Global Meltdown and Indian Economy

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Abstract:

"Behind every dark cloud there is a silver lining. "

Though this is an inauspicious period when the economies are struggling with ***their*** full potency, but in every dark there is a ray of hope. In the same way the day is not far when the world will awake in the era of prosperity and will see the progress and success in each and every ***walk of life***.

We are blessed that ***India is*** not facing the problems like other countries i.e. USA. But breakdown is necessary to set up the new concepts and establishing the new parameters.
This recession revealed the existing shortcomings in prevailing economy system and political system that must be mended otherwise we may have to face ***the worse in future***. We had to experience this down fall but very less only in edibles segment .I want to disclose that this theme is throwing lights on each segment of economy especially in the context of India, as the theme is "Global Meltdown and Indian Economy".

Newton's third law says "Every action has equal and opposite reaction "which was proved long ago. We know that at present the world is suffering because of this financial crunch .Then can't we expect any positive impact of today's financial crisis on our economy? Being a rational creature it is the human tendency to find out a positive way out in order to p rove its efficiency in negative scenario. In this paper I have tried to focus on the positive impacts of Financial Crisis on Indian Economy as well as a better future.

Recession has been defined in the marketing literature as a "process of decreasing demand for raw materials, products and services, including labor" (Shama 1978) or as a "state in which the demand for a product is less than its former level" (Kotler 1973).

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Introduction

"Behind every dark cloud there is a silver lining. "

Today the world is in a financial mess. Everyone is talking about financial crisis all over the world. But nothing lasts for long. Everyday we can't expect our economy to be in boom. The economy tends to move in various phases i.e. from expansion to peak and then peak to recession and along the way of "Phase to recovery" and once again to peak. This is because of two human emotions. Greed during expansion as the cause and sufferance during recession as the result.

The term **financial crisis** is applied broadly to a variety of situations in which some financial institutions or assets suddenly lose a large part of their value. In the 19th and early 20th centuries, many financial crises were associated with banking panics and many recessions coincided with these panics. Other situations that are often called financial crises include stock market crashes and the bursting of other financial bubbles, currency crises and sovereign defaults. The current financial crisis is the worst of its kind since the great depression of 1930s. It becomes prominently visible in September 2008 with the failure of several large US-based financial firms. The global financial meltdown has spelt disaster for the world economy in general and for the US and the European economies in particular. But surprisingly when world's developed economies are suffering, there the developing countries like India and China are still spending money in many projects. Do we need to believe that Indian growth story is over? The answer is a big No. India is still to enter its golden phase of growth. This is the time for India to march on and look for opportunities to make its presence felt on the global economic map.

The Indian Approach in Current Scenario

Today India stands straight to face this financial crunch with many advantages and strengths. One of the major strength is its nuclear technology which will aid India to battle out its biggest problem-power.

Cautioning against the use of word "recession" for Indian economy, Finance Minister P Chidambaram says India's growth would moderate in this difficult year, but would still be second-fastest in the world at the rate of 7-8 per cent. According to him a recession is defined as two successive quarters of contraction of GDP. He wishes to emphasize that India is nowhere near a recession. We may expect a moderation in growth rate in the current year to a level between 7 and 8 per cent. India would still be the second-fastest growing large economy in the world Chidambaram says.

Giving a positive projection on the country's economic scenario, P.M Manmohan Singh said India could regain its annual growth rate of 8% to 9% as the world's economy could recover partially the present crisis by September this year.

According to the Planning Commission Deputy Chairman, Montek Singh Ahluwalia, The global financial turmoil will not have any significant impact on the country's financial system as India is not exposed to the new and innovative financial instruments that triggered the meltdown. We have not been as exposed to these new and innovative instruments, which have been the source of financial distress internationally... So the direct impact on the Indian financial system is not going to be significant at all.

There will be indirect effect As regards to India, the country is fortunate to have large foreign exchange reserves and hence it would be able to tide over any short-term disruption in capital inflows. The strengths of the Indian economy are substantial and capital inflows would eventually resume the normal course. As far as economic growth is concerned, the downturn in the world economy is going to have an impact on India and unlike the last year, the country would not get 9 per cent growth rate during the current fiscal. Still, the growth rate could fall below 8 per cent at 7.7 per cent, as predicted by the Prime Minister's Economic Advisory Council.

Positive Impacts on Indian Economy

Emergence of a new economy

Perhaps this is the first time during such crisis period when world's big economies like US is struggling to overcome this situation India was able to invest money for launching of chandrayaan-1.This is the time when world's most powerful economies are suffering more than Indian economy. It affected developed country economies more than developing country's economy. In USA Lehman Brothers has filed for bankruptcy, Merill Lynch has emerged with Bank of America, Washington Mutual Operations are being apprehended by FDIC and Wachovia is being auctioned by Citigroup .In comparison to such terrific conditions India is in a better place. It is worth underlining that we have a number of companies still reporting successes at this time. Some of the businesses bucking the trend at this stage have diversified into a number of areas and others have exposure to export markets. Whilst overseas markets are increasingly tough, but the businesses have been able to benefit from the weakness of the money value which has allowed exporters additional competitiveness with their international trade.

Expose of weaknesses in the economy

The major role of financial crunch is that it exposes the political, structural and financial weaknesses of an economy. It explores efficiency in the financial market, transparency and accountability of new or reformed organizations, opportunity for creating new jobs and technologies, sufficient fund for investment in R&D innovation and education.

During the financial crisis period, the extent of sufferance of an economy shows its weaknesses. Because if the rest of the world gets disturbed and capital flows and liquidity shrinks, there is bound to be spillovers not just on India but all over the world.. Regulators are trying to assess the situation and taking steps to insulate their economies from the unnecessary shock. The fact that we have not been affected reflects the merit of proceeding slowly. We have actually been reforming very slowly and gradual pace of reforms has some advantage and we should continue with that pace. India should endeavor to make the regulatory system more sophisticated to ensure that the country does not run into regulator gaps that precipitated the present global financial crisis. Our country pursued economic reforms in a calibrated manner and escaped the fallout of global financial crisis. So these expose of weaknesses will definitely help India's fast growing economy in the long run.

Even precautions must be taken as blowing air touches each and every leaf of the tree. Developed countries may slip back into recession if they abandon strategies developed to battle the global financial crisis too early. Recovery in private demand and employment are necessary conditions for government to begin unwinding policies designed to support their economies, through the right timing depends on specific conditions in each nation. Recovery in advanced economies has been sluggish. We have to be cautious because the recovery has been fragile.

The existing food inflation in India is not due to enonomic resession, but this is only due to restricted trade practices and government distribution policies.

Effects on Banking Scenario

Banks globally have found their bottoms ripped off by the global meltdown . Bank in emerging economies have also suffered. It has, in fact, been an eye-opener for these countries' banking fraternity.

ICICI whose market capitalisation fell by 8.6% and HDFC Bank, which fell by 6%, were among those Indian firms listed on American bourses that incurred loss to the tune of $10 billion during the past one week alone. Now the most important lesson to be learnt for the Brice countries' banking community is be conservative in that follow strict rules while disbursing sub-prime loans and have thorough due diligence before finalising the loans. Another message for these countries from the US credit crunch may be to go aggressively for mutual cooperation.

Yet another major positive development for highly populous countries like India and China can be focus more attention to the domestic consumerism and generate more employment to their skilled youth which is coming up in the form of demographic dividend. For Russia, which has so far been to come out of the cocoon of being isolated from the global economy, it is quite important to integrate with other emerging economies, which the Bric boasts of. Says MD Mallya, chairman & managing director, Bank of Baroda, "Our banking system is resilient enough and most of the Indian banks are not having much exposure to the foreign institutions"

That India is concerned by the US banks' collapse is evident from the fact that a meeting of the high-level coordination committee on financial markets (HLCCFM), which is again a high level forum for interface among the financial sector regulators in the country, was held recently by the Reserve Bank of India (RBI) in the chairmanship of the RBI governor, D Subbarao, in Mumbai.

Conclusion

While it is uncertain how prolonged and deep the recession will be, it can be said with certainty that demand, and subsequently growth, will return. It is therefore imperative that, when this happens, policymakers have a recovery plan in place. This plan should act to foster growth in the short-term and lay the foundations for economic stability in the long-term. There is currently a high level of activity amongst the business support community with a key focus on ensuring businesses survive the downturn. A challenging and critical focus on the basics, or fundamentals of businesses, is likely to give local companies the best chance of survival over the next year.

The growth of the public sector and the narrow reliance on financial services for growth needs to change, with manufacturers and exporters having particular attention paid to them.

After watching so many positive points we Indians are quite in a safer place in comparison to many developed countries economy. To conclude lets hope for a stronger India by rectifying all its economic weaknesses after this so called financial crunch.

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