

# Analysing the Effect of Global Recession on Macroeconomic Indicators of Indian Economy

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## ARTICLE DETAILS

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## ABSTRACT

Economy of a particular country is the best indicator of its financial and social soundness. A country is said to be developed if its per capita income and the standard of living rate is high. Indian economy had experience the roller-coaster in its initial age after independence. The new chapter of Indian economy began with the historical event of L.P.G. i.e. Liberalization, Privatization and Globalization. Out of which globalization connected India with the whole world so far the trade and commerce is concerned. The world still remember the global crisis took place in United States which greatly affected Indian economy from 2007-2008. What effect Indian economy faced can be identified in this paper by studying macro-economic indicators. The study is based on secondary data collected from the handbook of statistics published by RBI, journals, and publishes articles. The present study is based on descriptive and causal research design. The study indicates that the market crash took place in U.S. economy, highly influenced the Indian economy. Macro-economic indicators of Indian economy show a considerable impact of global turmoil.

## 1. Introduction

A nation can be identified with its fundamentals and policies adopted by the country in the particular period of time. So far the policies concern, there are mainly two type of policies are there in economics term i.e. Monetary policy and Fiscal policy. Monetary policy concerned with the policy adopted by the central bank, while Fiscal policy is concerned about the policies adopted by the concerned government.

In India, before 1991 there had been so many restrictions regarding the trading, international norms regarding import-export and licencing process. But with the boon of LPG i.e. liberalization, privatization, and globalization the doors of international market became widely opened. The world became a global village.

Gradually India became too much interdependent on the foreign countries that the whole economy strongly bonded with the other. Now the situation is such that a small jerk in the economy of one country may go to affect the economy of another country. The statement held true for Indian history. It was about the economy of USA regarding banking sector. Housing was in boom during that period and housing banks in United States started giving loans to the borrowers with an expectation that they will get the assured returns with definite mortgage on the house itself. But the speculation failed and prices of houses fallen down drastically which finally became difficult for the banks to recover the mortgage amount. And finally it became NPA for the banks and the economy collapse.

The historical fire took place in the economy of United States and depression spread over the country. So far India is strongly bonded with United States it also felt a great heat of the recession. India experienced a global recession at the beginning of the year 2007-2008 and its impact is seen till today in Indian market as well as economy.

## 2. Objective

- To examine the trend of macroeconomic indicators for the duration of study, and especially the global recessionary period from 2007 till 2012.
- To identify the core macro-economic indicator of Indian economy.
- To evaluate the impact of global recession on major Indian economy.
- To make suggestion on the bases of interpretation of data.

## 3. Research Methodology

### Research Design

The present study is based on descriptive and causal research designs.

### Sampling Design

The data from 2000 till 2015 has been taken in order to analyse the impact of global recession on Indian economy. The statistics of Indian economy has been evaluated using the data on various macro-economic indicators collected from Handbook of statistics available from RBI website and various published journals for the said period.

### Variable Definitions

NAME	DEFINITION
GDP (GDP)	Gross Domestic Product
Inflation (INF)	Increase In Prices
Foreign Investment Inflows (FII)	Investment By Foreign Investors In India
Gross Domestic Savings (GDS)	Gross Savings Within India
Gross Inflow (GI)	Gross Investment Inflow
Foreign Direct Investment (FDI)	Investment Made By Foreign Investors

Employment (EMP)	Total Employed Population Of India
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#### Statistical techniques applied:

- Trend Analysis
- Descriptive Analysis

#### 4. Data analysis and interpretation:

So far the present paper attempts to analyse the recessionary condition of Indian economy during pre and post era, trend analysis is used to observe the situation of macro-economic variables. And the results of it are discussed below.

#### 5. Literature review

**SurajWalia(2012)** presented his view on "IMPACT OF GLOBAL ECONOMIC CRISIS ON INDIAN ECONOMY: AN ANALYSIS". The objective of the study is to evaluate the impact of recession on the Indian economy. The study based on secondary data and data available from RBI and stock markets. Descriptive analysis is used and graphical technique is used to plot the data. In the concluding words we can say, India cannot escape unscathed present crisis because its economy has become more integrated with rest of the world over the past two decades. In order to overcome the global economic crisis, monetary and fiscal stimulus package are essential. More transparency is required in the process of setting bank rate, repo rate, reverse repo rate, CRR, SLR etc. The RBI must lower the policy rates further to bring down the costs of funds and boost the growth momentum. The link between monetary policy and financial stability need to be understood and more autonomy to the central bank should be given to maintain the enviable reputation earned by RBI. Monetary & fiscal policy both should be co-ordinated for overall better performance of Indian economy.

**Pallav Das (2012)** has analysed GLOBAL RECESSION - IMPACT OF GLOBAL MELTDOWN ON THE INDIAN ECONOMY. The study aims To study the Impact of Recession on Indian Industrial sector, the Impact of Recession on Indian Stock market, Impact of Recession on Foreign institutional Investment, Impact of Recession on Rate of Inflation in India, Impact of Recession on Foreign exchange market, Impact of Recession on Indian Employment, Impact of Recession on Indian Taxation and to study the Impact of Recession on India's GDP Growth rate. The present study based on secondary data only. Secondary data are collected from Central Statistical Organization, Government of India, Bombay stock Exchange India, SEBI Bulletin 2010, Economic survey of India 2010-11 and 2011-12, and other sources like magazine, Government report. Large amount of secondary data is available in the forms of articles, manuals and previously conducted researchers on the similar topic. Finally it is found that India has been hit by the global meltdown, it is clearly due to India's rapid and growing integration into the global economy. The strategy to counter these effects of the global crisis on the Indian economy.

**Rajiv Kumar Bhatt (2011)** discussed Recent Global Recession and Indian Economy. The paper aims to indicate the impact of recent trend of recession on Indian economy. The Indian economy has shown negative impact of the recent

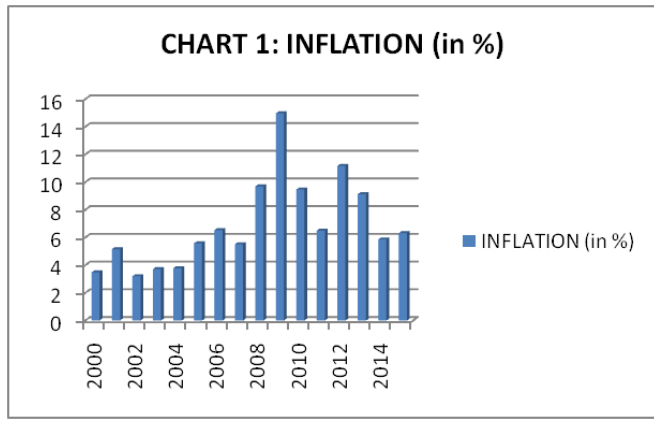
global financial meltdown. GDP, BSE, and NSE are the major variables used in this study. The study based in the secondary data published by the stock exchange and governing authorities. The contagion from the global financial crisis required appropriate monetary and fiscal policy responses to ensure enough liquidity in the economy, the orderly functioning of markets, and the financial stability. The government of India and RBI responded to the challenge strongly through its fiscal and monetary policies. In short, the new paradigm must entail infrastructure and food grain-led growth strategy on the basis of peasant agriculture sustained through larger government spending towards the agriculture and rural sector, which can simultaneously sustain the growth and remove the food crisis in India.

**Dr.A.Muthusamy (2012)** presented Impact of the Global Meltdown on the Indian Economy. The objective of the study is to find out the frame work of both the concepts of Global Recession and Indian economy, to analyze the implication of Recession occurred during the period 2007-2009, and to analyze the causes and effects of Recession in India. This study is made in order to find out the contribution of the impact of global recession on Indian economy from 2006-2007 to 2010-2011. The recession period was December 2007-July 2009 i.e. 19 months. Index of Industrial production growth, GDP, Import, and Export were the main variables used in the study. The period of the study is six years from 2005 to 2010. The Indian economy not affected much more due to great saving habit among the people, strong fundamentals ,strong regulatory regime .The other direct impact of the global financial crisis has occurred in the area of credit availability to the small-scale agriculture and other rural livelihoods.

**GoelShobhit and BajpaiAvinash (2013)** Worked on AN IMPACT ANALYSIS OF GLOBAL RECESSION ON THE INDIAN BANKING SECTOR. The objective of the study was to empirically find out the impact of recession on the Indian banking sector. The paper attempts to analyze the liquidity position of the banks during the recession period and to assess whether the management of the banks is successful in maintaining the performance of banks due to the onslaught of recession. The paper is based on secondary data analysis of the banks. Analysis is made at group level-State Bank of India and its associates, nationalized banks, Private Banks and Foreign banks are analysed for the time period 2006-2009. In order to analyse the after effect of recession on Indian Banking sector, the period 2008-09 is taken. Finally it is found though the Indian stock market have plunged to more than half of its value but the Indian Banking sector has managed to show profits in their balance sheets. The banks are in a comfortable position to absorb losses occurred due to the destructive attack of recession.

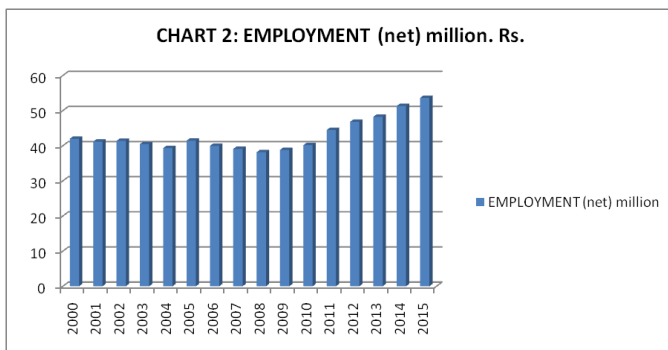
#### 6. ANALYSIS

##### *Inflation*



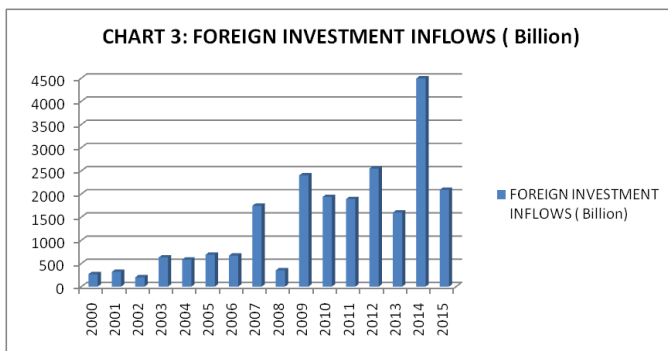
As far as the above chart is concern, from the last 16 years inflation having very minute plus minus at the beginning years of 2000 till 2007. But gradually if we move ahead there seems a drastic jump in the year 2009 followed by the year 2008. The graph clearly indicates the effect of global recession on inflation.

**Net Employment**



Employment in India has been static and much consistent from last decade. There had been nominal ups and down seen throughout the years, but if we particularly talk about the recessionary period, there is a visible downfall from the year 2007 till 2010. The downfall of 2008 was the lowest among 15 years. This clearly shows impact of global turmoil on employment.

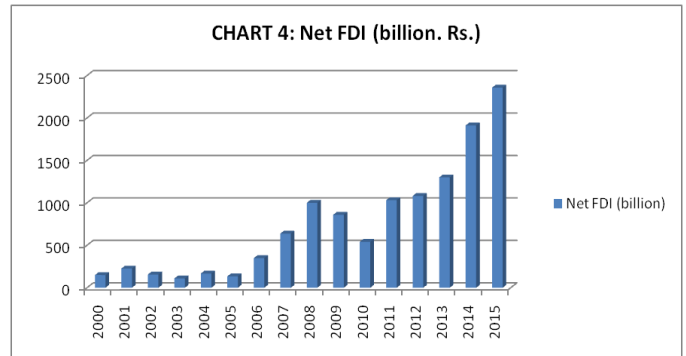
**Foreign investment inflows (FIIs)**



Foreign investment is one of the significant economic indicators. Initially if we talk about the beginning years i.e. 2000 till 2006 there were nominal variations seen in the investment inflows. As we move further it's clearly observed a great hike of FIIs in the year 2007. Over and above this the main striking

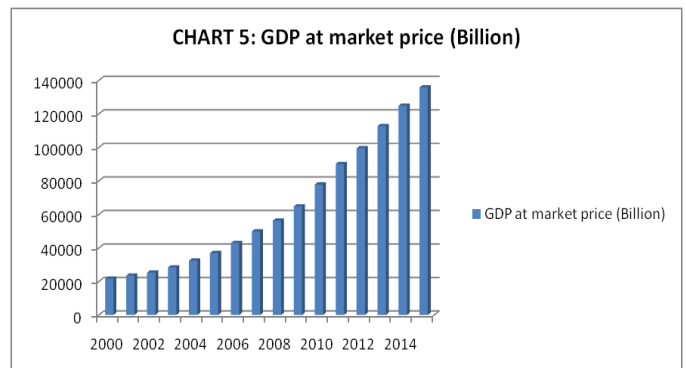
year is 2008, which shows a great downfall in FIIs, i.e. almost one third followed by previous year. That clearly indicates impact of recessionary period on India.

**Foreign Direct Investment (FDI)**



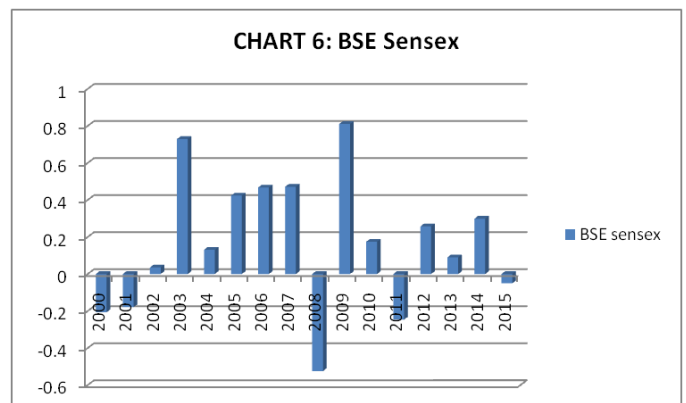
Besides FII, The foreign direct investment having differential slope. As the graph shows a minor variations at the initial years but from 2007 there is gradual increase in FDI, and 2008 shows the highest peak among 10 years that is approximately 1000 billion. This means India expected to penetrate the market during recessionary period.

**Gross Domestic Product (GDP)**



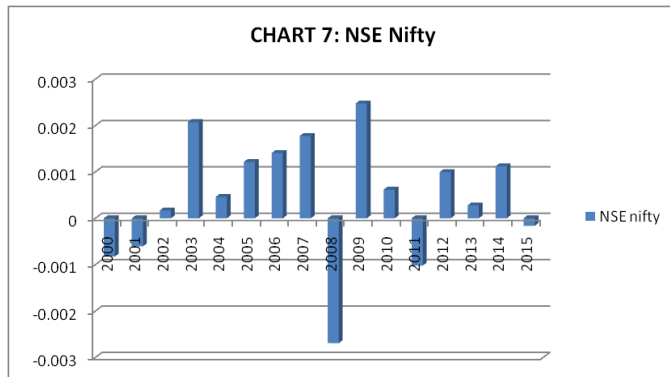
Gross domestic product is the significant economic indicators among the other. As far as GDP is concern, from the base year 2000 as we observe the trend till 2015 which does not depict a single considerable variation of recession. Not only impact of recession but over and abovethis, there is a gradual increase in GDP throughout the years. This means there is no significant impact of recession on Indian GDP.

**BSE Sensex**



Bombay stock exchange is one of the leading stock exchanges in Indian economy. It shows sensitive index of 30 prominent commodities. From the record of the year 2004 till 2007 the market was showing health cum static growth throughout the year. As recession caught India in its arm during 2008 the downfall can be seen in the graph. Sensex club down to the negative trend which means global turmoil not only affected macro-economic indicators but also influenced the stock market adversely.

### NSE Nifty



As per nifty presented by national stock exchange there was a gradual increase in NIFTY since 2004 till 2007. As stock market index is highly influencing index, nifty brock down drastically and moves down to minus. Nifty depicts a clear impact of recession on Indian market. This was the highest breakdown during the history of last fifteen years.

(Source: handbook of statistics)

### 7. Findings

The present study succeeded to identify the impact of global recession on macro-economic indicators. As far as the graphical presentation concern the indicators were taken for the duration of 15 years i.e. from the year 2000 till 2015. The first indicator was regarding inflation and inflation was showing the impact of global turmoil during recessionary period. Employment from last decade was somewhat consistent and no significant variation found except recessionary period of 2007. Still Indian employment was not affected at large. Foreign investment inflow in the year 2018 was approximately one third of 2017. This indicates FII had significant impact of recession. Gross domestic product presented positive trend throughout the years, which means Indian GDP was not influenced due to global meltdown. Not only economic indicators but the stock exchange also reflects the adverse impact on the Indian market. BSE and NSE are two leading stock exchanges in India which helps to circulate the funds of the country shows the negative trend and these market was crashed at its lowest in the decade.

### 8. Conclusion

The economy of United States collapsed due to NPA of housing finance and the bankruptcy of housing sectors. The dependent countries whose economy was strongly connected with it were badly affected. India was one of the countries and could not manage to safeguard itself from the global turmoil. Indian FDI, FII and NSE, BSE market collapsed due to financial crisis. Not only our country but majority of the country more or less financially felt jerk due to economic imbalance. Global recession not only influenced India but the way it affected the Indian economy that till today India is trying to stand up from the economy breakdown.

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