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   STATEMENT OF THE PROBLEM

   OBJECTIVES

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   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

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STRUCTURED CANOPY OF US RECESSION: PERCEPECTING POSITIVITY

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ABSTRACT

Recessions are the result of reduction in the demand of products in the global market. Recession can also be associated with falling prices known as deflation due to lack of demand of products. A popular view among economic forecasters and market bulls is that "the deeper the recession, the quicker the recovery". The ripples of crumbling USA market can be witnessed all over the world. Whatever happens in America, its impact can be felt way beyond the United States. Indian economy is no exception to this rule. World over, companies are biting dust including lions of financial world like, Lehman Brothers, Bear Sterns, AIG, Merill Lynch etc. It has been an unprecedented collapse of financial giants of American economy. The effects of American crisis can be seen in European and Japanese companies. Many banks are almost on the verge of collapse and frantic steps are undertaken by respective governments to prop them up. India, on the other hand, is far more fortunate. Many factors are responsible for relatively less negative impact on Indian economy. The slow pace of financial reforms taking place in India, cautious approach towards permitting foreign investments in Indian business sectors, numerous bureaucratic hurdles and regulatory constraints have turned out to be advantageous for India. India has always been criticized for its slow speed in economic growth but in hindsight it's that very turtle speed has proved to be a blessing in disguise. The government has focused on new reforms and development schemes that concentrate on energy, security, infrastructure development, agriculture, transportation, science and technology, and education. The industries most affected by weakening demand were airlines, hotels, real estate. Besides this, Indian exports suffered a setback and there was a setback in the production of export-oriented sectors. A weakening of demand in the US affected our IT and Business Process Outsourcing (BPO) sector and the loss of opportunities for young persons seeking employment at lucrative salaries abroad. India's famous IT sector, which earned about $ 50 billion as annual revenue, is expected to fall by 50 per cent of its total revenues. This would reduce the cushion to set off the deficit in balance of trade and thus enlarge our balance of payments deficit. It has now been estimated that sluggish demand for exports would result in a loss of 10 million jobs in the export sector alone.

KEYWORDS
Recession, deflation, constraints, foreign investments, sluggish demand.

INTRODUCTION

Recession are the result of reduction in the demand of products in the global market. Recession can also be associated with falling prices known as deflation due to lack of demand of products. A popular view among economic forecasters and market bulls is that ' the deeper the recession, the quicker the recovery". The ripples of crumbling USA market can be witnessed all over the world. Whatever happens in America, its impact can be felt way beyond the United States. Indian economy is no exception to this rule. World over, companies are biting dust including lions of financial world like, Lehman Brothers, Bear Sterns, AIG, Merill Lynch etc. It has been an unprecedented collapse of financial giants of American economy. The effects of American crisis can be seen in European and Japanese companies. Many banks are almost on the verge of collapse and frantic steps are undertaken by respective governments to prop them up. They are right-up to a point immediately after a normal recession, economics do, over the ensuing 12 months. Unfortunately, the Great Recession of 2008- 09 is far from being a normal global recession. A US depression is on anvil. Though not confirmed but in a hush hush way it is becoming the talk of the town. According to many experts the Depression in US Economy has already arrived. The mess of subprime mortgage has become somewhat unmanageable and is slowly taking the US towards an economic recession. The federal Bank of America is trying hard to keep this situation under control. The recent reduction in interest rates and announcement of relief package are some of the steps taken in this direction. However, this US depression is affecting the world economy in a big way. US investors, in fear of a deep recession, want to liquefy their assets and, therefore, are making heavy selling of their stocks. This has affected the stock markets of entire Globe. The Indian stock market is no exception. The market is very uncertain and nobody knows exactly where it will head in the days to come. Owing to such fluctuations in the market, millions of small investors in India have lost their money and sleep.

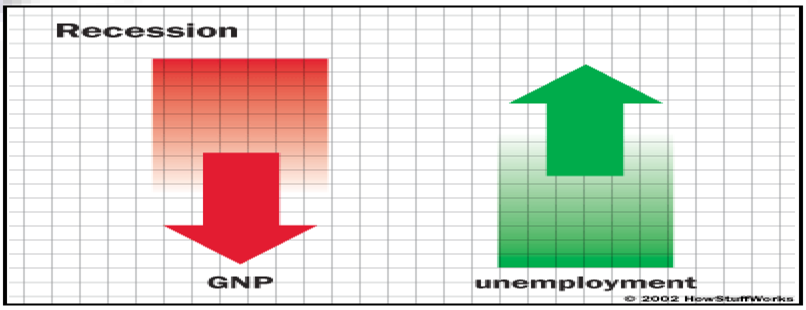
REASONS OF RECESSION 2008/09

- Credit crunch - shortage of finance
- Falling house prices - related to shortage of mortgages and credit crunch
- Cost push inflation squeezing incomes and reducing disposable income
- Collapse in confidence of finance sector causing lower confidence amongst 'real economy'

The credit crunch refers to a sudden shortage of funds for lending, leading to a resulting decline in loans available. A Credit Crunch can occur for various reasons:

- Sudden increase in interest rates (e.g. in 1992, UK government increased rates to 15)
- Direct money controls by the government (rarely used by Western Government's these days)
- A Drying up of funds in the capital markets

The recent credit crunch was driven by a sharp rise in defaults on subprime mortgages. These mortgages were mainly in America but the resulting shortage of funds spread throughout the rest of the world.



NEGATIVE EFFECT OF A US DEPRESSION ON INDIA

Recession in the West, specially the United States, is a very bad news for our country. Our companies in India have most outsourcing deals from the US. Even our exports to US have increased over the years. Exports for January have declined by 22 per cent. There is a decline in the employment market due to the recession in the West. There has been a significant drop in the new hiring which is a cause of great concern for us. Some companies have laid off their employees and there have been cut in promotions, compensation and perks of the employees. Companies in the private sector and government sector are hesitant to take up new projects. And they are working on existing projects only. Projections indicate that up to one crore persons could lose their jobs in the correct fiscal ending March. The one crore figure has been compiled by Federation of Indian Export Organisations (FIEO), which says that it has carried out an intensive survey. The textile, garment and handicraft industry are worse effected. Together, they are going to lose four million jobs by April 2009, according to the FIEO survey. There has also been a decline in the tourist inflow lately. The real estate has also a problem of tight liquidity situations, where the developers are finding it hard to raise finances. IT industries, financial sectors, real estate owners, car industry, investment banking and other industries as well are confronting heavy loss due to the fall down of global economy. Federation of Indian chambers of Commerce and Industry (FICCI) found that faced with the global recession, inventories industries like garment, gems, textiles, chemicals and jewellery had cut production by 10 per cent to 50 per cent.

The industries most affected by weakening demand were airlines, hotels, real estate. Besides this, Indian exports suffered a setback and there was a setback in the production of export-oriented sectors. The government advised the sectors of weakening demand to reduce prices. It provided some relief by cutting down excise duties, but such simplistic solutions were doomed to failure. Weakening demand led to producers cutting production. To reduce the impact of the crisis, firms reduced their workforce, to reduce costs. This led to increase in unemployment but the total impact on the economy was not very large. Industrial production and manufacturing output declined to five per cent in the last quarter of 2008-09. Consequently, a vicious cycle of weak demand and falling output developed in the Indian economy. A weakening of demand in the US affected our IT and Business Process Outsourcing (BPO) sector and the loss of opportunities for young persons seeking employment at lucrative salaries abroad. India's famous IT sector, which earned about $ 50 billion as annual revenue, is expected to fall by 50 per cent of its total revenues. This would reduce the cushion to set off the deficit in balance of trade and thus enlarge our balance of payments deficit. It has now been estimated that sluggish demand for exports would result in a loss of 10 million jobs in the export sector alone.

POSITIVE EFFECT OF A US DEPRESSION ON INDIA

Every dark cloud has a silver lining

The ripples of crumbling USA market can be witnessed all over the world. Whatever happens in America, its impact can be felt way beyond the United States. Indian economy is no exception to this rule. World over, companies are biting dust including lions of financial world like, Lehman Brothers, Bear Sterns, AIG, Merill Lynch etc. It has been an unprecedented collapse of financial giants of American economy. The effects of American crisis can be seen in European and Japanese companies. Many banks are almost on the verge of collapse and frantic steps are undertaken by respective governments to prop them up. India, on the other hand is far more fortunate. Many factors are responsible for relatively less negative impact on Indian economy. The slow pace of financial reforms taking place of financial reforms taking place in India, cautious approach towards permitting foreign investments in Indian business sectors, numerous bureaucratic hurdles and regulatory contraints have turned out to be advantageous for India. India has always been criticized for its slow speed in economic growth but in hindsight it's that very turtle speed has proved to be a blessing in disguise.

The current global recession has affected businesses in nearly every industry and geographical region It has also had a wide impact on societies around the world. Taking decisive action to reprioritize during any slowdown is a key focus for companies and countries, and we are all in the process of taking necessary measures that will enable us to adjust to today's reality. It is fundamental, however, that we do not allow short-term challenges to distract us from planning for long-term opportunities to achieve sustainable growth. Over the last decade, India has emerged as a significant economic force, and with a projected GDP growth of seven percent for 2010 we are still one of the fastest growing economies globally. In keeing with this optimism. India's 2009- 10. Budget focuses on moving towards a faster and more inclusive growth -- a plan that seeks to low poverty by 10%, generate 70 million new jobs, and reduce unemployment by 2.5%. At this point, India is faced with unique opportunity to nurture economic prosperity, and ubiquitous broadband access is a key part of the solution. By investing in the development and acceleration of a national broadband infrastructure, we can provide Internet access to all citizens. By extension, this would mean that we can create jobs, provide better access to health care and education, connect small business owners to new customers, and even create a middle class that will raise the standard of living and the national GDP. The government has focused on new reforms and development schemes that concentrate on energy, security, infrastructure development, agriculture, transportation, science and technology, and education. In addition, an increase in government expenditure is set to create infrastructure assets and boost rural prosperity. These steps take us towards empowering rural India with economic zeal, by augmenting demand though spending on infrastructure and inclusive schemes like the National Rural Employment Guarantee Scheme (NREGA) and the Universal Service Obligation Fund that could help connect every district with fiberoptic pipes. To lift the economy out of the recession the Government announced a package of Rs 35,000 crores in the first instance on December 7, 2008. The main areas to benefit were the following:---

(a) Housing--A refinance facility of Rs 4000 crores was provided to the National Housing Bank. Following this, public sector banks announced to provide small home loans seekers loans at reduced rates to step up demand in retail housing sector-

1. Loans up to Rs 5 lakhs: Maximum interest rate fixed at 8.5 per cent.
2. Loans from Rs 5-20 lakhs: Maximum interest rate at 9.25 per cent.
3. No processing charges to be levied on borrowers.
4. No penalty to be charged in case of pre-payment.
5. Free life insurance cover for the entire outstanding amount.

This means a borrower can get a loan up to 90 per cent of the value of the house. The government hopes to disburse Rs 15,000 to 20,000 crores under the new package. The housing package is the core of the government's new fiscal policy. It will give a fillip to other sectors such as steel, cement, brick kilns etc. Besides, the small and medium industries (SMEs) too get a boost by manufacturing all kinds of fittings and furnishings. The success of the housing package will, however, depend on the State governments efforts to free up surplus l and so that land prices come down and the cost of housing becomes reasonable.

(b) Textiles--Due to declining orders from the world's largest market the United States, the textile sector has been seriously affected. An allocation of Rs 1400 crores has been made to clear the entire backlog in the Technology Upgradation Fund (TUF) scheme.The Apparel Export Promotion Council (AEPC) Chairman, however, said: "It is a disappointing package. The allocation of Rs. 1,400 crores has been pending for many years and thus, it is the payment of arrears only. There is nothing new in it. It would have been much better if more concrete measures have been taken to reverse the downturn in the exports of readymade garments and avoid further job losses in the textile sector."

(c) Infrastructure--The government has been proclaiming that infrastructure is the engine of growth. To boost the infrastructure, the India Infrastructure Finance Company Ltd. (IIFCL) has been authorised to raise Rs 14,000 crores through tax-free bonds. These funds will be used to finance infrastructure, more especially highways and ports. It may be mentioned that 'refinance' refers to the replacement of an existing debt obligation with a debt obligation bearing better terms, meaning thereby at lower rates or a changed repayment schedule. The IIFCL will be permitted to raise further resources by the issue of such bonds so that a public-private partnership (PPP) programme of Rs 1,00,000 crores in the highway sector is promoted.

(d) Exports--Exports which accounted for 22 per cent of the GDP are expected to fall by 12 per cent. The government's fiscal package provides an interest rate subsidy of two per cent on exports for the labour-intensive sectors such as textiles, handicrafts, leather, gems and jewellery, but the Federation of Indian Export Organization (FIEO) felt the measures are not enough as they will not make the exports price-competitive and, therefore, will not boost exports. G.K. Pillai, the Commerce Secretary, has estimated a loss of 1.5 million jobs in the export sector alone during 2008-09 on account of the $15 billion decline in the expected exports.

(e) Small and Medium Enterprises (SMEs)--The government has announced a guarantee cover of 50 per cent for loans between Rs 50 lakhs to Rs 1 crore for SMEs. The lockin period for loans covered under the existing schemes will be reduced from 24 months to 18 months to encourage banks to cover more loans under the scheme. Besides, the government will instruct state-owned companies to ensure prompt payment of bills of SMEs so that they do not suffer on account of delay in the payment of their bills. In short, the fiscal package is aimed at boosting growth in exports, real estate, auto, textiles and small and medium enterprises. The aim is to encourage growth and boost employment which have been threatened by the recession in the world economy, more especially in the United States.Just within a month, the government announced another package to bail out the Indian economy. Dr Montek Singh Ahluwalia said: "We should expect, from all global projections that the next year (2009) is going to be a very difficult year for the global economy."The purpose of the new package announced on January 1, 2009 was to minimise the pain. With this end in view, the new package included the following measures:-

1. To boost investment and spending to revive growth, the RBI cut the repo rate, which it charges on short- term loans to banks from 6.5 per cent to 5.5 per cent and also reduced the Cash Reserve Ratio (CRR)--the share of deposits which has to be kept with the RBI from 5.5 per cent to five per cent.
2. To revive exports which have resulted in a contraction of industrial output, drawback benefits have been enhanced for some exporters. Export-Import Bank also gets Rs. 5000 crores as credit from the RBI.
3. To help the realty sector, realty companies have been allowed to borrow from overseas to develop “integrated townships".
4. To boost infrastructure, the India Infrastructure Finance Company Ltd. (IIFCL) has been allowed to raise Rs 30,000 crores from tax-free bonds. Besides, Non-Banking Finance Companies (NBFCs) need no government approval to borrow from overseas for infrastructure projects. This will sustain the growth momentum on infrastructure.
5. To make more funds available, ceiling on foreign institutional investments (FIIs) in corporate bonds has been increased to $ 15 billion from $ 6 billion. The purpose is to seek much bigger FII investment.
6. To stimulate the Commercial Vehicles (CVs) sector, depreciation benefit on commercial vehicles has been increased form 15 per cent to 50 per cent on purchases. Besides, the States will get one-time funding from the Centre to buy buses for urban transport. In addition, public sector banks would provide finance firms funds for commercial vehicles. It is hoped that Tata Motors and Ashok Leyland's sales would revive.

On February 24, 2009, the government announced a slashing down of excise duty from 10 per cent to eight per cent--a reduction by two per cent. Since 90 per cent of the manufactured goods attract 10 per cent excise duty, this measure is designed to reduce the prices of colour TV sets, washing machines, refrigerators, soap, detergents, colas, cars and commercial vehicles. Cement prices are likely to drop Rs 4-5 per bag of 50 kg while steel prices may cost Rs 500-600 per tonne less. In addition to this, the government decided to cut service tax form 12 per cent to 10 per cent--a reduction by two per cent. As a consequence, phone bills, airline tickets, credit card charges, tour packages etc. would cost less. A two per cent reduction in service tax will directly touch the lives of over 500 million persons by reducing monthly expenses. The entire stimulus package of Rs 30,000 crores to boost demand in the economy and thus reduce the impact of recession. Commerce and Industry Minister Kamal Nath announced a small relief package of Rs 325 crores for leather, textiles, gems and jewellery on February 26, 2009.

However, such initiatives cannot translate into poverty alleviation unless the government and private organization's work together to bridge the divide between rural and urban India. To succeed, we need a collaborative partnership businesses working alongside health-care providers, educators, governments, and nongovernmental organizations. Only by providing the means for people the means for people everywhere to access broadband-from the most remote villages to the denset urban centers, can we have the potential to experience a truly connected economy. For this transformation to happen, we need to shape our population towards a knowledge based society. By using technologies to facilitate access to basic amenities, we can accelerate towards inclusive, equitable and sustainable growth. Just imagine the positve transformations that can take place if we connect villages with broadband technologies, and use Information and Communication Technologies (ICT) to make people more information inclusive! Several IT majors along with the State Government of Rajasthan have already come together through the Rajasthan Education Initiative (REI) to accelerate IT education for both teachers and students like State Bank of India, Union bank of India and Bank of India have also made a significant difference to lives in rural India by setting up Internet kiosks as banking outlets in villages, thereby encouraging banking habits among the rural masses. In the area of health, telemedice has made available video and high speed data transfers that allow patients to consult a specialist doctor who is miles away. Such initiatives have proven instrumental for enabling developing and middle income economies to leapfrog to higher stages of development by fostering economic and social transformation. Yet it is clearly in traditional sectors like agriculture that the maximum difference needs to be made. Agro-industry and small rural industries are leveraging ICT to trade etter as well as for knowledge and training. One such example is Dr. Reddy's Foundation's Livelihood Advancement Business School (LABS) initiative in various states. This project, in partnership with Cisco, creates a sustainable livelihood and growth for the underprivileged and marginalized youth. Looking ahead, as the government focuses on development initiatives, we also need to track emerging technologies, strengthen current investments, adopt best practices and look to further build strong public-private partnerships. ICT is hailed as a vital component of the “new economy" and the information revolution can transform the way we work, live, play and learn. let's rise to the challenge, and in doing so, raise the quality of life- and our economic prosperity, for generations to come conflicting signals on fiscal consolidation, signals on fiscal consolidation, especially given the potential impact of the drought," says Deepali Bhargava, economist, financial markets, at ING Vysya Bank in Mumbai. "And you can see the impact on the exchange rate-the Indian rupee is the worst-hit currency among Asian markets."

CONCLUSION

Global Recession was the result of large scale defaults in the US housing market as the banks went on providing risky loans without adequate security and the repaying capacity of the borrower. The principal source of transmission of the crisis has been the real sector, generally referred to as the 'Main Street'. This crisis engulfed the United States in the form of creeping recession and this worsened the situation. As a consequence, US demand for imports from other countries indicated a decline. The basic cause of the crisis was largely an unregulated environment, mortgage lending to subprime borrowers. Since the borrowers did not have adequate repaying capacity and also because subprime borrowing had to pay two-to-three percentage points higher rate of interest and they have a history of default, the situation became worse. But once the housing market collapsed, the lender institutions saw their balance-sheets go into red. Although at one time it was thought that this crisis would not affect the Indian economy, later it was found that the Foreign Direct Investment (FDI) started drying up and this affected investment in the Indian economy. It was; therefore, felt that the Indian economy will grow at about seven per cent in 2008-09 and at six per cent in 2009-10. The lesson of this experience is that India must exercise caution while liberalising its financial sector. The following measures can be adopted to tackle the recession:

- Tax cuts are generally the first step any government takes during slump.
- Government should hike its spending to create more jobs and boost the manufacturing sectors in the country.
- Government should try to increase the export against the initial export.
- The way out for builders is to reduce the unrealistic prices of property to bring back the buyers into the market. And thus raise finances for the incomplete projects that they are developing.
- The falling rupees against the dollar will bring a boost in the export industry. Though the buyers in the west might become scarce.
- The oil prices decline will also have a positive impact on the porters.

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