

Dr.Veera Mandavkar: Indian Economy: A challenge



**Recent Trends of the
Sustainable
Development**

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Indian Economy: A Challenge

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Abstract:

The global economic and financial crisis has sent Tsunami ripples and wave shocks across the different socio-economic and political institutions in the present global environment. Tension is mounting everywhere as job cuts are on the increase, while many global corporate organizations are shutting down their operations and a few are declaring bankruptcy. The down turn that appears to have begun in the USA in September, 2008 have some negative impact on Indian economy. The most immediate effect of this global financial crisis on India is an out flow of foreign institutional investment (FII) from the equity market. This withdrawal by the FIIs led to a steep depreciation of the rupee. The banking and non-banking financial institutions have been suffering losses. The recession generated the financial crisis in USA and other developed economies have adversely affected India's exports of software and IT services. For fighting this crisis, government of India responded through its monetary policy by pumping the liquidity into the system rather than using effective fiscal policy i.e. public expenditure and investment to face the recession. No doubt, government has introduced three fiscal stimulus packages for stimulating demand in the economy but it was not sufficient, the larger government expenditure should be oriented towards agriculture and infrastructure. Although India has revived to high growth, this new growth should have to come not from some new speculative bubble but from enlarged government expenditure that directly improves the livelihood of the people. The present paper is an attempt to analyze the impact of recent global financial & economic crisis on Indian economy.

Keywords: Economic Recession, Depreciation, foreign institutional investment (FII), global financial meltdown, India, recession, Unemployment.

Introduction:

Experts around the world believe that a true economic recession can only be confirmed if Gross Domestic Product (GDP) growth is negative for a period of two or more consecutive quarters. In other words, when the value of goods and services produced decreases for six months in a row. While the "two quarter" definition is accepted globally, many economists feel that definition does not factor in other important economic change variables. For instance, current national unemployment rates or consumer confidence and spending levels are all a part of the economic system and should be taken into account when defining a recession. The agency that is officially in charge of declaring a recession in the United States is known as the National Bureau of Economic Research, or NBER. According to the NBER, a recession is a "significant decline in economic activity lasting more than a few months. "The global financial crisis is unique in its kind. What started off as a sub-prime crisis in the US housing mortgage sector had turned subsequently into a global banking crisis and then into a global economic crisis. Housing is commonly cited as a fixed asset. It is ironic that this 'fixed asset' is the one that has triggered the greatest economic crisis since the 'Great Depression' of 1930s. The world economy went into a steep recession in the last three months of 2008 with global real GDP dropping at a 6 percent annual rate. This was clearly the worst decline in world output and also in world industrial production and world trade of the post-World War II era, with virtually all countries getting affected by the downturn and many registering record declines in GDP. Since the United States dominates the global economy, this had led to slowing down of economies of all major countries. Many economists and experts foresee a global recession lasting well into 2010. However almost all believe that whatever may be the duration of the recession, the recovery is going to be slow. The Indian