# GLOBAL ECONOMIC CRISIS: IMPACT ON SELECTED ECONOMIC INDICATORS OF INDIA

*Dr. Shefali Dani ** Ms. Riddhi Ambavale

## ABSTRACT

*The Indian economy appeared to be quite protected from the global financial crisis that began in August 2007 when the sub-prime crisis first emerged in the United States (US). India's financial sector is not deeply allied with the global financial system and hence Indian banks remained unaffected from the global meltdown. However, as the financial crisis transformed in to a full-blown global economic downturn, India could not escape the second round effects. The global crisis affected India through three different ways: Financial markets, Trade flows, and Exchange rates. The immediate effects were: dropping stock prices, a net outflow of foreign capital, a large reduction in foreign reserves and a sharp tightening of domestic liquidity. In sync with efforts taken by governments and central banks of other countries, the Indian Government and RBI also took aggressive contradictory measures: sharply soothing monetary policy and introducing a fiscal stimulus to boost up domestic demand. Hence, this paper attempts to analyze the impact of government policies to combat crisis in Indian economy and its current scenario.*

*Keywords: Financial Crisis, GDP, Inflation, Employment, FDI, Stock Market, Currency rates*

## 1. INTRODUCTION

Globalization in India has generated new opportunities but it has also triggered new challenges and obligations. It means that the global economy can no longer be viewed from a spectator's standpoint. What happens there has large implications for India. Every time there is a major financial crisis anywhere in the world, there is a rise and fall of India's growth rate.

Even before the financial crisis, there were problems regarding economic growth including the growth of industry and services, partly because of a tight monetary policy, which was due to higher inflation. The global financial crisis has had an indirect impact on India in terms of liquidity problems and lower economic growth (Mahendra Dev, 2010). This paper examines the state of the global economy and India's position therein. (India and the Global Economy , 2011-12)

## 2. SELECTED ECONOMIC INDICATORS OF INDIA.

### 2.1 Gross Domestic Product (GDP)

The US meltdown which shook the world had little impact on India, because of India's strong fundamentals of economy, well regulated banking system and low exposure of Indian financial sector to the global financial market. Perhaps, this has saved Indian economy from being swayed over instantly. The following table-2.1.1 presents the impact of global economic crisis on the growth rate of Gross Domestic Product (GDP) in various sectors of Indian economy.

**Table 2.1.1 Gross Domestic Product (GDP) in Various Sectors**

| | Pre Meltdown years | | Post Meltdown years | |
|---|---|---|---|---|
| **Sectors** | **2006-07** | **2007-08** | **2008-09** | **2009-10** |
| Agriculture, Forestry & Fishing | 3.7 | 4.7 | 1.6 | -0.2 |
| Mining & Quarrying | 8.7 | 3.9 | 1.6 | 8.7 |
| Manufacturing | 14.9 | 10.3 | 3.2 | 8.9 |
| Electricity, Gas & Water Supply | 8.5 | 10.0 | 3.9 | 8.2 |
| Trade, Hotels & Restaurants | 11.2 | 9.5 | 5.3 | 8.3 |
| Construction | 10.6 | 10.0 | 5.9 | 6.5 |
| Transport, Storage & Communication | 12.6 | 13.0 | 11.6 | N.A. |
| Finance, Insurance, Real Estate & Business Services | 14.5 | 13.2 | 10.1 | 9.9 |
| Community, Personal & Social Services | 2.6 | 6.7 | 13.9 | 8.2 |
| **Total GDP from all sectors** | **9.7** | **9.2** | **6.7** | **7.2** |

**Source: S. Walia, Impact Of Global Economic Crisis on Indian Economy: An Analysis, *International Journal of Latest Trends in Engineering and Technology*, July 2012**

*Director and Professor of Economics, GLS Institute of Business Administration, Gujarat University, Ahmedabad
**Ms. Riddhi Ambavale, Research Scholar, Gujarat Technological University, Ahmedabad

The above table 2.1.1 depicts that among all the sectors of the Indian economy, mining and manufacturing and to some extent trade was affected by the economic meltdown in 2007-08. In 2008-09 there was an all round decline in the growth rates of GDP from almost all sectors except from community, personal and social services. Consequently, the GDP of the country could grow only at 6.7 per cent in 2008-09, a decline of 2.5 per cent over the previous year.

Despite the recent headwinds India has faced, its fundamentals remain solid. The economy is slowly regaining momentum, with both domestic and external conditions starting to improve. Favorable demographics and recent government reforms are expected to accelerate expansion over the medium term, making India the world's fifth-fastest growing economy by 2015. (India 2014 - Enabling the prospects, 2013)

## 2.2 INTERNATIONAL TRADE

International trade declined as a result of the financial and economic crisis. Between July, 2008 and May, 2009 the value of world trade declined by 37 per cent, of which 16 per cent was due to the fall in prices. The WTO estimates projected that global trade is likely to decline by 9 per cent in volume terms and the IMF estimates projected a decline of over 11 per cent for 2009. Though India has not been affected to the same extent as other economies of the world during this phase, yet the declining trend in the growth rate of our exports and imports, have started in second and third quarter of the year 2008-09 respectively. The quarterly growth performance of exports and imports of India are shown in the following table 2.2.1

**Table 2.2.1 Quarterly Growth Performance of Exports and Imports of India in 2008-09**

| | 2008-09 | | 2009-10 | |
|---|---|---|---|---|
| **Quarters** | **Exports** | **Imports** | **Exports** | **Imports** |
| I | 57.0 | 38.7 | -38.6 | -35.0 |
| II | 39.5 | 73.8 | -21.0 | -33.6 |
| III | -4.0 | 7.4 | 6.0 | 1.2 |
| IV | -20.3 | -24.0 | N.A | N.A |

**Source: S. Walia, Impact Of Global Economic Crisis On Indian Economy: An Analysis, *International Journal of Latest Trends in Engineering and Technology*, July 2012**

The table 2.2.1 shows that growth rate of exports and imports declined in 2008-09 and turned to be negative significantly in the IV quarter of the year 2008-09, during the first quarter of 2009-10 growth rates of both exports and imports become highly negative. Indian economy started stimulating the exports and as a result the growth rate of exports turned positive at 6 per cent in the third quarter.

However, the World trade volume growth recovered in 2011 to 6.1 per cent, which again decelerated in 2012 to 2.8 per cent, albeit slowly, with a growth of 3.0 per cent. There seems to be a reversal of roles with the advanced economies that performed badly in the aftermath of the crisis on the trade front showing better signs of recovery than the emerging market and developing economies (EMDEs), many of which are also entangled in one domestic crisis or the other (Table 2.2.2).

**Table 2.2.2 Trends in Growth in Trade Volumes of India**

| | Actual | | Projection | |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| **World trade volume** (goods and services) | 2.8 | 3.0 | 4.3 | 5.3 |
| **Imports** | | | | |
| Advanced economies | 1.1 | 1.4 | 3.5 | 4.5 |
| EMDEs | 5.8 | 5.6 | 5.2 | 6.3 |
| **Exports** | | | | |
| Advanced economies | 2.1 | 2.3 | 4.2 | 4.8 |
| EMDEs | 4.2 | 4.4 | 5.0 | 6.2 |

***Source*: International Monetary Fund (IMF), World Economic Outlook, April 2014.**

## 2.3 FOREIGN DIRECT INVESTMENTS (FDI)

During the period subsequent to dotcom burst, there has been an unprecedented rise in the cross-border flows and this exuberance was sustained until the occurrence of global financial crisis in the year 2008-09. Between 2003 and 2007, global FDI flows grew nearly four -fold and flows to Emerging Markets Economies during this period, grew by about three-fold. After reaching a peak of US$ 2.1 trillion in 2007, global FDI flows witnessed significant moderation over the next two years to touch US$ 1.1 trillion in 2009, following the global financial crisis. On the other hand, FDI flows to developing countries increased from US$ 565 billion in 2007 to US$ 630 billion in 2008 before moderating to US$ 478 billion in 2009 (RBI Annual report, 2013).

The decline in global FDI during 2009 was mainly attributed to subdued cross border merger and acquisition (M&A) activities and weaker return prospects for foreign affiliates, which adversely impacted equity investments as well as reinvested earnings.

In 2010 India was at the second position in terms of FDI, but again slipped to the third position in 2011. In the 2012 report, India's position fell to the seventh but improved to the third position in the 2013 report. At the global level, the UNCTAD report projected FDI flows to rise to $1.6 trillion in 2014 from 1.45 trillion in the previous year. The report pegged FDI flows to further increase to $1.75 trillion in 2015 and $1.85 trillion in 2016. Nazareth said even the projected FDI inflow in 2016 is way down than $2 trillion in 2007. (India slips in FDI rankings Position as most-favoured destination moves down a notch to fourth, says Unctad report, 2014).

## 2.4 INFLATION

In the last two years, inflation has become a major barrier to the nation's ability to enjoy the fruits of brisk economic growth. In the post-global crisis period since 2008–09 inflation has emerged as a major public policy concern. A disturbing feature of the current episode of inflation is that it has been accompanied by high food inflation, which hurts the poor and the low-income strata of our society the most.

At the retail level food inflation has been even higher. Though food inflations at the wholesale and consumer levels tend to move together, consumer food inflation rises faster during an uptrend, accentuating the divergence between WPI and CPI (Chart 4). The recent changes in the drivers of food inflation could partly explain the divergence: the retail margins tend to be higher in the case of perishables such as fruits and vegetables.

**Figure- 1 Food inflation wholesale and consumer price baskets**

**Table 2.3.1**
**FDI Flows into Selected Countries**

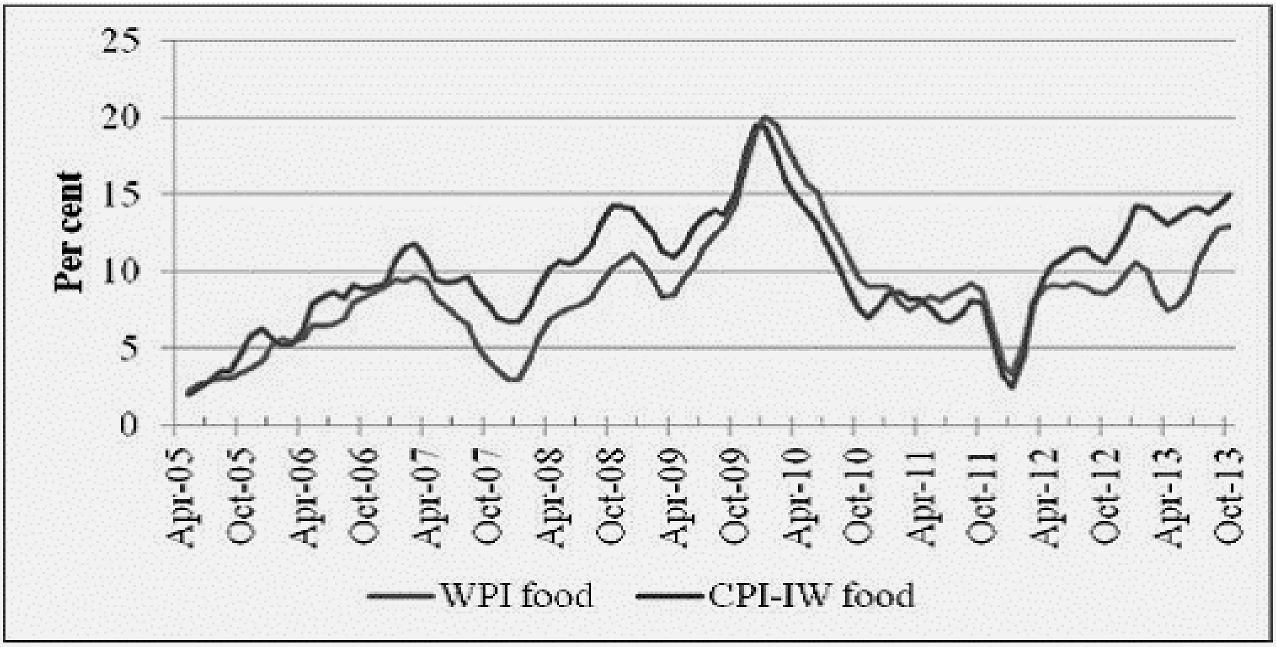
**Table 1 : Countries with Higher Estimated Level of FDI Inflows than India in 2010**

| | Amount (US$ billion) | | | | Variation (Percent) | | |
|---|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 (Estimates) | 2008 | 2009 | 2010 (Estimates) |
| **World** | **2100.0** | **1770.9** | **1114.2** | **1122.0** | **-15.7** | **-37.1** | **0.7** |
| **Developed Economies** | **1444.1** | **1018.3** | **565.9** | **526.6** | **-29.5** | **-44.4** | **-6.9** |
| **United States** | 266.0 | 324.6 | 129.9 | 186.1 | 22.0 | -60.0 | 43.3 |
| **France** | 96.2 | 62.3 | 59.6 | 57.4 | -35.2 | -4.3 | -3.7 |
| **Belgium** | 118.4 | 110.0 | 33.8 | 50.5 | -7.1 | -69.3 | 49.4 |
| **United Kingdom** | 186.4 | 91.5 | 45.7 | 46.2 | -50.9 | -50.1 | 1.1 |
| **Germany** | 76.5 | 24.4 | 35.6 | 34.4 | -68.1 | 45.9 | -3.4 |
| **Developing Economies** | **564.9** | **630.0** | **478.3** | **524.8** | **11.5** | **-24.1** | **9.7** |
| **China** | 83.5 | 108.3 | 95.0 | 101.0 | 29.7 | -12.3 | 6.3 |
| **Hong Kong** | 54.3 | 59.6 | 48.4 | 62.6 | 9.8 | -18.8 | 29.3 |
| **Russian Federation** | 55.1 | 75.5 | 38.7 | 39.7 | 37.0 | -48.7 | 2.6 |
| **Singapore** | 35.8 | 10.9 | 16.8 | 37.4 | -69.6 | 54.1 | 122.6 |
| **Saudi Arabia** | 22.8 | 38.2 | 35.5 | - | 67.5 | -7.1 | - |
| **Brazil** | 34.6 | 45.1 | 25.9 | 30.2 | 30.3 | -42.6 | 16.6 |
| **India** | **25.0** | **40.4** | **34.6** | **23.7** | **61.6** | **-14.4** | **-31.5** |

**Source: World Investment Report, 2010 and Global Investment Trends Monitor, UNCTAD.**

**Source:** http://www.rbi.org.in/scripts/bs_viewcontent.aspx?Id=2513

**(YoY on 3 months moving average – per cent)**




**Source: BIS central bankers' speeches**

**Table 2.4.1 Average annual growth in real @ household monthly per capita expenditure**

| Group/Sub-groups | 1993-2000 | | 2000-05 | | 2005-10 | | 2010-12 | |
|---|---|---|---|---|---|---|---|---|
| | R | U | R | U | R | U | R | U |
| Cereals | -0.6 | 0..0 | -2.6 | -2.4 | -1.7 | -0.8 | -4.2 | -3.6 |
| Protein# | 0.1 | 0.4 | 0.2 | -1.1 | 2.4 | 1.8 | 9.2 | 5.6 |
| Fruits & vegetables | 13 | 0.8 | 1.7 | -0.8 | 0.6 | 0.3 | 2.2 | 1.5 |
| Other foods* | -0.5 | -0.9 | 2.6 | 0.9 | 1.3 | -0.1 | 8.5 | 9.6 |
| Food | -0.1 | 0.0 | 0.0 | -0.8 | 0.6 | 0.4 | 4.2 | 4.2 |

R= Rural, U= Urban
@ rural is deflated using CPI-AL(food) 1993-94 and urban is deflated using CPI-IW(food) 1993-94=100;
# pulses, milk, meat and fish
*edible oils, beverages, sugar and spices

**Source: BIS central bankers' speeches**

The household consumption expenditure surveys made available by the National Sample Survey Office (NSSO) show that the composition of food expenditure has changed in more recent years.

During 2010–12, the real average per capita expenditure has remained significantly positive (Deepak Mohanty, 2014). Moreover, there is greater allocation of expenditure away from cereals towards other forms of food items such as protein and vegetables (Table). Hence, demand seems to be one of the factors driving the prices of protein and vegetables.

## 2.5 EMPLOYMENT RATES

Apart from GDP, the bigger concern is the employment implications of economic crisis. The Ministry of Labour and Employment conducted a survey which stated that five lakh workers lost jobs in the last quarter of 2008. The employment went down from 16.2 million during September 2008 to 15.7 million during December 2008. However, in the manual contract category of workers, the employment has declined in all the sectors/ industries covered in the survey. Employment had declined in the Automobiles and Transport sectors by 12.45 per cent and 10.18 per cent respectively. The overall decline in employment in the manual contract category was 5.83 per cent. In the direct category of manual workers, the major employment loss reached to 9.97 per cent in case of Gems & Jewellery, followed by 1.33 per cent in Metals. The continuous process of job losses in exports and manufacturing, particularly the engineering sector and even the services sector was a big challenge for the government.

On the employment front, India has been able to withstand the adverse impact of the global crisis and generate employment since July, 2009 As per National Sample Survey Office data, the number of persons in the workforce (usual status) increased from 398 million in 1999 2000 to 458 million in 2004-05, an increase of nearly 60 million (nearly equally divided between the agriculture and non agriculture sectors) or 15 per cent in five years. The Labour Bureau conducted twelve quarterly quick employment surveys to assess the impact of the economic slowdown on employment in India. These surveys indicate that the upward trend in employment since July 2009 has been maintained (Highlights of the Economic Survey, 2011-12). This increased further to 473 million in 2011-12, an increase of 15 million or 3.3 per cent over a span of seven years. There was a decline in the workforce in the agriculture and allied sector by over 36 million between 2004-05 and 2011-12. On the other hand, the number of persons in the workforce in the non-agriculture sector increased by 51 million with industry and services contributing nearly 31 million and 20 million respectively. The table below gives the share of different sectors or the sectoral composition of the workforce (employed) by usual principal and subsidiary status (India in 2014: Creating Value with Speed and Quality, 2014).

**2.5.1 Share of Major Sectors in Total Employment (per cent)**

| | 1999-2000 | 2004-05 | 2011-12 |
|---|---|---|---|
| Agriculture & allied | 59.9 | 58.5 | 48.9 |
| Industry | 16.4 | 18.2 | 24.3 |
| Services | 23.7 | 23.3 | 26.9 |

***Source*: Rangarajan, Seema, and Vibeesh (2014).**

## 2.6 CURRENCY FLUCTUATION

The withdrawal of FII investments from India has created other problems in its wake. India's stock markets have witnessed a major collapse. Indian Rupee has been losing steadily against the US dollar since April 2008. Notably, the Indian Rupee was appreciating against the US dollar and other major currencies in 2007.

India has been accumulating reserves in 2007. With the outflow of FIIs and depreciation of the Rupee, RBI tried to defend the Rupee by selling dollars. This has resulted in a depletion of foreign exchange reserves.

Indian rupee is growing faster towards full convertibility. India's share in world income is increasing rapidly in-spite of having less market share at present. India is obviously becoming the global centre for technology developments, as world is looking at us in terms of Information and Technology.

Figure 2 states that the price of Indian Rupee against other currencies is stronger than against the year 2012 except Pound Sterling. Though rupee is weakening, it helps the exporters, NRIs, FIIs and FDIs and is also a good sign for balance of payment which results in positive capital account.

The Indian Rupee exchange rate for December, 2013 averaged 61.81 INR to USD. That's 70.7 basis points lower than the November, 2013 rate of 62.52, and 718 basis points higher than the December, 2012 rate of 54.64. The fall in the INR/USD exchange rate from November to December provides evidence that the short term trend in INR/USD is down.

**Table 2.6.1**
**Currency Exchange Rates (1996-2012)**

| Currency | 1996 | 2000 | 2004 | 2008 | 2009 | 2010 | 2012 |
|---|---|---|---|---|---|---|---|
| U.S. dollar | 35.444 | 44.952 | 45.34 | 43.814 | 48.84995 | 45.1587 | 55.77 |
| Canadian dollar | 26.002 | 30.283 | 34.914 | 41.098 | 42.92026 | 44.8479 | 56.45 |
| Euro* | 44.401 | 41.525 | 56.385 | 64.127 | 68.03312 | 59.912 | 68.91 |
| Pound sterling | 55.389 | 68.119 | 83.084 | 80.633 | 76.38023 | 71.0069 | 87.77 |
| Swiss franc | 28.714 | 26.654 | 36.537 | 40.451 | 45.05846 | 46.1323 | 57.38 |
| Australian dollar | 27.761 | 26.157 | 33.409 | 36.972 | 38.58082 | 44.7439 | 58.58 |
| Japanese yen | 0.3261 | 0.41711 | 0.41945 | 0.42627 | 0.52239 | 0.5371 | 0.70 |
| Singapore dollar | 25.16 | 26.079 | 26.83 | 30.932 | 33.60388 | 34.5255 | 44.62 |

**Source: Calculated values compiled from the secondary source**

## 2.7 STOCK AND FOREX MARKET

Figure 3 shows the movements in the sensex from 2003. It shows that the sensex recorded an unprecedented surge. Index has increased from 3100 in March 2003 to a closing peak of 20700 at the beginning of April 2008. However, it has registered a slump to around 8200 by March 2009 due to global financial crisis. After the crisis – induced slump, there was a quick recovery after March 2009 with sensex crossing 15000 in June 2009. In the subsequent years, the sensex has never fallen below 150000. The government facilitated it by adopting various measures like relaxation of ceilings on foreign ownership and allowing FII's. It should be noted that FII is a volatile and risky investment.

The adverse impact on India is mainly in the equity markets because of reversal of portfolio equity flows and the effects on domestic forex markets and liquidity conditions. With the volatility in portfolio, flows having been large during 2007 and 2008, the impact of global financial turmoil has been felt particularly in the equity market. Indian stock prices have been severely affected by foreign institutional investors' (FIIs') withdrawals. FIIs had invested over Rs 10, 00,000 crore between January 2006 and January 2008, driving the Sensex 20,000 over the period. But from January, 2008 to January, 2009 this year, FIIs pulled out from the equity market partly as a flight to safety and partly to meet their redemption obligations at home. These withdrawals drove the Sensex down from over 20,000 to less than 9,000 in a year. It has seriously crippled the liquidity in the stock market. The stock prices have tanked to more than 70 per cent from their peaks in January 2008 and some have even lost to around 90 per cent of their value. This has left no safe haven for the investors, either retail institutional. The primary market got derailed and secondary market was in the deep abyss. Subsequently, market rates went down below issue prices and shareholders are considering purchases from the cheaper open market or deferring fresh investments. This situation naturally has upset the plans of corporates to raise resources in various forms for their ambitious projects involving heavy outlays (Global Economic Crisis and Its Impact on India, 2009).

## 3. CONCLUSION

The crisis is forcing countries around the world to test the limits of their fiscal and monetary tools. India is no exception. The major challenges of our economy are decreasing economic growth which decreased to 5 percent in 2012-13 from 8.5 per cent in 2010-11, rising consumer price inflation and a widening trade deficit which was 4.8 per cent of GDP for 2012- 13. These problems have the combined effect of lowering investor's confidence as well as value of our rupee. Growth is expected to pick slowly year by year. While headline inflation has moderated, high consumer price inflation remains a concern. While recent measures to address exchange rate volatility have provided a temporary relief, structural reforms are needed to support growth revival and reduce Current Account Deficit. Moderation in inflation would help ease the monetary policy stance and revive the confidence of investors, and with the global economy expected to recover moderately, particularly on account of performance in some advanced economies, the economy can look forward to better growth prospects in 2014-15 and beyond.

**Figure 3 Movements in the Indian Stock Market since 2002**

**Source: http://www.tradingeconomics.com/india/currency**

## RERERENCES


Centre for Monitoring Indian Economy (CMIE)

Chandrasekhar, C.P. and Jayati Ghosh, 'India and the Global Financial Crisis', Macro Scan, *Business Line*, October 2008.

Dreze, Jean, 'Universalization with Quality: ICDS in a Rights Perspective', *Economic and Political Weekly*, Vol. XLI, No. 34, 26 August–1 September 2006.

Dev, S. Mahendra, *Inclusive Growth in India: Agriculture, Poverty and Human Development*, Oxford University Press, Delhi, 2008a.

Deepak Mohanty (2014), "Why is recent food inflation in India so persistent?" *At the Annual Lalit Doshi Memorial Lecture, Xavier's Chapter, delivered at the St. Xavier's College*

*Economic Survey.* (2014, April 22). Retrieved from Union Budget: indiabudget.nic.in/es2013-14/echap-01.pdf

(2009). *Global Economic Crisis And Its Impact On India* . New Delhi : Rajya Sabha Secretariat .

(2013). *India 2014 - Enabling the prospects.* EY's attractiveness survey.

(2011-12). *India and the Global Economy* . Economic Survey.

(2014). *India in 2014: Creating Value with Speed and Quality.* The Accenture Institute for High Performance.

Economic Survey of India

Highlights of the Economic Survey, 2011-12

Mahendra Dev (2010), "Rising Food Prices and Financial Crisis in India: Impact on Women and Children and Ways of Tackling the Problem", *Institute for Human Development, India.*

Mint, "*Wave of consumption sweeps the hinterland*." 29 October 2013.

Rangarajan, C., Seema, and E. M. Vibeesh (2014), 'Developments in the Workforce between 2009-10 and 2011-12', *Economic and Political Weekly*, vol. XLIX (23).

RBI Annual report, http://www.rbi.org.in/Scripts/AnnualReportPublications.aspx?Id=1110, August 2013


* * *