Great recession

Economists called the financial crisis of the 2007 – 2009 as the " Great Recession", since it is a critical factor and vital cause for the failure of many businesses and significant influencer that has worsened many economies. After US busted out the housing bubble, this raised the rates of sub-prime and mortgage rates.

India, the country which is fully an export driven economy like many other countries, the GDP of India mainly relies on domestic consumption. If a country's GDP is based on domestic consumption, then how this financial tsunami did left vestige in India. The software industry, though not a prime deterministic factor for Indian economy, contributes notable financial transactions towards Indian economy. This brought flow of foreign funds in to the economy.

The portfolio investments are visible in the Indian stock exchanges where foreign borrowings and FDI inflows remain less visible. When the global economies started decelerating, all these three factors bound to decease, which caused an impact on India's emerging economy. The following essay is presented in a macroeconomic perspective, when the period of growth alternated to a period of stagnation, how Indian economy faced the crisis and how government and Reserve Bank of India responded by taking various steps to handle the economic downturn. Effects in Indian Economy India, after a subsequent growth, experienced a decline in its economy due to the global economic downturn. Faced many uncertainties like stumbling industrial growth, reduced foreign exchange and diminishing rupee value.

This economic instability gave a worst hit in Indian economic portfolio by acutely affecting Indian banks. Many public sector units and banks, who invested money into derivatives, were funded by Lehman Brothers Inc and Meryl Lynch Inc for the exposure in the derivatives market. As Lehman Brothers Inc dissolved, many companies including leading banks in India filed losses for few hundred million dollars. The impact of this huge financial crisis affected not only the financial markets primarily, but also the Indian IT industry, availability of global funds, and decrease in exports.

Reduced Availability of Global Funds The availability of the global funds, which is accounted as one of the major driving force of the emerging economies like India, was considerably less. The initial stage experienced a rise in the interest rates and the equity prices were affected as the funds transformed into bonds. This less inflow didn't affect the GDP of the Indian economy, since it holds the larger share on its domestic household savings. Indian companies, which relied on the foreign funds for its trading activities, were allowed less access, which affected corporate profitability due to high interest rates, created large demand for the domestic fund access and peer supply pressure restricted from capacity increase. Effects in Indian Exports India faced a sudden decline in its exports during this economic crisis, as a piece of Indian economy is a sole dependent on exports. In October 2008, after 35% growth in the previous months, filed its decrease in exports calculated to 15%, and shipments decreased to 33.

3%, recorded to be a largest drop ever. This drop affected many industrial sectors right from the manufacturing goods to jewellery exports. This fall in the exports which lead to many job losses estimated to be 1million and closure of many small units. Effects in Indian IT Industry As discussed above, one of the main tools to transact and access the flow of foreign funds is the Indian IT industry, which contributes significantly a mind share towards the Indian GDP. Indian IT companies are well accredited for its quality software and services, well stated to be a major employment opportunity creator. Since, India has abundant labor resources and plays a major service provider across the globe.

Many foreign companies are attracted to the Indian IT companies for its software development and for its service outsourcings. The recent outsourcing boom into India from the foreign countries mainly from US left an impact in the in the IT industry, which is accounted to be a major player in employment and foreign exchange. Approximately 60% of the Indian IT sector’s revenue is fully based only on the US suppliers. Around 30% of the industry’s revenue is generated from the financial services companies from US. Indian companies were appreciated for its flexibility in work, Quality product deliveries and for its efficient services. As there were no intense partnering between Indian firms and major financial services, major share of the IT firms were saved from the impact of the recession.

Even though, some Indian IT companies partnered with US financial companies like Lehman Brothers Inc and Meryl Lynch Inc affected a little. This slowdown in the US economy lead 70% of the firms to negotiate for lower rates with their suppliers and nearly 60% have cut back the contracts. The sudden fall in the US economy reduced the growth of Indian IT firms down by 2-3%. Now and then many new outsourcing opportunities were given to the Indian companies from the US firms, which involved in mergers and acquisitions, since the companies would look forward to reduce its selling, general and administrative costs through offshore developments. Even when some firms were affected a little in the economic downturn, however this crisis created equal opportunities in the outsourcing side of the IT industry. Effects in Indian Financial IndustryThe Indian financial market remained resilient, when the foreign institutional investors disappeared.

As the impact of the economic crisis, the mental attitude of investors took a drift to withdraw from risky markets ended with substantial capital outflow that led to a liquidity crunch putting Indian stock market under huge pressure. Indian market continued to be healthier since its prime drive is through domestic consumption which includes productivity in agricultural sector, domestic infrastructure products and through small ; medium enterprises. Indian banks have gained the investor’s trust and have most of the deposits, since most of the banks are nationalized and the investments are protected by the Indian Government. Even though the domestic banking is secure as the nationalized banks remain the core of the system.

This economic crisis created fragility as many banks invested the investments of US financial firms into the derivatives. Many other factors like decline in the foreign exchange reserves held by Reserve Bank of India, diminished value of rupee with respect to US dollar value, and decline in the share value of the stocks. Steps for the Recovery Efforts made by the Reserve Bank of India to stop the depreciating rupee value led to a proportionate fall in the foreign reserves value of India. The Indian economy experienced a high inflow of money in the form of capital investment. This decreased the value of rupee with dollar; India faced a large trade deficit and factor payments abroad such as debt repayment and profit repatriation.

Along with this the stock market side also showed a decline after its steady increase during previous months. The government of India and the Reserve Bank of India started responding to this challenge by following various efforts and procedures in order to maintain a free flow position of rupee liquidity, maintain the foreign exchange liquidity and maintain it credit tracks through strict monetary policies to avoid inflationary pressures. But however, it changed its current approach towards the current scenario eased the monetary constraints by reducing the interest rates, reduced the quantum of bank reserves impounded by central bank and expanded with liberalization to refinance facilities for export credit. To manage the foreign exchange, the Reserve Bank of India made an upward adjustment on interest rate ceiling on the foreign deposits by non-resident Indians.

Substantially relaxed the external commercial borrowings regime for corporate. It allowed access to foreign borrowing to non banking financial companies and housing companies. The Reserve Bank of India even took many unconventional measures to boost up the economy from the liquidity scenario. Many Indian banks were given a currency swap facility especially for Indian rupee and US dollar to fulfill the short term fund requirements. IT also supported many non banking financial organizations through an exclusive refinancing channel. Housing and exports were boosted to reach higher levels by enabling the lending resources even to small industries.

In addition to the various efforts of the Reserve Bank of India, the Central Government of India constituted the Fiscal Responsibility and Budget Management Act to make the fiscal sustainable in the global economic crisis. The emergency act by the government of India seeks a relaxation from the fiscal targets. Two fiscal acts were launched. Both the fiscal acts valued around 3% of the GDP, which included agricultural farmer loan waiver, infrastructure investments, additional coverage for SMEs and public spending. These fiscals were injected to stimulate demand. As the result the amount accounting to 7% of the GDP made available in the financial system.

India is witnessing a mixed result of growth prospects in this economic downturn. The services sector which accounts for the 57% of the India's GDP and has been the prime growth ngine in the last five years is slowing mainly in the construction, transport, communication, trade, hotels and restaurants. India's exports which account for 15% of the economy grew 3. 4% to 168.

7 billion in the fiscal year ended march 31'08, missing a target of 200 billion set by the government. Corporate margins were down due to the high input costs and the weakened demand. Business confidence had been affected due to the uncertainty in the economic condition. India certainly had some advantages in this financial crisis. The inflation fell sharply, faster than expected, which is measured by the wholesale price index. Thus the fall in inflation should revive consumer demand and reduce costs for the corporate.

Fiscal prices will open up the spending on the infrastructure developments as the decline in the global crude oil and naphtha prices will reduce the amount of subsidy given to the oil and fertilizer companies. Imports are expected to shrink more than the exports, to keep the current account deficits at some modest levels. The banking system in India with its well capitalized and prudently regulated measures, helped to sustain the financial market stability to a larger extent. Gaining confidence from the foreign investors on Indian economy is an additional plus, due to the comfortable levels of foreign reserves. The negative impact of the wealth loss effect in the capital markets that have plagued the developed countries will not affect India because majority of Indians have bordered themselves away from assets and equity markets.

Credit for agriculture will also remain unaffected because of India's mandated priority sector lending. The farm waiver package from the government acts as an additional insulation to the agricultural sector. India's several social safety and awareness programs e. g.

the rural employment guarantee program, will protect the poor and migrants from ill effects of global crisis. Conclusion Thus the global financial crisis made a hit in the Indian economy. After severe uncertainties in various sectors such as IT industry in India, Financial market in India, Non availability of global funds and impact in the export business have given broader outlook to the impact of the global financial crisis, starting from US and how it had en route to India. All the fields were discussed with several insights on how the various industries have been affected by this economic downturn, some had opportunities to grow and some were flattened, since the Indian economy is one of the emerging economies in the world, which recorded to be the least affected by this economic crunch. Even government faced a wide range a problems during this credit crunch.

The Indian Government and The Reserve Bank of India, worked collaboratively with consultation and coordination, after initiating and implementing various processes, rules and acts, kept this huge economic problem under control. Thus the global economic crisis is inevitable till the economy of the developed, developing countries become stable and self sustainable. The effects of the economic downturn are a test to check the financial stabilities in market and regulations across the global economy.