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Global Recession and its Impact on Indian Economy

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INTRODUCTION

The current global financial crisis is rooted in the subprime crisis which surfaced over a year ago in the United States of America. During the boom years, mortgage brokers attracted by the big commissions, encouraged buyers with poor credit to accept housing mortgages with little or no down payment and without credit checks. A combination of low interest rates and large inflow of foreign funds during the booming years helped the banks to create easy credit conditions for many years. Banks lent money on the assumption that housing prices would continue to rise. Also the real estate bubble encouraged the demand for houses as financial assets. Banks and financial institutions later repackaged these debts with other high-risk debts and sold them to world- wide investors creating financial instruments called CDOs or Collateralized Debt Obligations (Sadhu2008). In this way risk was passed on multifold through derivatives trade.

RECESSION

Recession can be defined as a period of general economic decline; typically defined as a decline in GDP for two or more consecutive quarters. A recession is typically accompanied by a drop in the stock market, an increase in unemployment, and a decline in the housing market. A recession is generally considered less severe than a depression, and if a recession continues long enough it is often then classified as a depression. Recessions are generally believed to be caused by a widespread drop in spending. Governments usually respond to recessions by adopting expansionary macroeconomic policies, such as increasing money supply, increasing government spending and decreasing taxation.

CAUSES OF RECESSION?

An economy which grows over a period of time tends to slow down as a part of the normal economic cycle. 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 stock values will fall and thus stock markets fall on negative sentiment.

HISTORY OF RECESSION`S

Global Recessions

The IMF estimates that global recessions seem to occur over a cycle lasting between 8 and 10 years. During what the IMF terms the past three global recessions of the last three decades, global per capita output growth was zero or negative. Economists at the International Monetary Fund (IMF) state that a global recession would take a slowdown in global growth to three percent or less. By this measure, four periods since 1985 qualify: 1990-1993, 1998, 2001-2002 and 2008-2009.

The Indian economy exhibited significant resilience in 2008-09 in the face of an intense global financial crisis and the subsequent severe global recession. In a globalised world, however, the natural process of transmission of contagion operating through the trade, capital flows and confidence channels affected the domestic economic and financial conditions. Real GDP growth, which had averaged at 8.8 per cent during 2003-08, decelerated to 6.7 per cent in 2008-09.

US RECESSION-2008

The **financial crisis of 2008–present** is a crisis triggered by an insolvent United States banking system. It has resulted in the collapse of large financial institutions, the bailout of banks by national governments

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and downturns in stock markets around the world. In many areas, the housing market has also suffered, resulting in numerous evictions, foreclosures and prolonged vacancies. It is considered by many economists to be the worst financial crisis since 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 economic activity. The collapse of a global housing bubble, which peaked in the U.S. in 2006, caused the values of securities tied to real estate pricing to plummet thereafter, damaging financial institutions globally. Questions regarding bank solvency, declines in credit availability, and damaged investor confidence had an impact on global stock markets, where securities suffered large losses during late 2008 and early 2009. Economies worldwide slowed during this period as credit tightened and international trade declined.

IMPACT ON INDIA

Since US is one of the major super powers, a recession–mild or deeper will have eventual global Consequences? The crisis rapidly developed and spread into a global economic shock, resulting in a number of European bank failures, declines in various stock indices, and large reductions in the market value of equities and commodities A slowdown in the US economy was definitely a bad news for India because Indian companies have major outsourcing deals from the US. India's exports to the US have also grown substantially over the years. But inspite of all this India has successfully weathered the great financial crisis of September 2008. Indian gross domestic product (GDP) has grown around 6% in every quarter of the most difficult 12 months in recent history.

Why did India suffer so little in the Great Recession that laid low the biggest economies of the West?

There were many factors that saved the Indian economy from dire consequences of the global recession. Indian banks and financial institutions had almost entirely avoided buying the mortgage-backed securities and credit default swaps that turned toxic and felled western Financial institutions. India's merchandise exports were indeed hit by the Great Recession but Service exports did not fall - computer software and BPO exports held up well. Foreign direct investment remained high in 2008-09 despite the global financial crisis. Financiers reversed Flows into India, but long-term investors in plant and factories completed their ongoing projects. Monetary policy was accommodating in 2008. The RBI lowered interest rates and expanded Credit. The government cut excise duties to stoke demand. All these factors cushioned the shock to the economy.

Table 1: The Institute of International Finance (IIF) Projections for Growth (2008- 10).

World Economy	2% growth in 2008 and predicted to shrink to 0.4% in 2009
USA (World's Largest Economy)	1.3% growth in 2009
Japan (World's Second Largest Economy)	0% growth predicted in 2010
China	6.5% growth in 2009
India	5% growth in 2009

INDIAN ECONOMY- 2009

Indian economy has been witnessing a phenomenal growth since the last decade. The country is still holding its ground in the midst of the current global financial crisis. In fact, global investment firm, Moody's, says that driven by renewed growth in India and China, the world economy is beginning to recover from the one of the worst economic downturns in decades.

The growth in real Gross Domestic Product (GDP) at factor cost stood at **6.7 per cent** in 2008-09. While the sector-wise growth of GDP in agriculture, forestry and fishing was at 1.6 per cent in 2008-09, industry witnessed growth to 3.9 per cent of the GDP in 2008-09.

The Prime Minister, Dr Manmohan Singh, on August 15, 2009, in his address to the nation on its 63rd Independence Day, said that the Government will take every possible step to restore annual economic growth to 9 per cent.

Further, the World Bank has projected an 8 per cent growth for India in 2010, which will make it the fastest-growing economy for the first time, overtaking China's expected 7.7 per cent growth.
A number of leading indicators, such as increase in hiring, freight movement at major ports and encouraging data from a number of key manufacturing segments, such as steel and cement, indicate that the downturn has bottomed out and highlight the Indian economy's resilience. Recent indicators from leading indices, such as Nomura's Composite Leading Index (CLI), UBS' Lead Economic Indicator (LEI) and ABN Amro' Purchasing Managers' Index (PMI), too bear out this optimism in the Indian economy.
Industrial output as measured by the index of industrial production (IIP) clocked an annual growth rate of 6.8 per cent in July 2009, according to the Central Statistical Organisation.
Significantly, among the major economies in the Asia-Pacific region, India's private domestic consumption as share of GDP, at 57 per cent in 2008, was the highest, according to an analysis by the McKinsey Global Institute.
Meanwhile, foreign institutional investors (FIIs) turned net buyers in the Indian market in 2009. FIIs inflows into the Indian equity markets have touched US$ 10 billion in the April to September period of 2009-10.
Foreign direct investments (FDI) into India went up from US$ 25.1 billion in 2007 to US$ 46.5 billion in 2008, achieving a 85.1 per cent growth in FDI flows, the highest across countries, according to a recent study by the United Nations Conference on Trade & Development (UNCTAD).
According to the Asian Development Bank's (ADB) 'Asia Capital Markets Monitor' report, the Indian equity market has emerged as the third biggest after China and Hong Kong in the emerging Asian region, with a market capitalisation of nearly US$ 600 billion.

The Economic scenario

Indian investors have emerged as the most optimistic group in Asia, according to the Quarterly Investor Dashboard Sentiment survey by global financial services group, ING. As per the survey, around 84 per cent of the Indian respondents expect the stock market to rise in the third quarter of 2009.
With foreign assets growing by more than 100 per cent annually in recent years, Indian multinational enterprises (MNEs) have become significant investors in global business markets and India is rapidly staking a claim to being a true global business power, according to a survey by the Indian School of Business and the Vale Columbia Center on Sustainable International Investment.
In its optimistic report on Macroeconomic and Monetary Development of the economy in 2009, the Reserve Bank of India (RBI) said overall business sentiment was slated for a sharp improvement from that in the April-June 2009 quarter.
AS EVERY business sector is affected by present global crisis and everybody is talking of slowdown in business, still in India there are few sectors which will grow in this adverse situation. Let's have a look.

Food

According to Ministry of Food Processing Industry (MFPI), the food processing industry in India was seeing growth even as the world was facing economic recession. According to the minister, the industry is presently growing at 14 per cent against six to seven per cent growth in 2003–04.The Indian food market is estimated at over US$ 182 billion and accounts for about two thirds of the total Indian retail market. Further, the retail food sector in India is likely to grow from around US$ 70 billion in 2008 to US$ 150 billion by 2025

Railway

The railways registered 13.87 per cent growth in revenue to Rs 57,863.90 crore in the first nine months ended December 31, 2008. While total earnings from freight increased by 14.53 per cent at Rs 39,085.22 crore during the period, passenger revenue earnings were up 11.81 per cent at Rs 16,242.44 crore. The railways have enhanced freight revenue by increasing its axle loading, improving customer services and adopting an innovative pricing strategy.

PSU Banks

As seen in the private sector much of the job cuts due to global slowdown, its the public sector undertaking (PSU) banks which gained much confidence due to job safety and security. More and more people are likely to turn towards government institutions, particularly banks in the quest for safety and security.

A report "Opportunities in Indian Banking Sector", by market research company, RNCOS, forecasts that the Indian banking sector will grow at a healthy compound annual growth rate (CAGR) of around 23.3 per cent till 2011.

Education

As education is considered as the basic necessity and in India it is seen as a long term investment by parents and with respect to the demand still there is a huge supply gap. The craze to study in foreign university among the Indian youth still alive which will prompt foreign education institute to target India provided vast young population willing to join. We will see more and more foreign educational institutions coming up in India in recent coming years.

Huge government as well as private investment is likely to flow into the Indian educational system. D E Shaw, a US$ 36 billion, global private equity firm is planning to invest around US$ 200 million in the Indian education sector.

Telecom

Telecom sector, according to industry estimates, year 2008 started with a subscriber base of 228 million and will likely to end with a subscriber base of 332 million – a full century. The telecom industry expects to add at least another 90 million subscribers in 2009 despite of recession. The Indian telecommunications industry is one of the fastest growing in the world and India is projected to become the second largest telecom market globally by 2010.

IT

Recent news shown that Indian IT sector will grow 30 to 40 per cent next year. And on the other side to survive in current slowdown, industries have to decrease the cost and for that they will resort to customised IT solutions which will further boost up the software solution demand.

India is fast becoming a hot destination for outsourced e-publishing work. As per a Confederation of Indian Industry (CII) report, the industry is growing at an annual rate of 35 per cent and India's outsourcing opportunities in the value-added and core services such as copy editing, project management, indexing, media services and content deployment will help make the publishing BPO industry worth US$ 1.46 billion by 2010.

Health care

India in case of health care facilities still lakes the adequate supply. In health care sector also there is huge gap between demand and supply at all the levels of society. Healthcare, which is a US$ 35 billion industry in India, is expected to reach over US$ 75 billion by 2012 and US$ 150 billion by 2017. The healthcare industry is interestingly poised as it strives to emerge as a global hub due to the distinct advantages it enjoys in clinical excellence and low costs.

Luxury products

The high and affluent class of society will not be affected much by this global crises even if their worth is reduced significantly. They will not change their lifestyle and will not stop spending on luxurious goods. So luxurious product market will not be affected and in fact to maintain the lifestyle those affluent will spend more for it. Luxury car makers are pouring in to woo the nouveau riche (Audi, BMW are the most recent entrants).

M&A & Marketing Consultants

As in the current business slow down survival will be the main focus, the marketing and management consultants will be called for to reduce the costs and to show the ways to survive and stay in market.

Others may join hands to fight with this situation together will call for the Marketing & M&A consultants. In a booming market there are growth strategies and M&A opportunities to advise on. When businesses are cutting back, consultancies will be right there to help clients decide where to wield the axe.
According to Ministry of Commerce and Industry's estimation, the current size of consulting industry in India is about Rs 10000 crores including exports and is expected to grow further at a CAGR of aproximately 25 per cent in next few years.

Media and Entertainment
According to a report published by the Federation of Indian Chambers of Commerce and Industry (FICCI), the Indian M&E industry is expected to grow at a compound annual growth rate (CAGR) of 18 per cent to reach US$ 23.81 billion by 2012. According to the PWC report, the television industry was worth US$ 5. 48 billion in 2007, recording a growth of 18 per cent over 2006. It is further likely to grow by 22 per cent over the next five years and be worth US$ 12. 34 billion by 2012.

The rural India growth story
The Indian growth story is spreading to the rural and semi-urban areas as well. The next phase of growth is expected to come from rural markets with rural India accounting for almost half of the domestic retail market, valued over US$ 300 billion. Rural India is set to witness an economic boom, with per capita income having grown by 50 per cent over the last 10 years, mainly on account of rising commodity prices and improved productivity. Development of basic infrastructure, generation of employment guarantee schemes, better information services and access to funding are also bringing prosperity to rural households.

Per Capita Income
Per capita income of Indian individuals stood at US$ 773.54 in 2008-09, according to Central Statistical Organisation data. The per capita income in India stood at US$ 687.03 in 2007-08 and has risen by over one-third from US$ 536.79 in 2005-06 to US$ 773.54 in 2008-09.

Agriculture

Agriculture is one of the strongholds of the Indian economy and it accounts for 18.5 per cent of the gross domestic product (GDP).
The average growth rate of agriculture and allied sectors during the last two years i.e., 2006–07 and 2007–08 has been more than 4 per cent as compared to the average annual growth of 2.5 per cent during the 10th Five-Year Plan.
The current revival in agriculture sector has been possible mainly due to a number of initiatives taken in the recent years. While public sector investment in the farm sector has grown from 1.8 per cent of sectoral gross domestic product (GDP) in 2000–01 to 3.5 per cent in 2006–07, private sector investment has increased from 8.9 per cent in 2003–04 to 9.9 per cent in 2006–07.
According to a Rabo bank report the agri-biotech sector in India has been growing at a whopping 30 per cent since the last five years, and it is likely to sustain the growth in the future as well. The report further states that agricultural biotech in India has immense potential and India can become a major grower of transgenic rice and several genetically engineered vegetables by 2010.
The food processing sector, which contributes 9 per cent to the GDP, is presently growing at 13.5 per cent against 6.5 per cent in 2003–04, and is going to be an important driver of the Indian economy.

Production
India has become the world's largest producer across a range of commodities due to its favourable agro-climatic conditions and rich natural resource base.
India is the largest producer of coconuts, mangoes, bananas, milk and dairy products, cashew nuts, pulses, ginger, turmeric and black pepper. It is also the second largest producer of rice, wheat, sugar, cotton, fruits and vegetables.

According to the Centre for Monitoring Indian Economy (CMIE), crop production is expected to rise by 1.7 per cent during FY 10. Food grain production is expected to increase by 1.1 per cent. Of this, wheat production is projected to remain at the same level of 80-million tonnes as estimated for FY 09. Rice production is projected to increase by 1.1 per cent to 98.8-million tonnes. Production of coarse cereals and pulses is also expected to rise in FY 10.
Cotton production in India, the world's second-largest producer, may rise 10 per cent to about 32 million bales (one bale is equal to 170 kg) in the 2009-10 season (October-September) on high support price and more sowing of high-yielding Bt seeds.
India's coffee output is pegged at 3.1 lakh tonne in 2009-2010, 4.4 per cent higher compared to 2008-09, according to the post-blossom estimates released by the Coffee Board.

Exports
According to the government's agri-trade promotion body, Agricultural and Processed Food Products Export Development Authority (APEDA), India's exports of agricultural and processed food products posted a 38 per cent increase in the 2007–08 fiscal, bolstered by an increase in shipments of coarse cereals like maize, jowar and barley. According to official data, India exported about 17.5 million tonnes of agricultural and processed foods worth about US$ 6.39 billion in FY 2007–08 against 10.9 million tonnes valued at about US$ 4.37 billion in the previous year. 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.
Despite recession, the country's agri-exports have registered a 25 per cent growth in 2008-09.
At present, around 70 per cent of the country's agricultural and processed food exports are to developing countries in the Middle East, Asia, Africa and South America.

Economic Prospect For Year 2013
The overall mood of the industry looks promising with growth at 10.6 per cent for the five month Period, April- to August 2013. However, growth slipped to 5.6 per cent for the month of August 2010 from 10 percent plus in the previous year. Capital goods production remained volatile as growth dipped into the negative zone on two occasions during the present fiscal after a steep rise. However, the average growth stood at 29percent during the period April- August as against 3.4 percent increase in the corresponding period of previous year. Output in the basic and intermediate goods rose but not as much as seen in the previous year. Consumer goods segment went up by 8.6 percent during the period from April to August in 2010-11, as against 3.6 percent increase in output in the previous year and the rise was seen on account of consumer durables segment.8 of the 17 industry segments were seen to surpass the growth rate during the first five months ofFY11 as compared to the growth observed in the previous year. The six core infrastructure industries continues to remain positive cumulatively up to August 2010,however the pace of growth is slightly lower as compared to the growth posted in the previous year. Growth in the overall infrastructure industries mainly came from crude petroleum, petroleum refinery and steel. Government's efforts in taming inflation brought positive results. In September 2010 the rate of inflation was brought under 10 per cent. Currently the rate of inflation averaged for the month of September 2010 was 8.62 percent; this has come down from 9.55 percent in August and 10.3 in July2010.During the month of September the confidence of the foreign investors in the Indian stock market was seen to go up. The index Sensex was observed to swing between 19-20 K and Nifty was seen move between 5- 6 K points. In August FY 11, M3 decelerated to 15 percent calculated on a Y-o-Y basis as compared to 19percent in the previous year. The percentage changed in the net bank credit to the government halved as compared to the increase observed in the previous year. However, borrowings by the commercial sector were seen to increase by 18.3 per cent vis-a-vis the increase of 13.8 percent in the previous year. Investments in the government securities slowed compared to the previous year and so were the aggregate deposits. The total credit off-take increased which was on account non-food segment. Fiscal deficit up to August this year was lower at Rs 151425 crores compared to the fiscal deficit recorded in the previous year which was at Rs 182290 crores. The reasons for low fiscal deficits were increase in the revenue receipts (non tax source) on account of disinvestments in the PSU sand auction of 3G and BWA spectrum. Total merchandise trade from April – August FY11 stood at USD 227 billion compared to the total trade of

USD 171.9 billion in the corresponding period of previous year. The trade deficit widened by 56 billion (upto August) as the merchandise exports cumulatively from April to August 2010-11 rose to USD 85 billion as compared to USD 66 billion in the 2009-10. Imports were also seen to increase by 33 per cent to USD 141 billion.FDI is an area which requires special attention because of its inherent long term investment intentions. Presently the FDI investments received up to August this year is running behind the investments received in the previous year.

India's Economic Outlook Projectio					
		2007	**2008**	**2009**	**2010**
GDP Growth		**9.40%**	**7.30%**	**7.60%**	**8.30%**
CPI		**6.40%**	**9.30%**	**5.50%**	**4.90%**

At the end of 2009, the Indian economy was growing at 7% a year. The strongest growth was coming from the manufacturing and construction sector (with growth of 9% a year). The weakest section of the economy was agriculture which showed growth of just 0.9%

The strong rate of economic growth boosts prospects for the Indian Rupee in 2010. With such a high rate of growth, interest rates are likely to be higher in India than elsewhere. It could make India an attractive place for depositing money.

Inflation Direction -

Since the global economies are emerging from the lows, in a short run, inflation is expected to rise due to bounce back in demand for commodities. According to the estimates, inflation would likely to reach up to 10%, resulted, the expectations of the monetary policy tightening from the Reserve Bank of India in the second quarter review of monetary policy. Asian economies – Chinese economy in particular, along with India are in the strongest place for a sustained recovery. There are increasing signs of a recovery in a private domestic demand.

Thus, the Indian economy performed remarkably well, despite the global economic crisis. The IMF, in its latest update, has projected growth rates for the year 2009 and 2010 for the world economy at (-) 0.8% and 3.9% respectively while the projections for India by the IMF are 5.6% and 7.7% respectively. Despite impressive growth figures and projections, the poor performance figures and projections, the poor performance of external sector and service sector call for nuanced policy interventions.

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.

	DECEMBER	**APRIL-DECEMBER**
EXPORTS (including re-exports)		
2008-2009	13368	147569
2009-2010	14606	117587
%Growth 2009-2010/ 2008-2009	9.3	-20.3
IMPORTS		
2008-2009	19456	253809
2009-2010	24753	193829
%Growth 2009-2010/ 2008- 2009	27.2	-23.6
TRADE BALANCE		
2008-2009	-6088	-106240
2009-2010	-10147	- 76242

Foreign Direct Investment

FDI inflow experienced a declining trend in the first three quarters of 2008-09, 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 2009-10 gathered momentum during the second quarter of 2009-10.

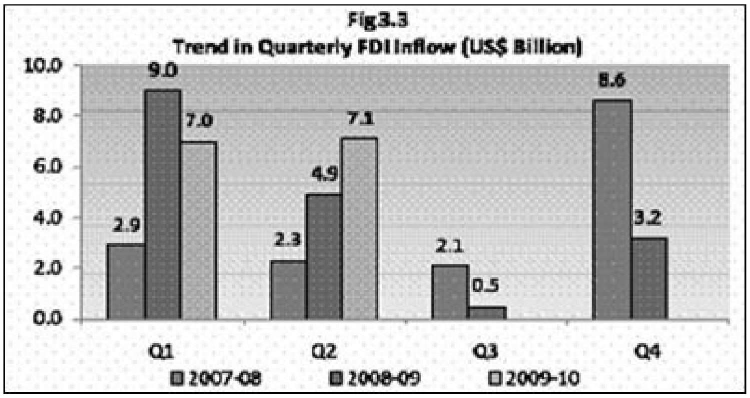

Fig3.3
Trend in Quarterly FDI Inflow (US$ Billion)

Foreign portfolio investment In US$ terms, during2008-09, FIIs recorded a net outflow of US$ 15.0 billion as against net inflows of US$20.3 billion a year ago. However, this trend reversed in the first quarter of 2009-10 with a net inflow of US$ 8.2 billion and US$ 7.0 billion during the second quarter of 2009-10.During 2009-10, 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.

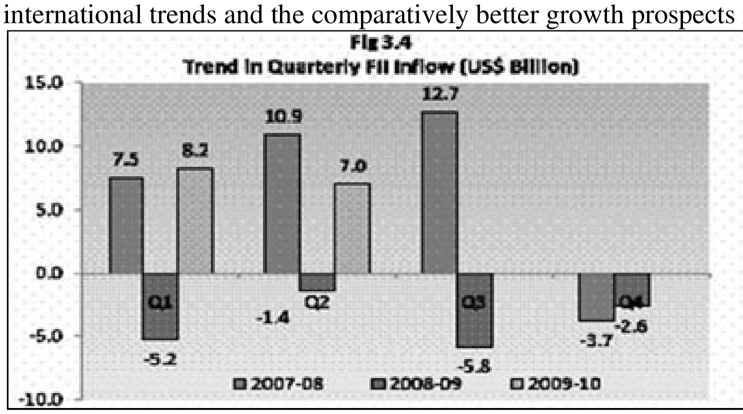

Fig 3.4
Trend in Quarterly FII Inflow (US$ Billion)

Road ahead

Agriculture is set to play a more dynamic role in the economy, with the government's increased focus on the sector.

In the 2009–10 budget, the government has taken many steps to aid the growth of the sector and focus on the achievement of self-sufficiency in food grains. Agriculture credit is likely to touch US$ 67.14 billion for the year 2009-10. In 2008-09 agriculture credit flow was at US$ 59.3 billion.

How European crisis could impact India? Understanding the linkages…..

A crisis in an economy impacts other economies via three channels:

Trade Channel: When an economy falls into a recession, it impacts the affected country's trading partners too. Falling household and business demand in the slump-hit economy hits the exports/imports of its trading partners.

The share of exports to EU (excluding UK) and imports from EU has fallen over the years. In 1987-88, exports to EU constituted about 18.6% of total exports. This has declined to 17.5% by 2008-09. The decline of imports is higher from 25% in 1987-88 to 12% in 2008-09. Hence, total trade between India and EMU is about 29.5% and could be impacted due to the crisis. (**Source:** RBI)

However, trade channel can impact Indian external sector indirectly as well. When the recent crisis gripped the world 2008, most policymakers, economists and experts put forth the view that India would be only marginally affected. Two reasons were cited for this-

* First, India was a virtual non-entity in global trade as its share was less than 0.5%-0.7% of the total global trade volumes. Hence, it was assumed that its economy was largely insulated from the turmoil.

* Second, share of developed economies in trade had declined. In 1987-88 developed economies contributed 59% of exports and in 2008-09 their share has declined to 37%. The share of developing economies has increased from 14% in 1987-88 to 37% in 2008-09. In case of imports developed economies share has again fallen from 60% in 1987-88 to 32% in 2008-09 while developing economies has risen from17% to 32%. (Source: RBI)

Because of this shift it was felt that impact of global crisis on Indian economy would be limited. As crisis originated in US and developed economies with developing economies still growing, it was felt Indian trade will continue to grow. However once the crisis struck in September 2008, Indian trade sector declined sharply and growth was negative for 13 straight months from Oct-08 to Oct-09.

Financial Channel: The current crisis has shown the power of finance channel (though trade channel was also very strong as above analysis points). The impact of turmoil in one economy's financial markets is not merely transmitted to other markets, the quantum and direction of the movement is also more or less similar (decline in equity markets, rise in corporate bond spreads and depreciation in currency). This is because cross border financial linkages have increased substantially over the years. Besides, the correlation between assets too has been rising across the world. If you plot the BSE Sensex with other advanced economy stock indices, you more or less see the same trend. So much so, one can determine the trend in the Indian equity market by just looking at movements in other global indices.

External Commercial Borrowings : External commercial borrowings could also decline if the European crisis spreads to other economies.

CONCLUSION

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.

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

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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. Solution for the problem still remains at the top of the mind of every one, still everyone is facing the impact of recession but for "how long" is the major question which is of great importance. "When there is a will there is a way" thus goes an old saying. Hopefully the whole business world will realize this and will work on this sincerely. Only an honest and human approach is no more the requirement it has gone to the level of strategic decision for the future.

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