ISSN: 0975-833X

Available online at http://www.journalcra.com

International Journal of Current Research
Vol. 5, Issue, 08, pp.2361-2362, August, 2013

INTERNATIONAL JOURNAL OF CURRENT RESEARCH

REVIEW ARTICLE

GLOBAL MELTDOWN-CHALLENGES TO INDIAN ECONOMY

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ARTICLE INFO

Article History:
Received 12th May, 2013
Received in revised form
29th June, 2013
Accepted 30th July, 2013
Published online 23rd August, 2013

Key words:
Fall in inflow of FDI,
Declining GDP,
Employment opportunities,
On economy.

ABSTRACT

Economic recession is one of the stages in economic system affecting world economy in an adverse manner. Economic recession occurs at frequent intervals. But recession of 1929-39 lasts for 10 years sweeping world economy at it had worst economic impact disturbing the economic activities specially in case of developing economies like India. Economic recession is mainly due fall or uncertain in prices of securities listed on stock exchange disinvestment low capital formation fall in inflow of FDI, decreasing purchasing power and dull trend in banking and financial sectors, declining GDP, export growth and decreasing trend in employment opportunities, slow down in industrial growth and process of economic development. However we can list out the adverse impact on economy. Global financial and economic crises global economic recession or meltdown had mixed impact of India economy both positive and negative affected. Balancing factors Major Challenges some of them are highlighted here. Current global financial crisis has thrown up unprecedented external challenges for India in navigating high growth process in the coming years. The global economic slowdown has hit the vital sectors of our economy. The dimensions and intensity of the crisis become more comprehensible in the coming days. It is necessary for both the Government and the RBI to become more proactive with respect to its policy stance. With global economy hurtling towards recession India's growth path cannot remain unscathed. It is suggested that effective and smoother liquidity managements and credit availability or similar monitory policy measures will not be enough. The policy makers may have to evaluate other policy options especially imperatives of fiscal expansion. Such options must be anchored with the essence of fiscal governance.

INTRODUCTION

Economic recession is one of the stages in economic system affecting world economy in an adverse manner. Economic recession occurs at frequent intervals. But recession of 1929-39 lasts for 10 years sweeping world economy and it had worst economic impact disturbing the economic activities specially in case of developing economies like India. Economic recession is mainly due fall or uncertain in prices of securities listed on stock exchange, disinvestment, low capital formation, fall in inflow of FDI, decreasing purchasing power and dull trend in banking and financial sectors, declining GDP, export growth and decreasing trend in employment opportunities, slow down in industrial growth and process of economic development. However we can list out the adverse impact of economic recession on,

- Declining trend in GDP low capital formation and fall in inflow of foreign investment or FDI.
- Decline in manufacturing activities sluggish marketing, trend, dull banking and financial activities.
- Declining employment opportunities fall in per capita income, possibility of economic ups and down in economic depression may take place.
- Adverse impact on insurance, service transport and communication sectors.
- Promotion of illegal activities such as black marketing hoarding, hedging operation, frequent changes in prices of consumable goods.
- Declining trend in exports, foreign exchange reserve, increase in imports, imbalance in balance of payment and increasing fiscal deficit.
- Devaluation of rupee value in terms of US $.

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Global Financial and Economic Crises

The major reason for economic recession is crises in US money market crises and crises in banking sector relating housing mortgage and consumer finance. Global economic reported by IMF has resulted in fall in global economic growth from 3.07% to 2.02% affecting Asian and Europe countries. The great depression of 1929 had long lasting impact on developed countries like USA, UK, Chain, Spain, Nether land, China and France similarly developing countries like India also came under the pressure due to global financial and economic crises. In case of India financial banking manufacturing Insurance service sectors in including foreign trade are affected marginally.

Impact on Indian Economy

Global Economic recession or meltdown had mixed impact of India economy both positive and negative. Some of them are highlighted here.

Positive impact

- Increased the foreign trade form 25% of GDP in 1991 to 45% during 2007-08.
- India has emerged as a very big hub for out sourcing computer, BPO, services, software, I.T. sector manufacturing and export of software technology.

- Gross inflow of foreign capital has reached to US $ 310 billion.
- Increase in investment on Tourism and development of infrastructure.
- Increase in cost expenditure on defense and research and development in. Automobile, space and communication sectors & I.T. sector.
- A ray of hope of increasing in GDP from 5.18% to 7.12%. (Approximate)

Negative Impact

Indian economy has experienced adverse changes in various sectors except banking sector which has been affected marginally. Some of the negative impacts are hinted below.

- Sharp decline in India's share in Global trade i.e. just 1.22% of (world trade growth ratio)
- Decline in FDI inflow of foreign capital and foreign exchange reserve. (FER)
- Fall in prices of securities, dull money market conduction, Low capital formation & mutual fund growth.
- Adverse impact on finance, insurance and service sector.
- Devaluation of rupee value, and continuous fall in export growth GDP, and public distribution system (PDS) as service sectors felt the heat of increasing cost of manufacturing fuel and maintenance.
- Fall in outflow of capital from US % 17.03 bn to 13.02 us $ bn during 2006-07-08. But FDI in some areas has increased from US $ 8.05 bn to US $ 16.07 bn (billion) during 2007-08.
- FIIs have witnessed fall in investment from US $ 16.4 bn to US $ 6.04 bn during 2008-09.
- Commercial borrowings registered sharp decline from US $ 7.00 bn 1.06 US $ bn during April 2008-09.
- Adverse impact on Liquidity Ration in Indian stock market followed by increase in disinvestment.
- NFBC activities are also affected marginally. However RBI reports that. Indian banking sector is not affected much during 2007-08 followed by global economic meltdown.
- Industrial growth declined from 8.01% in 2007 to 4.82% during 2008-09
- Transport & communication sectors felt the heat of global meltdown resulting in increase of costs.
- Hotel industry, tourism industry and also manufacturing sector are adversely affected were the growth rate dipped down to 8.09% from 9.08% during 2007-08.
- Sharpe decline in growth of export, trade and foreign exchange reserve fund and global trade.
- Insurance, construction mining, textile, Gems and jewelers, Automobile transport, sectors are also affected and resulted in increase of costs and ultimate burden of increased cost on consumers.
- Growth of employment opportunity ration has declined from 16.02 million people to 15.07 million people during 2007-08.

Balancing factors

(A) India's 4/5th growth is due to increase in domestic demand for goods & services (constitute 2% of GDP)
(B) The 90% of investment and finance come from domestic saving mutual funds and India need to balance only 10%.

But these factors are insignificant cushion to sustain global meltdown or recession. Global melt down has brought the following challenges to Indian economy. Some of the challenges arising out of global meltdown are,

Major Challenges

- RBI has challenged to minimize the impact of global meltdown on GDP, wholesale index price FER (Foreign Exchange Reserves) balance of payment and restoration of growth of agriculture production.
- Government and RBI have taken measures to minimize the impact on global meltdown on loss of jobs, lack of creation of new jobs & brain drain.
- RBI & Government have taken measures to restore the value of IR (Indian Rupee) against US $ and regulate and observe stock market operations.
- RBI has taken measures to regulate the borrowings for non productive operation.
- RBI has taken measures to increase the domestic savings flow of domestic investment to strength in corporate sector.
- Government & RBI aims at restoring GDP from 6% to 7% in 2008-09. (Approximant)
- Government & RBI has taken steps to contain inflationary trend in consumer goods prices and loan waving and interest on loans are waved for poor farmers in rural areas.
- Fiscal policies are revised to collect more taxes for development programmers i.e. (VAT)
- Measures have been taken to increase the growth rate of exports and maintain the stability in financial and economic sectors and promote economic growth with stability & improvement in GDP National income & per capital income.

Conclusion

The current global financial crisis has thrown up unprecedented external challenges for India in navigating high growth process in the coming years. The global economic slowdown has hit the vital sectors of our economy. The dimensions and intensity of the crisis become more comprehensible in the coming days. It is necessary for both the Government and the RBI to become more proactive with respect to its policy stance. With global economy hurtling towards recession India's growth path cannot remain unscathed. It is suggested that effective and smoother liquidity managements and credit availability or similar monetary policy measures will not be enough. The policy makers may have to evaluate other policy options especially imperatives of fiscal expansion. Such option must be anchored with the essence of fiscal governance. On the other hand the government should be prepared carefully invite FDI, FPI, Etc, foreign investments although they are adversely affecting domestic economy. Thus Govt, and RBI should make joint and conscious efforts to frame and revise fiscal, foreign, monetary and financial policies keeping mind to economic interest of the nation.

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