

Global financial crisis: impact on different sectors



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The financial crisis of 2007-2009 has been called by leading economists the worst financial crisis since the one related to the Great Depression of the 1930s. It 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 Both market-based and regulatory solutions have been implemented or are under consideration, while significant risks remain for the world economy.

The impact of the financial crisis is affecting the whole world and is threatening long term objectives like the achievement of the Millennium Development Goals(MDGs). Not only the developed countries, but increasingly emerging economies and least developed countries are suffering the effects of this global financial crisis. Financial markets have

collapsed, lending and investments opportunities are declining and exports are falling as demand decreases. In addition, developing countries, facing already higher food and energy prices, lack the means and resources to protect their financial institutions or banks from bankruptcy. The results are falling stock markets, rising interest rates, and less government resources for socio-economic investments that benefit the poor.

The Financial Crises and the Developing World

For the developing world, the rise in food prices as well as the knock-on - effect from the financial instability and uncertainty in industrialized nations are having a compounding effect. The impact of financial crises is not only on the developed country but also on the developing countries that are dependent on commodities for import or export.

Commodity dependent economies are exposed to considerable external shocks stemming from price booms and busts in international commodity markets.

Market Liberalization and privatization in the commodity sector have not resulted in greater stability of international commodity prices. There is widespread dissatisfaction with the outcomes of unregulated financial and commodity markets , which fail to transmit reliable price signals for commodity producers.

Global crisis to pull down India's GDP to 5. 8% in FY10: IEG

Institute of Economic Growth (IEG) reported that the impact of the global economic crises on India is going to be higher in 2009-10 as compared to the

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previous year. India's GDP of India in this fiscal year is expected to be 5.8% as the global financial crises will hit India more, says economic think-tank Institute of Economic Growth (IEG).

Government -estimated growth for 2008-2009 is 7.1%.

However as per RBI estimates, GDP growth would be around 6% in 2009-10.

In India this crisis initially affected the real sector by reducing external demand as export growth started showing negative trends since Oct, 2008.

And export sector is expected to continue for the rest of the year due to recession in most of the industrialized nations.

Causes of the Crises: Global Macro Economic Imbalance

The industrialized west consumed too much

The rest of the world particularly Asia produced too much

Free Flow of Capital in the Global – Financial market helped facilitating and accumulating the imbalances.

Impacts of the Crises

2008 — The start of serious debt default problem

9/15/2008 — The fall of Lehman Brothers

Collapses of the global capital market

Havoc in the money market, interest spread went up

Exchange rates went haywire

Impact on stock market globally- World stock markets have taken a beating, leading to a loss in confidence amongst investors who are stepping back in spite of several cuts in lending rates by the banks

Increasing unemployment- There have been job cuts in many companies across various sectors around the globe. This trend has not been limited to the financial sector alone.

Decline in business globally- There is considerable decline in business all over

world marked by reduced output and consumer spending, particularly in Britain, France,

Germany and Japan. The industries being

impacted include automotive, airline, building

materials etc. Automotive companies such as

GM, Ford and Toyota reported 45%, 30% and

23% decline in sales respectively, in October 2008

Remedies:-

Global Macroeconomic must be more balance

Global Financial market must be more stable

Reforms and changes for Asia

Invest more in infrastructure, education and health care.

Increase the share of intra-Asia trade

Bigger role of state enterprises

Support a more regulated finance regime.

Develop more on money and capital market

Asia savings for Asia investment.

Impact on Aviation Sector

India is one of the fastest growing aviation markets in the world. After liberalization of this industry , the industry had seen a great transformation with the entry of the private players as they are offering low airfares and also emphasis on the modernization the non-metro airports, development of the overall industry of India, set up of new international routes by the government and establishment, renovation and restructuring of the existing airports which leads to the growth of the industry.

Aviation Industry of India and airlines in India are managed by the Ministry of Civil Aviation, Government of India. All domestic and international airlines

are supposed to obtain license from the ministry. Ten major domestic airlines came together to form FIA (Federation of Indian Airlines) to deal with Indian Aviation Industry challenges in domestic segment and establish newer trends in the aviation industry of India.

Indian Aviation Industry 2009 takes names of some of the leading airlines in the aviation industry world over. Aviation industry statistics have shown a growth curve that establishes the emergence of a new world leader. The latest Aviation Industry news shows airlines launching newer flights everyday with very low fares to attract the maximum number of customers.

In the last 2-3 years, India's airlines industry has been growing at a fast pace. It has been a boom period for them. Most traveling Indians gave up trains and opted for low cost airlines to reach their destinations. However, the financial crisis and the surging oil prices have drastically changed the dynamics of the airline industry in India in the last quarter of 2008. Indian aviation industry's growth has slowed from 33% in 2007 to 7.5% for the first 6 months of 2008 and that in the last two months it has experienced negative growth. The number of domestic passengers carried by airlines declined by 25% during third quarter of 2008

Air traffic experienced negative growth in the year 2008. During January to November 2008, airlines carried 377.30 lakh passengers as compared to 392.40 lakhs in the same period last year, a decline of 3.8%.

Decline in demand and fast increasing oil prices have adversely affected the financial position of airlines in India. Indian government had come to the rescue of the airlines with a bailout package.

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India's Aviation Sector Faces Financial Crisis

Indian aviation sector has been severely affected by the global financial crisis and the record high fuel prices. It is being said that Indian aviation industry, that has a \$6 billion turnover, is expected loose more than \$2 billion in the year 2009. Some private airlines had expected that the industry will grow and so they had invested huge amount. But nothing happened as was being expected. In recent months domestic market has declined a lot and on the other hand international developments have multiplied the losses. Financial losses have forced the Indian aviation industry rivals Kingfisher and Jet Airways to form alliance with each other. This has been done to 'rationalize' routs, so that the cost can be reduced. Both the Indian aviation companies were losing crores of rupees per month.

Air India, India's national carrier is delaying the payment of staff salaries, so that the situation of financial crises can be tackled and for this they announced that salary for July, 09 will be paid 2 weeks late to its 30000 staff, but the staff member didn't understand the situation and they protest against it nationwide. The airline incurred losses of \$800 million in the year 2008.

It is not only the government -owned Air India which incurring the huge losses but they private airlines , which set up in the last 5 years hoping to benefit from a growing economy, are also suffered with huge losses and high debt. The federal government has promised a bailout package for Air India. and the private players also asking the government to help them in this situation , so that they can also recover from losses.

During the global financial crises Jet Airline also lay off 850 employees , so that the cost can be reduced and the situation can be tackled .

Aviation industry going though very difficult times: Nambiar

September 26th, 2009

Civil Aviation secretary M Madhavan Nambiar has said that aviation industry is going through a very difficult phase, turning thousands of pilots and other specialized staff jobless in the country. The cumulative losses of airlines all over the world were 10 billion dollars and this year it is about 9 billion dollar. Airlines in India this year has made a loss of rupee 10, 000 crores so this is the level of problem this sector is facing. He said that they have 3, 000 pilots today who are unemployed. They have spent more than 40 lacs to get the pilot license. So this is a very difficult time for them and it is a time where they have see what they can do to revive this sector. Because of the high fare of airlines due to rise in oil prices, many passengers have shifted from planes to trains. Nambiar said that thousands of trained commercial pilots in India are still looking for jobs even as they have spent huge amounts of money to procure their licenses in the country. Because of the financial crises the pilots of the country suffers a lot , as they do not get jobs and this industry is going under losses.

Debts and losses trouble India aviation sector

Aviation industry suffered a lot because of global financial crises. Indian airlines are suffered from big losses, high debt and falling demand and need urgent help from the government so that they can come out of the situation.

Sector losses in the fiscal year 2009 is \$1.75 billion, which is doubled from the last year. Passengers rate are also fall down as compared to the last year. The Global financial crises affect this industry also in a very bad manner.

Aviation sector shows recovery from meltdown crisis: Patel

On sep 19, 2009 , Union Civil Aviation Minister Praful Patel said that the Aviation industry which is showing the negative growth over the last one year because of the global financial crises are now showing the signs of recovery over the past couple of months. The Airports Authority of India has been investing heavily over the last few years to strengthen the aviation infrastructure. The AAI was investing over Rs. 2,500 crores on the upgradation and modernization of the Chennai Airport . 35 non metro airports and several other airports are being developed and upgraded. The government is spending huge amount for the recovery of this industry.

Impact on Pharmaceutical Sector

India is the world's fourth largest producer of pharmaceuticals by volume, accounting for around 8% of global production. In value terms, production accounts for around 1.5% of the world total. The Indian pharmaceutical industry directly employs around 500,000 people and is highly fragmented. While there are around 270 large R&D based pharmaceutical companies in India, including multinationals, government-owned and private companies, there are also around 5,600 smaller licensed generics manufacturers, although in reality only around 3,000 companies are involved in pharmaceutical production. Most small firms do not have their own

production facilities, but operate using the spare capacity of other drug manufacturers.

With low-cost manufacturing, high-quality research and manufacturing facilities and educated personnel, the Indian pharmaceutical industry presents both a competitive threat and partner opportunities.

Like other industries, the Indian pharmaceutical industry is also suffering from the slowdown and the consequent credit squeeze. Drug exporters and makers recognize that a special package may help in curbing losses owing to high raw material costs.

The Pharmaceutical Export Promotion Council of India had estimated the worldwide recession could reduce India's pharmaceutical exports for 2008-09 to \$8.25 Billion, lesser than the previous prediction of \$8.97 Billion, with export growth of 13.89% as compared to the earlier estimated 23.87%.

Further, slow economic growth and decline in the industrial production are the important factors leading to a decline in growth projections. This has resulted in offset the gains from weakening rupee against the dollar and also prompted the government to offer a special package to increase drug export.

In addition, cash crunch has affected drug importers in various parts of the US, Europe and other countries. Importers are asking the Indian drug exporters to stop shipments to clear their inventories and accounts, which, in turn, affect the export figures for 2009-10.

Further, the worldwide generic pharma market recorded double-digit gains in last few years. However, during 2008, there was a significant decline in sales

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figures as manufacturers compete in high price battles in most of the important markets of the world.

As per a Research Analyst at RNCOS, “ Undoubtedly, recession has affected the Indian pharmaceutical industry, but this situation can be an opportunity waiting to be tapped. There is an effect of the recession on the industry, but not as much as other Industries. This is because Active Pharmaceutical Ingredients (APIs) and generics produced in India are more reasonable and affordable in comparison with those made in other parts of the world.”

A long time, economists have always believed that, during the recession, the pharmaceutical industry is a relatively “ safe haven.” However, this time is not the case, in recent months, pharmaceutical companies, medical device manufacturers and hospitals significantly reduced income. Therefore, the research firm pointed out that the “ safe haven” of the security assumptions no longer hold water. Research institutions in the Murray Aitken, senior vice president, said: “ The drug needs and the important macroeconomic variables (such as gross domestic product, consumer spending and government spending) have a clear relevance. We can see that the global financial crisis is to the pharmaceutical industry’s sales growth hit a record low this year. ”

According to analysis, in 2009, global pharmaceutical sales increased by only 2.5% ~ 3.5%, reaching a total of about 750 billion-760 billion U. S. dollars, which is lower than in October last year the growth rate of 4.5% to 5.5%, a total of 8200 the forecast 100 million U. S. dollars. This growth rate is the lowest in the past 25 years.

Impact on Real Estate

The real estate sector in India was also affected due to Lehman Brother's real estate partner having given Rs. 7. 40 crores to Unitech Ltd., for its mixed use development project in Santa Cruz, Lehmen had also signed a MoU with Peninsula Land Ltd, an Ashok Piramel real estate company, to fund the latter's project amounting to Rs 576 crores. DLF Assests, which hold an investment worth \$200 million, is another major real estate organization whose valuations are affected by the Lehman Brothers dissolution.

The Global Financial Crises hit the Indian Real estate sector hard. The realty sector is witnessing a sudden slump in demand because of the global economic slowdown. The recession has forced the real estate players to curtail their expansion plans. Many on-going real estate projects are suffering due to lack of capital, both from buyers and bankers. Some realtors have already defaulted on delivery dates and commitments. The steel producers have decided to resort to production cuts following a decline in demand for the commodity.

The markets for homes in major cities, which were booming in the summer of 2006, are now clearly in distress because of financial crises.. The real estate markets in India have slowed and many home prices are falling sharply.

The crisis in the US financial market will hit the Indian real estate sector hard. The sector was already reeling under tremendous pressure as RBI increased the interest rates to contain inflation, besides restricting the fund

flow in it. Consultants said that in the present circumstances the real estate prices will go for a sharp correction in the short to medium term.

The financial crisis in the global market will affect the availability of fund for the domestic realty sector. As RBI has already put restriction on Indian banks to finance real estate companies in the country, they are depended on foreign funds through FDI route for their fund requirements. But, a senior consultant said following the development in US, many of the private equity funds are returning back to their mother countries.

The source said that many of these private equity funds were launched by investment banks. But, now as the fate of these investment banks is uncertain, their capability to raise funds in their country is doubtful. This will put severe constraint on availability of funds in India.

A large player in the sector said that as the availability of funds from banking sector is restricted for the realty sector, they are forced to borrow from the high net worth individuals at high interest rates at around 20%.

At the same time, the crisis in the global market has affected the demand for the real estate space in India. The development in US has affected the global economy, which has forced many of the global majors to either postpone or cut the expansion plan. According to a source in the industry, Google has cut its expansion plan substantially in the NCR region. Earlier, the global major has expressed intention to take lease of 5 lakh square feet of the office space. But now, it is learnt, it has cut its requirement to only 3 lakh square feet.

Impact on Stock Market

The financial turmoil affected the stock markets even in India. The combination of a rapid sell off by financial institutions and the prospect of economic slowdown have pulled down the stocks and commodities market. Foreign institutional investors pulled out close to \$ 11 billion from India, dragging the capital market down with it . Stock prices have fallen by 60 per cent. India's stock market index-Sensex-touched above 21, 000 mark in the month of January, 2008 and has plunged below 10, 000

during October 2008 . The movement of Sensex shows a positive and significant relation with Foreign Institutional Investment flows into the market. This also has an effect on the Primary Market. In 2007-08, the net Foreign Institutional Investment inflows into India amounted to \$20. 3 billion. As compared to this, they pulled out \$11. 1

billion during the first nine-and-a-half months of the calendar year 2008, of which \$8. 3 billion occurred over the first six-and-a-half months of the financial year 2008-09 (April 1 to October 16).

India and The Financial Crises

The global financial crises has not left India unscathed. Over the last seven months , growth has slipped dramatically to 5. 3% in the last quarter of calendar year 2008-from over 9% in the previous four years.

The slowdown is likely to have a large and immediate impact on employment and poverty. Informal surveys suggest significant job losses. Job creation is likely to remain a key concern as new entrants to the Labour force-relatively

better educated and with higher aspirations-continue to put pressure on the job market.

The country has the opinion of turning the crises into an opportunity. The most binding constraints to growth and inclusion will need to be addresses: improving infrastructure, developing the small and medium enterprises sector, building skills, and targeting social spending at the poor. Systematic improvements in the design and governance of public programs are crucial to get result from public spending. Improving the effectiveness of these programs-that account for up to 8-9% of GDP -will therefore be an important part of the challenge.