THE GLOBAL RECESSION & ITS IMPACT ON INDIAN ECONOMY

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ABSTRACT
Globalization has ensured that the Indian economy and financial markets cannot stay insulated from the present financial crisis in the developed economies. The impact of this will be three-fold: The element of GDP growth driven by off-shore flows (along with skills and technology) will be diluted; correction in the asset prices which were hitherto pushed by foreign investors and demand for domestic liquidity putting pressure on interest rates.

The Global financial Crisis of 2008 is believed to have occurred because of global inflation, increased unemployment, high oil and food prices, a declining dollar value, a horrible housing market, and a subprime mortgage crisis. The world economy has entered new and precarious territory the largest financial shock since the Great depression, inflicting heavy damage on markets and institutions at the core of the financial system.

In 2008, a Global Financial Crisis was suggested by several important indicators of economic downturn worldwide. These included high oil prices, which led to both high food prices (due to a dependence of food production on petroleum, as well as using food crop products such as ethanol and bio diesel as an alternative to petroleum) and global inflation; a substantial credit crisis leading to the bankruptcy of large and well established investment banks as well as commercial banks in various nations around the world; increased unemployment; and the possibility of a global recession.

This paper focus on how crises affect India. In India, the adverse effects have so far been mainly in the equity markets because of reversal of portfolio equity flows, and the related effects on the domestic forex market and liquidity environment. The macro things have so far been muted due to the generally force of domestic demand, the healthy balance sheets of the Indian corporate sector, and the principal domestic financing of asset.

The study shows that due to global crises, Indian banking sector, Telecom sector, stock market will be affected. Indian companies which had access to cheap foreign currency funds for financing their import and export will be the worst hit. Also, foreign funds (through debt and equity) will be available at huge premium and would be limited to blue-chip companies.

With the financial crisis hitting the world economy hard, it will be hard for India to maintain its economic growth of 8%. In this way this paper tries to show the impact of global crises on different sectors.

KEY WORDS: financial markets, domestic liquidity, financial crisis, portfolio equity flow, domestic forex market.