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Global Economic Recession: Indian Scenario

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Abstract

A recession is a decline in a country's gross domestic product (GDP) growth for two or more consecutive quarters of a year. This two-quarter metric is now a commonly held definition of a recession. A recession is also preceded by several quarters of slowing down. Recession is a phase in which currency depreciates, cash crunches, money market slows down, inflation comes. All in all it becomes difficult to take out money from the pocket of an individual. The global financial meltdown has come and gone but the ripples and effect will still remain fresh in the minds of many people for years to come. To those who were prepared, the economic recession was the best of times and to those who weren't prepared; it was the worst of times. The global economic recession came like a tsunami and swept away lots of businesses; both big and small. 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.

Key Words- global recession, causes, US crisis, Impact, Benefits and Conclusion
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I. INTRODUCTION

America is the most effected country due to global recession, which comes as a bad news for India. India has most outsourcing deals from the US. Even our exports to US have increased over the years. Exports for January declined by 22 per cent. And as the cliché goes, whenever the US sneezes, the world catches a cold. This evident became true when Indian markets crashed because of recession in the US and all over the globe. Weakening of the American economy was bad news, not just for India, but also rest of the world too.

Recession is 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.

The global financial crisis has spread rapidly since the fall of 2008, which put down the economies throughout the world. It has resulted in the collapse of large financial institutions, the "bail out" of banks by national governments and downturns in stock markets around the world. It is considered by many economists to be the worst financial crisis since the Great Depression of the 1930s. It

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contributed to the failure of key businesses, declines in consumer wealth estimated in the trillions of U.S. dollars, substantial financial commitments incurred by governments, and a significant decline in economic activity. Many causes have been proposed, with varying weight assigned by experts. Both market-based and regulatory solutions have been implemented or are under consideration while significant risks remain for the world economy over the 2010–2011 periods.

What is Recession? And Who Declares it.
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. In simple words Recession can be defined as contraction phase of the business cycle. National Bureau of Economic Research (NBER) is the official agency in charge of declaring that the economy is in a state of recession. They defines Recession as : "significant decline in economic activity lasting more than a few months, which is normally visible as decline in GDP, Income, Employment, Industrial Production, and Wholesale-Retail sales".

What Causes Recession?
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. Review of literature

Although the views of the authors towards the causes of Great Recession of 2008-2011 vary depending on their findings and other factors, it is agreed by many economists that the main factor that led to financial crisis in 2008 was liberalization of financial markets and lack of control and regulations over the financial institutions and their activities towards risk taking. Stiglitz (2008) states that one of the main causes of financial recession was failure of policymakers in tightening the regulations and dishonesty of financial institutions.
According to Tropeano (2010) the roots of the financial crisis and main causes that led to recession were low interest rates that encouraged excessive borrowing by the investors worldwide. Investors were highly involved in excessive borrowing in low interest rates and investing in lucrative businesses.
Due to high demand for funds by the investors, banks could no longer provide loans to their clients until a new financial innovation, sub-prime mortgages were introduced. American banks started to sell mortgage packages to the investors worldwide in order to generate as much funds as possible. However, banks were not directly responsible for default cases by the mortgage holders and did not have incentive for proper checking the credibility of the mortgage holders. The author states that the default cases on mortgage payments were the points where the financial crisis flamed.

III. Objectives of the Study

a) To know the causes of recession.

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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.

IV. Research Methodology

The present research paper is an attempt of exploratory research, based on the secondary data sourced from journals, reports, websites and aricles.Considering the above objectives; available secondary data is extensively used for the study. Different articles, journals, reports and websites were used which are enumerated and recorded.

V. IMPACT ON INDIAN ECONOMY

Indian companies have major outsourcing deals from the US. India's exports to the US have also grown substantially over the years. For the first time in five years, India’s export growth has turned negative. Exports for October 2008 contracted by 15% on a year-on-year basis as over 40% of India’s export market had been slowing for months. This became on those reasons due to recession stroked India.

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. 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.
 Rural demand continues to be robust due to
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.

VI. Effect of Recession On Different Sectors Of The Country

- **Share Market**

Most people have sold the shares. Foreign investors have pulled out from stock market. The Indian stock markets also crashed due to the slowdown in the U.S economy. The Sensex crashed by nearly 13% in just two trading sessions in January People chose saving money rather than investing them in stock market.

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- **Information technology industry**

Recruitment by IT companies at IIT Kanpur has gone down from 130 students in 2007 to 72 in 2008. IT companies are predicted a drop of 15% in growth from 30% in BPO sector. India's outsourcing industry slowed down.

- **Real Estate Sector**

One of the casualties during this time was real estate, building projects were half done all over the country and in this tight liquidity situation developers find it difficult to raise finance. The demand for houses had reduced significantly and property prices across India has registered 15-20% fall .Lehman Brothers had signed a partnership with some of the real estate companies like Peninsula Land Ltd and DLF Assets because of heavy losses.

- **Industrial Sector**

Government and other private companies are reluctant in starting new ventures and starting new projects. Projects were halfway to complete, or companies got stuck with cash flow were unable to reach breakeven, and were running out of cash. Companies in the private sector and government sector hesitated to take up new projects and continued working on existing project. As very less new production were taking place, this leaded to loss of export deals and created unemployment.

- **Banking sector**

As companies were in loss many banks suffered crises in recovering loans which in turn had an adverse effect on economy and also created liquidity crunch. Falling down of Lehman had a great impact on the leading international bank, ICICI Bank, a bank that had invested in Lehman's bonds. This meltdown even had covered the Axis Bank but not to a great extent Central banks have worked to improve liquidity but were charging higher credits. The interest rates have drastically increased from 11.5% to nearly about 16%.

- **Agricultural Sector**

There had been sharp decline in the exports of agricultural products specifically to countries including the US and Europe during April 2008-February 2009, the value of export declined from $1,682 million to $735 million to the United States. There is a ban virtually on all food grains exports, rice and wheat are banned.

- **Export**

Due to decreasing $ rate against Indian rupees exporters were earning less. The exporters increase their prices so as to receive the same in rupees as they did before, the demand of their commodities felt and lead to income greater losses. As such in the case of a depreciating dollar, exporters had to bear the loss as a cut in margins which in some cases leaded to loss. This lead to an adverse effect on India's economy and lead to a long term loss to India's growth.

- **Import**

India imports generally Petroleum products, capital goods, fertilizers, chemicals, pulp and uncut stones. The importers in the case of a stronger rupee now had to pay more for the same commodity as the exporter increased the price for the same. Thus it also lead to hike in price and fall in demand having effect on economy.

- **FDI**

Foreign Direct Investment is the investment by foreign nationals in a country's industries. In case of weakening of US$, there will be lesser funds in terms of rupees, invested by the US citizens and thus the FDI from US as such will be effected adversely.

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VII. Global Recession 2013
The European recession is part of the Great Recession, which began in the United States. The crisis spread to Europe rapidly and affected much of the region with several countries already in recession as of February 2009, and most others suffering marked economic setbacks. The global recession was first seen in Europe, as Ireland was the first country to fall in a recession. Subsequent follow-up recessions in 2010-2013 were confined to Belize, El Salvador, Paraguay, Jamaica, Japan, Taiwan, New Zealand and 24 out of 50 European countries (including Greece). As of October 2014, only five out of the 71 countries with available quarterly data (Cyprus, Italy, Croatia, Belize and El Salvador), were still in ongoing recessions. The many follow-up recessions hitting the European countries, are commonly referred to as being direct repercussions of the European sovereign debt crisis. 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%

VIII. Various Steps Taken By RBI to Curb the 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 (Prime Lending Rate) 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 business/ industry is in dolled rum 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 continuous flow of liquidity which is derived from the market.
In present situation down fall in one sector one day leads to a negative impact on the other sector thus altogether 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.

IX. Recession –Related Problems and Benefits

Classical economists recognized the beneficial effects of recessions much more than economists today. In fact, the classical economic system saw no need for the government to become involved in attempting to soften or eliminate recessions (laissez-faire). Government's role was more micro-oriented (encourage factor mobility and productivity, and maintain competition).

This paper focuses on developing a list of benefits that result from the "corrective effects" of recessions. These benefits do not necessarily imply that we should allow recessions to follow their natural courses, but that we should be careful in our attempts to lessen the effects of recessions in order to avoid preventing the proper corrective effects from occurring
In order to get a better handle on these benefits, we should consider the problems that lead to or are the result of recessions. The following list is not meant to be exhaustive but is designed to lead into a discussion of the corrective effects (benefits) that recessions should bring.

Problem Number One: A product (good or service) that is no longer generating the value it once did for consumers is usually one of the first to feel the effects of a recession. This problem can result from a number of factors ranging from increased competition whose product(s) are a better value to consumers to products that are in the later maturity or even declining stages of their product life cycles (for example video and audio tapes). Benefit Number One: accelerated examination of products to create more value to the Consumer is a product of recessions which force companies to work harder to attract the consumer's dollar either by lowering prices, improving service, or improving product quality. Problem Number Two: Increasing Indebtedness across all sectors of the economy (households, businesses, government). "Uncontrolled spending" is certainly a characteristic of the U.S. economy over the last fifty years. This spending has been fueled by a number of factors including expansive fiscal and monetary policy which has put more liquidity into the U.S.
economy; the lure of advertising and its ally materialistic hedonism; and the lack of concern over mounting indebtedness, and the pressures and changes in lifestyle this generates.

Benefit Number Two: Reminder of the Importance of keeping accounts current and keeping spending and saving in the proper balance: The recession reminds individuals of the necessity of keeping accounts current and of keeping spending and saving in proper balance. Unfortunately, many learn this lesson the hard way by declaring bankruptcy. Interest expense is a fixed cost that remains unaffected by output and thus does not decrease during recessions, as do variable expenses. Recessions also force investors to evaluate more carefully their purchases and often produce necessary stock price adjustments such as the recent dot-com/technology stock bust.

Problem Number Three: A fall in overall productivity that has caused costs to increase to the point where the seller is no longer cost competitive. (For example, U.S. auto manufacturers took longer to produce a vehicle in the 1980’s compared to their Japanese counterparts). When the economy is in the expansion (prosperity) phase, there is a tendency to become complacent and even overly optimistic with regard to factors that affect productivity. When the bottom line (profits) begins to slide, the behavior is more reactive to the slide rather than proactive.

Benefit Number Three: re-examination of the production process and the improvement of productivity: recessions always transmit warnings in the form of falling or slowing sales, or falling productivity with its attendant rising costs, and it is these warnings that should motivate the seller to reexamine the production process and ferret-out inefficient, unproductive resources and production methods. (This has led to a significant amount of outsourcing in the last ten years.) Ideally, this reexamination should occur continuously but the pressure is greater during a recession.

Problem Number Four: Poor upper level management choices have put the company’s resources at risk either by overproduction in certain products or unwise entry into new markets. As was the case in Problem Two, the optimism attending an expansion period permeates upper level management

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resulting in "excessive" risk taking (A good example of this was the diversified expansion of former WorldCom into new unrelated markets.)

Benefit Number four: reassessment of strategies and policies and a thorough investigation of the use of the company's resources: the onset of a recession should be a catalyst for a careful examination of strategies and policies by upper level management, and the threat of recession should act as a positive constraint on the risk-taking decisions of the board and firm's executive officers. Thus both the threat of and occurrence of recession act as a positive tool in promoting responsibility through sound strategies and policies within the ranks of upper-level management.

X. 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.

XI. 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 whatever 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.

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4. Indian industries shall also slow down, especially the IT, call centers, 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 cash flow 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 lay off 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. 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".

Conclusion

It is concluded from the above discussion that global economic crisis has far reaching implications for the business organizations, employees and human resource management. The severe economic downturn has brought to the forefront many challenges and opportunities as well. To meet any eventuality caused by global economic crisis, we need to adopt preventive and promotional health approach to economy which is need oriented.

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