchasing power and recovery will take a long time. The U.S. Consumers had hard hit by the current recession, with the value of their houses dropping and their pension savings decimated on the stock market. Consumers are not only have watched their wealth being eroded – they are now fearing for their jobs as unemployment rises.

DEFINITION OF RECESSION

"Recession means a decline in economic broad activity in economy, normally visible in gross domestic product (GDP), real income, employment, production and whole sale-retail sales."

In other words, recession is the situation business cease to expand, the GDP declining for two consecutive quarters, unemployment rise and housing prices decline.

CAUSES OF RECESSION

1. Decline in GDP growth.
2. Slowdown in manufacturing orders.
3. Decrease in housing price and sales.
4. Low business investment
5. ***High interest rate***: high interest rate is also a cause of recession. That's due to it limits liquidity, or the amount of money available to invest. In March 2000 the stock market declined, the Federal Reserve continued raising interest rates to a high of 6.25% in May 2000.
6. ***Decline in stock market:*** Since stocks are a piece of ownership in a company, the stock market is basically a vote of confidence in the future of all these companies, and therefore the U.S. economy itself. A drop of 11% points in a quarter indicates a sustained loss of confidence.
7. **Subprime mortgages**: This typically relates to unprecedented lending by banks. Subprime lending allowed people with less than ideal credit record to become house owner. This lending was done on higher interest rates and moreover such loans/credits can be used for financing other things like cars, furnishings or another house. 292% Sub-prime mortgages had increase from 2003-07.This resulted in increase in housing rates all over the world.

POSITIVE EFFECTS OFRECESSION ON DIFFERENT SECTOR OF INDIAN ECONOMY

1. **PSU BANKS:** It gained much confidence due to job safety and security. Secondly due to hard rules and regulations of reserve bank of India the public sector have not suffered a lot.

2. **RAILWAY:** Due to the reason rise in the air ticket rates the frequent travelers will prefer railway to cut the cost of travelling. Railway registered growth in revenue to Rs 57,863.90 crore in first nine months Dec. 31, 2008. The total earning from fright increase 14.53% and passenger revenue earning were up 11.81% at Rs. 16,242.44 crore.

3. **THE FAST FOOD SECTOR:** According to food processing industry of India this industry is presently growing at 14% against 6-7 percent growth in 2003-04. The Indian food market is estimated at over us $ 182 billion and accounts for about 2/3 of the total Indian retail market. If we take the example of McDonald’s world’s largest QSR chain in 2008. A global sale was 6.9 %and still McDonald’s going strong due to its sales increase by 7.1%. The expected growth of Indian fast food market is at a CAGR of 18% by 2020 due to changing trends consumer behavior.

NEGATIVE EFFECCTS OF RECESSION ON DIFFERENT SECTOR OF INDIAN ECONOMY

1. ***SHARE MARKET:***It was falling due to international banks withdraw the amount (investment) from the market. Because the international banks faced the problem of shortage of money.

2. ***THE INDIAN CURRENCY GOT WEAKEND AGAINST DOLLAR:*** Before recession banks continued to buy stock in India but now they are selling. The same stock thus converting rupee into dollars and weakening over currency.

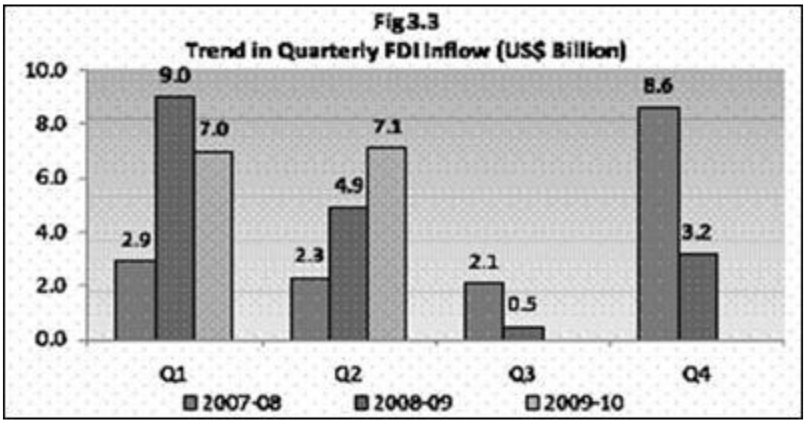
3. ***TRADE CHANNEL:*** When an economy falls into a recession, it impacts the affected country’s trading partners too. Failing household and business demand in the slump-hit economy hits the exports/imports of its trading partners.
   The share of export to excluding UK (EU) and imports from excluding UK has fallen over the years. EU constituted about 18.6% of total exports in 1987-88. This has declined to 17.5% by 2008-09. The decline of imports is higher from 25% to 12%. Hence, total between India and EMU is about 29.5% and could be impacted due to the crisis.

4. **EXPORT**: For the first time in five years, India's export growth has turned negative. In October 2008,Exportscontracted by 15% on a year-on-year basis. India's export market have been slowing40%, on account of OECD Economies which shouldn’t be a surprise.India's export growth had to fall sharply and the US & EU already entering a phase of recession. In 2003,it must be noted this growth contraction has come after a robust 25%plus average export growth since A low-to-negative growth in exports may continue for some time until consumption revives in the developed economies.

5. **JOBS:** Nearly 5, 00,000 people have already lost jobs due to falling sales and Global Economic Recession. Some companies are reducing working hours, implementing 5 days a week instead of 6 days which resulted in reduced income levels of workers. Tripura Exporters Association too found out that the slowdown may lead to a decline of 30% in orders resulting in job losses.

6. **FOREIGN DIRECT INVESTMENT:**The inflow of FDI experienced a declining trend in the first three quarters of 2008-09, but improvement shown in the fourth quarter. The sectors which received major part of this FDI inflow are the manufacturing sector (21.1%) followed by financial services (19.4%) and the construction sector (9.9%). The revival of capital flows

witnessed during the first quarter of 2009-10 gathered momentum during the second quarter of 2009-10.



<u>India's Economic View (outlook) for 2011-2012:</u>

To overcome this recession India is expected to work accordingly so that it can handle the recession quite elegantly. There are various sectors from where promising growth may appear and certain factors that may affect India's GDP adversely. These expected sectors are:

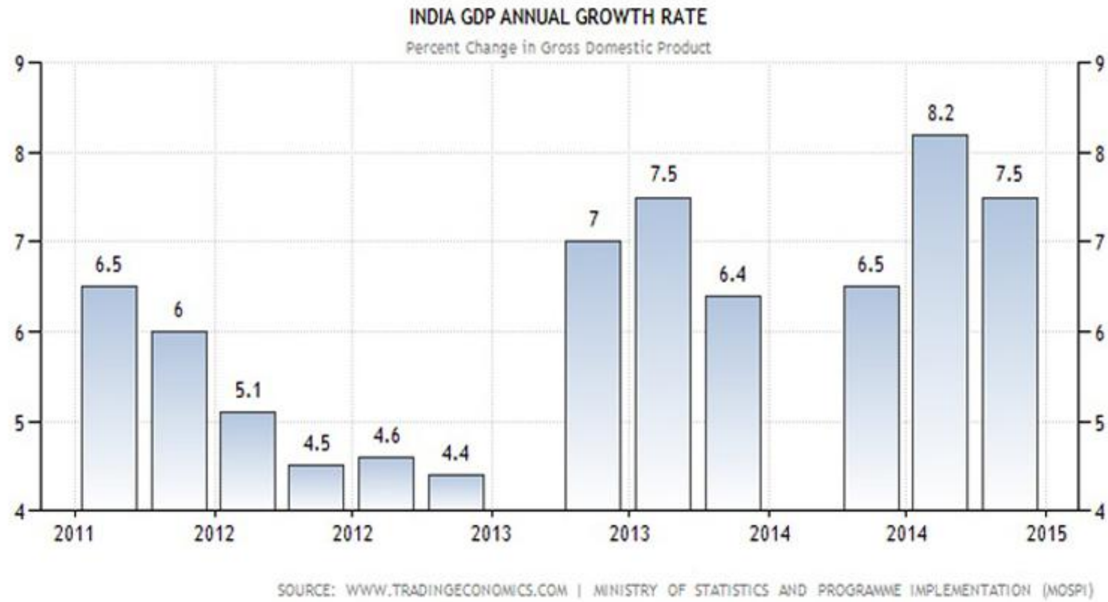
- Economy is expected to develop at 8.2 percent in 2011-12.
- **Agriculture** grew at 6.6 percent in 2010-11. Likely to nurture at 3.0 percent in 2011-12.
- **Industry grew** at 7.9 percent in 2010-11. Likely to nurture at 7.1 percent in 2011-12.
- **Services grew** at 9.4 percent in 2009-10. Likely to tend at 10.0 percent in 2011-12.
- The global economic and financial situation is not likely to improve according to the viewpoint.
- **Investment rates** are expected at 36.4 percent in 2010-11 and 36.7 percent in 2011-12.
- **Domestic savings rates** as a ratio of GDP are likely at 33.8 percent in 2010-11 and 34.0 percent in 2011-12.
- The 2011 monsoon is expected to be in the range of 90 percent to 96 percent of Long Period Average. The result is evaluated, farm sector output is expected to grow at 3 percent.
- The growth was grossly underestimated by the old series in 2007-08 and overestimated in 2008-09 and 2009-10.
- The impact of the Global Financial Crisis on industrial output was much stronger than had been indicated by the old series.
- In 2010-11 the output growth was higher at 8.2 percent against 7.8 percent indicated by the old series.
- Current Account deficit is US$44.3 billion (2.6 percent of GDP) in 2010-11 and likely at US$54.0 billion (2.7 percent of GDP) in 2011-12.
- **Capital flows** registered at US$61.9 billion in 2010-11 and are projected at $72.0 billion in 2011-12.
- **FDI inflows** projected at US$35 billion in 2011-12 against the level of US$23.4 billion in 2010-11.
- The headline inflation rate would continue to be at 9 percent in the month of July-October 2011. The some relief will starts from November and will decline to 6.5 percent in March 2012.
- RBI will have to continue to follow a fitted monetary policy till inflation shows definite signs of decline.
- Achieving fiscal targets set in 2011/12 budget estimates to present a significant challenge.
- Resolve issues with states and introduce Goods and Services Tax.
- Reforms in power sector distribution system to limit the liabilities of state governments.

ECONOMIC RECESSION

The phase, where the severe contraction in economic activities and economy shrinks for two consecutive quarters, known as Economic Recession.

According to National Bureau of Economic Research (NBER), “economic recession is significant decline in the economic activity spread across the country, lasting more than few months normally visible in real GDP, impacting growth in real personal income, employment, industrial production, wholesale and retail sales”.

The above view on economic recession takes over the economy focuses on the severe stress of entire economy. All necessary economic conditions like high employment, high growth, stability in currency rate etc become highly challenging under economic recession.



IMPACT OF ECONOMIC RECESSION ON INDIAN ECONOMY

When India integrated into global economy, it steadily increased since 1992, the year when India was having highly socialized and conservative economy. In 2007-08, India was well entrenched into globalized economy, though many of its critical sectors were not exposed due to global risks, owing to which Indian economy was largely saved from agonizing effect of economic recession. Irrespective of all the positive factors like robust domestic demand and minimal exposure to global risks, Indian economy in the long run would have to face popple effects of economic recession.

➢ OUTSOURCING A HELPING HAND FOR INDIA

Outsourcing:-Outsourcing is contracting with another company or person to do a particular function. Almost every organization outsources in some way. Typically, the function being outsourced is considered non-core to the business where India turns to see a very bright future because of the following reasons:

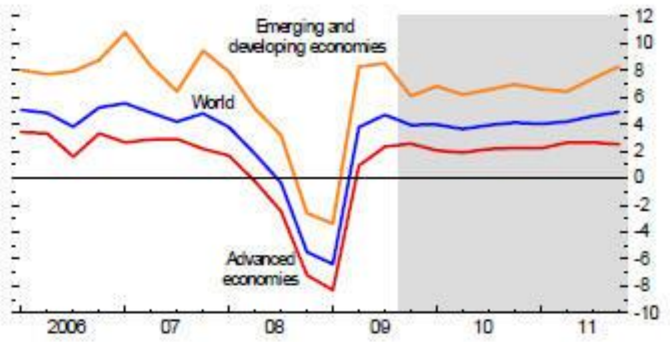
- Indian outsourcers will earn $220-280 billion by 2012

- Outsourcing consists of 7.7 percent of India's GDP BY 2017
- The outsourcing companies in India will earn $10.73 billion by 2011
- Salaries of the Indian software industry went up 18.7 percent in 2006
- Human Resource services went up by 8 percent in India in 2006
- Human Resource outsourcing improved by almost $18.9 billion in 2010
- Outsourcing of Mobile network raised to $55.3 billion in 2010

➢ <u>GLOBAL RECOVERY PROCESS</u>

The global recovery is off to a stronger start than anticipated earlier but is proceeding at different speeds in the various regions. In recent history, following the deepest global downturn of economic growth, solidified and broadened to advanced economies in the second half of 2009.The world output is expected to rise by 4 percent in 2010. This represents an upward revision of ¾ percentage point from the October 2009 World Economic Outlook. The recovery is expected to remain sluggish by past standards in most advanced economies, whereas in many emerging and developing economies activity is expected to be relatively vigorous, which largely driven by buoyant internal demand. Policies need to cultivate a rebalancing of global demand, remaining supportive where recoveries are not yet well sustained.

Figure 1. Global GDP Growth
(Percent; quarter-over-quarter, annualized)

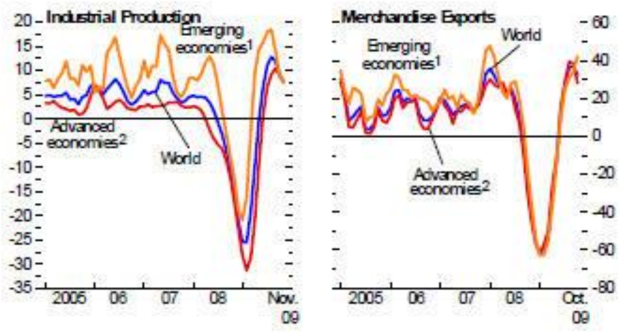


Source: IMF staff estimates.

➢ <u>THE EXTRAORDINARY POLICIES REBOUNDED TO REAL ACTIVITIES</u>

In the second half of 2009, Global production and trade bounced back. The confidence strongly rebounded on both the real fronts and the financial fronts, as an extraordinary policy supportedto prevent another major Depression. In economist point of view, the beginning of a turn in the inventory cycle and the unexpected strength in U.S. consumption contributed to positive developments. Final domestic demand was very strong in key emerging and developing economies, although the turn in the inventory cycle and the normalization of global trade also play as an important role.

Figure 2. Selected High-Frequency Indicators
(Annualized percent change of 3-month moving average over previous 3-month moving average unless otherwise noted)



Sources: Haver Analytics; and IMF staff calculations.
[1]Argentina, Brazil, Bulgaria, Chile, China, Colombia, Estonia, Hungary, India, Indonesia, Latvia, Lithuania, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Romania, Russia, Slovak Republic, South Africa, Thailand, Turkey, Ukraine, and Venezuela.
[2]Australia, Canada, Czech Republic, Denmark, euro area, Hong Kong SAR, Israel, Japan, Korea, New Zealand, Norway, Singapore, Sweden, Switzerland, Taiwan Province of China, United Kingdom, and United States.

THE CURRENT SCENARIO OF ECONOMIC RECESSION ON INDIAN ECONOMY

After sustaining aggression of economic recession for considerable period, today Indian economy seems to be standing on a very strong footing. There is an optimistic feeling among most of the economists that Indian economy has successfully shriveled the storm and will soon rebound to high growth orbit. Some economists however caution that since most developed countries are still reeling under economic recession, the road to economic recovery is not as easy as it seems. Recent economic downturn in Chinese economy is an indication that volatility in global economy is far from over and India cannot stay immune to it. The effective steps need to take by government towards leverage inherent strength of Indian economy to turn the tide of economic recession. Some of the most awaited economic reforms include passage of Goods and Services Tax Bill (GST) and corporate tax reforms.

CONCLUSION

The recession in U.S. and the global recession break down termed as global recession have overcome whole world economy with a variable grade of recession. Over the world the impact has spread and its impact saw on the share market, cutting down the salary and working hours in private sector industries, value of Indian currency got weakened compare to the us dollar and export also decline. But recession also some positive impacts on few areas such as railway, fast food sector and PSU banks also. Reduction in foreign direct investments is also the impact of recession; FDI plays an important role in the manufacturing concern. If taking the example of McDonald’s the sale increases/stable at the time of recession global sale was 6.9 %and still McDonald’s going strong due to its sales increase by 7.1%.The low effect of recession on few sectors such as at bank, reason behind that strict rules and regulations of the reserve bank of India. But in the competitive world some areas not cover up from the recession in which airlines companies such as kingfisher etc.The impact of economic recession though seen all over the world but some economies though not expected to come out of this spill over showed miracles like India because of its policies, low labor cost, strong agriculture background etc. as compared to the well established economies like US& Europe.The Economic Recession has been hurt to Indian economy, 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. After discussing so many positive points we Indians can save ourselves & are quite in a safer place in comparison to many developed countries economy. To conclude this research paper I would hope for a stronger India by rectifying all its economic weaknesses after this so called financial crunch. . India has many wonders to show but for that we all need to think innovatively and then we may live up beyond the expectations.

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