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# IMPACT OF RECESSION ON INDIAN ECONOMY

**MS. NIKHAR**
**R.K.S.D. College Kaithal**
**Haryana**

## Introduction

Recession is the significant decline in economic activity lasting more than a few months, which is normally visible in real GDP, real Income, employment, industrial production and retail business. A recession normally takes place when consumer loose confidence in the growth in economy and spend less. 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. 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 world is in doldrums situation and if this situation persists for a longer duration this may force small business enterprises to vanish as they have lower stability. To run smoothly they require continuous flow of liquidity which is dried out 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.

## GDP growth (annual %) in India

The GDP growth (annual %) in India was last reported at 8.81 in 2010, according to a World Bank report released in 2011. The GDP growth (annual %) in India was 9.10 in 2009, according to a World Bank report, published in 2010. The GDP growth (annual %) in India was reported at 4.93 in 2008, according to the World Bank. Annual percentage growth rate of GDP at market prices based on constant local currency Aggregates are based on constant 2000 U.S. dollars. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. This page includes a historical data chart, news and forecast for GDP growth (annual %) in India. India's diverse economy encompasses traditional village farming, modern agriculture, handicrafts, a wide range of modern industries, and a multitude of services. Services are the major source of economic growth, accounting for more than half of India's output with less than one third of its labor force. The economy has posted an average growth rate of more than 7% in the decade since 1997, reducing poverty by about 10 percentage points.

## Impact on GDP Growth

Initial guidance provided by Ministry of Finance indicated a growth of 9 percent in 2011-12. However, recent developments, particularly the loss of momentum in industrial growth, show that this could be a difficult target to achieve. Continued tightening of monetary policy and further escalation in global oil prices are the key downside risks to growth in 2011-12. According to the advance estimates provided by the Central Statistics Office (CSO), GDP at factor cost at constant prices is expected to register a growth of 8.6 percent in the year 2012-2013. In the year 2012-13, GDP at factor cost at constant prices grew by 8.0 percent. Looking at numbers at the disaggregated level, we see that while agriculture and allied sector is projected to grow by 5.4 percent in 2012-2013, industry and services sector are projected to grow by 8.1 percent and 9.6 percent respectively.

Although the expected performance of the industry and services sector in 2012-2013 is not very different from what was seen in 2012-13 when industry grew by 8.0 percent and services grew by 10.1 percent, it is the much improved performance of the agriculture sector in 2012-2013 that is going to provide an uptick to overall GDP growth. It may be noted that growth in agriculture and allied sector in 2012-13 was muted at just about 0.4 percent. Another notable trend in growth rates at the sectoral level is the sharp decline seen in the case of community, social and personal services in 2012-2013. While in 2011-12, this segment posted a growth of 12.7 percent, in 2012-13 growth, though lower, was still a robust 11.8 percent. In 2012-2013, growth in this segment is expected to sharply go down to 5.7 percent. This trend is a reflection of modulation of additional expenditure that was undertaken by the government during the period of the global crisis. As private sector demand and expenditure is gaining strength, government has entered the fiscal consolidation mode and this has slowed the pace of expansion of community, social and personal services.

**Table 1 – Growth in GDP at factor cost by economic activity (2004-05 prices)**

| | | **2011-12** | **2012-13 (QE)** | **2012-13 (AE)** |
|---|---|---|---|---|
| 1 | Agriculture, forestry and fishing | -0.1 | 0.4 | 5.4 |
| 2 | Industry | 4.4 | 8.0 | 8.1 |
| A | Mining and quarrying | 1.3 | 6.9 | 6.2 |
| B | Manufacturing | 4.2 | 8.8 | 8.8 |
| C | Electricity, gas and water supply | 4.9 | 6.4 | 5.1 |
| D | Construction | 5.4 | 7.0 | 8.0 |
| 3 | Services | 10.1 | 10.1 | 9.6 |
| A | Trade, hotels, transport and communication | 7.6 | 9.7 | 11.0 |
| B | Financing, insurance, real estate and business services | 12.5 | 9.2 | 10.6 |
| C | Community, social and personal services | 12.7 | 11.8 | 5.7 |
| 4 | GDP at factor cost | 6.8 | 8.0 | 8.6 |
| **QE: Quick Estimates AE: Advance Estimates** | | **Source – Ministry of Finance, Government of India** | | |

**Table-2 GDP Real Growth Rate (% Change Year to Year)**

| Year | GDP-Real Growth Rate | Percent Change |
|---|---|---|
| 2003 | 4.30% | --- |
| 2004 | 8.30% | 93.02% |
| 2005 | 6.20% | -25.30% |
| 2006 | 8.40% | 35.48% |
| 2007 | 9.20% | 9.52% |
| **2008** | **9.00%** | **-2.17%** |
| **2009** | **7.40%** | **-17.78%** |
| 2010 | 7.40% | 0.00% |

**Source – Ministry of Finance, Government of India, 2012, 2013**

**Industrial Production**

Weakness in industrial production trend continues with IIP registering a growth of 7.8 percent during April-February 2012-2013 as against a growth of 10.0 percent seen during April-February 2012-13. Performance of the mining and manufacturing sectors has been particularly weak. Our forecasts show that growth in IIP is likely to weaken further from 3.6 percent in February 2011 to 1.4 percent in March 2011. Amongst use based industrial groups, capital goods sector again showed negative growth of 18.4 percent in February 2011. This comes on the back of similar performance in December 2010 (-9.3 percent) and January 2011 (-18.8 percent). If the present trend continues, then in March 2011 capital goods sector would see another dip in growth to the extent of 15 percent. Consumer goods segment however has seen improvement in growth, which is being driven by consumer durables segment. Improving consumer sentiment, strengthening employment scenario and increasing disposable incomes have contributed towards growth of consumption.

Further, amongst the three broad sectors we see that growth in both the mining and manufacturing sectors has been particularly weak in the month of February 2011. While the mining sector grew by 0.6 percent year on year in February 2011, the manufacturing sector turned in a performance of 3.5 percent in the same month. The corresponding figures for February 2010 stand at 11.0 percent and 16.1 percent respectively. The only silver lining in this otherwise discouraging performance in February 2011 is growth in the electricity sector which saw production go up by 6.7 percent. In February 2010, growth in the electricity sector was about 7.3 percent.

**Table 3 – Growth in Industrial Production**

| | **2011-12** | **2012-2013** | **February 2012** | **February 2013** |
|---|---|---|---|---|
| | **(Apr-Feb)** | **(Apr-Feb)** | | |
| General Index | 10.0 | 7.8 | 15.1 | 3.6 |
| Mining | 9.6 | 6.5 | 11.0 | 0.6 |
| Manufacturing | 10.4 | 8.1 | 16.1 | 3.5 |
| Electricity | 5.8 | 5.4 | 7.3 | 6.7 |

| | | | | |
|---|---|---|---|---|
| Basic goods | 6.8 | 6.5 | 8.5 | 5.9 |
| Capital goods | 19.0 | 8.7 | 46.7 | -18.4 |
| Intermediate goods | 13.7 | 9.1 | 15.9 | 8.4 |
| Consumer goods | 5.9 | 7.5 | 6.3 | 11.1 |
| Durables | 23.8 | 21.8 | 29.1 | 23.4 |
| Non-durables | 0.3 | 1.9 | -0.8 | 6.1 |
| **Source – CSO, MOSPI, Government of India** | | | | |

**Exports-Imports**

Cumulative value of imports for the period April- December 2009 was US$ 193.8 billion (Rs. 927969 crore) as against US$ 253.8 billion (Rs. 1126199 crore), registering a negative growth of 23.6% in US$ terms and 17.6% in Rupee terms over the same period last year.

**Table 4- Position of Exports-Imports**

| | DECEMBER | APRIL-DECEMBER |
|---|---|---|
| **EXPORTS (including re-exports)** | | |
| 2011-2012 | 13368 | 147569 |
| 2012-2013 | 14606 | 117587 |
| %Growth 2012-2013/ 2011-2012 | 9.3 | -20.3 |
| **IMPORTS** | | |
| 2011-2012 | 19456 | 253809 |
| 2012-2013 | 24753 | 193829 |
| %Growth 2012-2013/ 2008- 2009 | 27.2 | -23.6 |
| **TRADE BALANCE** | | |
| 2011-2012 | -6088 | -106240 |
| 2012-2013 | -10147 | - 76242 |

**(Source: Reserve Bank of India)**

**Foreign Direct Investment**

FDI inflow experienced a declining trend in the first three quarters of 2011-12, but has shown improvement in the fourth quarter. The sectors which received major part of this FDI flow are the manufacturing sector (21.1%) followed by financial services (19.4%) and the construction sector (9.9%). The revival in capital flows witnessed during the first quarter of 2012-13 gathered momentum during the second quarter of 2012-13.

**Foreign portfolio investment**

In US$ terms, during2011-12, FIIs recorded a net outflow of US$ 15.0 billion as against net inflows of US$20.3 billion a year ago. However, this trend reversed in the first quarter of 2012-13 with a net inflow of US$ 8.2 billion and US$ 7.0 billion during the second quarter of 2012-13.During 2012-13, the sharp increase in FII inflows is attributable to the recovery in domestic stock markets following international trends and the comparatively better growth prospects in India.

**Impacts of Recession in India**

- In September 2008, U.S. was officially announced to be in recession
- Indian exports were lower by 12% in October 2008.
- India's growth rate showed a decline from September 2008 onwards.
- Growth of capital goods production slowed during April-Oct. 2008.
- Production of consumer durables declined by 3% in October 2008.

**US Crisis hits India**

US faced major crisis because of:

1. Subprime mortgage crisis (Home loans defaults)
2. Rising Oil prices
3. Global Inflation
4. High employment rates
5. A declining dollar value

**Opportunities in India due to Recession in US**

- US recession may be a boon for Indian offshore software companies.
- The impact of recession is higher to small and medium sized enterprises whose bottom lines get squeezed due to lack of spending by consumers.
- India is going to be a great beneficiary of this trend which will minimize the impact of US recession in Indian Industry.

**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. Though the global recession is still lingering on, India's agri-export turnover is expected to double in the next 5 years, according to APEDA. Agri-export turnover is set to rise from US$ 9 billion to nearly US$ 18 billion by 2014. The recession in the US market and the global meltdown termed as Global recession have engulfed complete world economy with a varying degree of recessional impact. World over the impact has diversified and its impact can be observed from the very fact of falling Stock market, recession in jobs availability and companies following downsizing in the existing available staff and cutting down of the perks and salary corrections. Globally the financial sector sacking the existing base of employees in high numbers in US the major example being CITI Group same still followed by others in hospitality industry Jet and Kingfisher Airlines too. The cut in salary for the pilots being 90 % can anyone imagine such a huge cut in salary. Various steps taken by RBI to curb the present recession in the economy and counter act the prevailing situation.

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