CHAPTER - 1

INTRODUCTION
Economy could be a region or country in terms of the production and consumption of goods and services companied by money supply within its boundary. It is an economic system where in production, distribution or trade, and consumption of various limited goods and services is done by different individuals, businesses, organizations, or governments.

GDP is usually used as gauge of the economic health of a country, as well as it acts like an indicator of a country’s standard of living. It includes all the finished goods and services produced within a country’s boundary in a particular period of time. It is calculated by the accumulation of all private and public consumption or spending with in a country, all government spending of a nation’s economy, all investments and exports less imports; by applying income approach (what everyone has earned in a given year), or expenditure method(what everyone spent in a given year).

GDP (factor cost) of India Since 2006:

- 2006-07 – 9.6
- 2007-08 – 9.3
- 2008-09 – 6.8
- 2009-10 – 8.0
- 2010-2011 – 8.5
- 2011-2012 – 8.2


“In 1975, the economic statistician Julius Shiskin suggested several thumb rules for identifying recession, one of which was two down quarters of GDP”.

The Economic Cycle

The prototype of real GDP rising and falling is called an economic cycle. The values of real GDP over times shows periodic instability in its movement and make a wave of pattern by following the recurring swings in the real GDP. It acts in a manner like when the economy is
strong most of the people are employed and making money. Therefore it helps in generating larger demand for goods such as food, electronics, vehicles & other services and these increases so much that the supply cannot keep up with the demand. This results into price rise or inflation. As price moved up, salary also needs to be increased in order to keep up with the rising prices of goods. Further the rise in employment cost for companies will lead to increase the prices of almost all items. When the prices of all goods and services get higher than average, consumer decide not to buy the expensive items and slow down or stop buying. Which in return decreases the demand as a whole and the companies lay off their staff because they do not need to make as much as they used to do before. Hence diminishing demand has caused decrease in the prices of fuel, which means that the economy is in a recession. In addition to contradict the situation companies will start to decrease the prices of their product for encouraging the customers. As a result the demand start rising again and people begin to purchase the goods and services which mean that fuelling their needs by greater supply. And finally the vicious cycle starts again.

**Exhibit No. 1.0 - Economic Cycle**

![Economic Cycle Diagram](http://welkerswikipomic.com/blog/2008/01/31/the-business-cycle-rears-its-ugly-head/)
Basically there are **four phases** of an economic cycle:

1. **Peak**- There is a rapid increase in Industrial Production due to highest stage of Demand, followed by fast rise in Prices and rapid decline in Cost, which generates higher Investment & Employment opportunities.

2. **Recession**- During recessionary period the Industrial Production decline along with a down fall in the Demand and Prices of all the products. There is a gradual decline in the Cost and Investment. Employment opportunities fall down and Bank Credit facilities also declined.

3. **Trough** – At this stage the Industrial Production is at its lowest level due to enormous downfall in Demand, followed by the fast decline in the Prices & Cost of the products. Moreover the Investment, Employment as well as Bank Credit get slow down rapidly.

4. **Expansion**- Here the Industrial Production increases. And also the Demand for goods and services will raise along with an increase Prices, Cost, Investment and Employment opportunities. Additionally the Bank Credit facility is also liberal.

**RECESSION**

Such a situation arises when Supply is more than Demand for any product. Recession can be described as a result decrease in the demand for goods and services in the global market. It is a period of general economic decline or a contraction phase of the economic cycle, which results a decrease in the GDP for two consecutive quarters (six months) or longer. Followed by higher rate of unemployment, stagnant wages, and diminishing wholesale and retail sales. The IMF (International Monetary Fund) states that if the economic growth is 3 percent or less as a whole, then it is said that there is a global recession in the economy. Although there are no certain reasons for its happening but it become sad news for any economy as it a phase of reduced economic activity.

**Definition of Recession**

In Simple Words recession can be defined as a contraction phase of the business cycle. And NBER (National Bureau of Economic Research) is the official agency in charge to declare that the economy is in a state of recession. They described the recession as - “significant
decline in economic activity lasting more than a few months, which is visible as decline in GDP, Income, Employment, Industrial Production, and wholesale – Retail sale”

Source of a Recession

An economy usually expands for 6-10 years and tends to go into a recession for about six months to 2 years. A recession generally takes place when consumers lose confidence in the growth of an economy and spend less. This in return leads to decreased demand for goods and services, as a result there will be a decline in production, lay-offs and a sharp rise in unemployment. Moreover investors spend less as they afraid of falling the stock values and thus stock markets fall on negative sentiments. Whole economy is depending upon two major factors i.e., aggregate demand and aggregate supply.

Causes of Recession:

- **Financial Crisis** – 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. It is a situation in which the supply of money is outpaced by the demand of money. This means that liquidity is quickly evaporated because available money is withdrawn from banks, forcing banks either to sell other investments to make up for the shortfall or to collapse.

- **Currency Crisis** – A currency crisis, which is also called a balance of payments crisis, occurs when the value of currency changes quickly, declining its ability to serve as a medium of exchange or a store of value. It is a kind of financial crisis and is often associated with a real economic crisis.

- **Energy Crisis** – An energy crisis is a great bottleneck (or price rise) in the supply of energy resources to an economy. It usually refers to the shortage of oil and additionally to electricity or other natural resources. An energy crisis may be referred to as an oil crisis, petroleum crisis, energy shortage, electricity shortage or electricity crisis.

- **Under Consumption** – In Under consumption, recessions and stagnation arises due to inadequate consumer demand in relation to the amount produced.

- **Over Production** – In economics, Overproduction refers to excess of supply over demand of products being offered to the market. This leads to lower prices and / or unsold goods.
• **War** – An economy facing a war situation would also face the recessionary circumstances as it leads all the above mentioned situations of financial crisis, energy crisis, and currency crisis, over production as well as under consumption condition could happen any time.

**Exhibit No. 2.0 - Recessionary Gap**

Source: [http://www.2.vostate.edu/rough/keysec/keysum7/el.html](http://www.2.vostate.edu/rough/keysec/keysum7/el.html)

**Meaning of recessionary Gap:**
Recessionary gap arises in macroeconomics when an economy is operating at below its full employment equilibrium. Under such condition the GDP is lower than it is at full employment, which puts a downward pressure on the prices in long run.


**Types of Recession**
Recession shapes are used by the economists to express different types of recession happening in the economy. There is no specific academic theory or classification system for
describing recession shapes. To a certain extent the terminology is used as informal shorthand to characterize recessions and their recoveries. The letters can also be applied referring to the recoveries and different shapes will influence the length, depth and effects of the recession. Some of the types are as follows:

1. V-shaped recession

Exhibit No. 3.0 - V-Shaped recession

Source: wikipedia.org/wiki/Recession shapes

In a V-shaped recession, the economy suffers through a sharp but brief period of economic decline with a clearly defined trough, followed by a strong recovery. V- Shapes are normal form of recession; there is a strong historical “snap back” relationship between the strength of economic recovery and the harshness of the preceding recession. It also refers to a quick recovery after initial recession. Hence recessions and their recoveries have a tendency to trace out a “V” shape.
2. U-shaped recession

**Exhibit No. 3.1 - U-shaped recession**

Source: wikipedia.org/wiki/Recession shapes

U-shaped recession is longer than a V-shaped recession, and has a less - clearly defined trough. GDP may shrink for many quarters, and only slowly return to trend growth. Here the growth is very slow and unemployment is very high.

3. W-shaped recession

**Exhibit No. 3.2 - W-shaped recession**

Source: wikipedia.org/wiki/Recession shapes
A W-shaped recession is also known as **double-dip recession**, under this situation economy falls into recession, recovers with a short period of growth, then falls back into recession before finally recovering, giving “down up down up” pattern which gives a resemblance of the letter W.

### 4. L- shaped recession

![Exhibit No. 3.3 - L-shaped recession](image)

Source: wikipedia.org/wiki/Recession shapes

An L-shaped recession occurs when an economy has rigorous recession and does not return to trend line growth for many years, if ever. It refers to a period of stagnant recovery after initial fall in real GDP. The steep drop, followed by a flat line makes the shape of letter L. This is known as the most severe among the different shapes of recession. Alternative terms used for this type recession to define the underperformance are depression, lost decade and malaise.

### 5. Boom and Bust Recession

Many recessions crop up after a previous economic boom. In the economic boom, economic growth is well above the long run trend rate of growth and this rapid growth causes inflation along with a current account deficit but the growth tends to be unsustainable. This happens
when government / Central Bank see inflation is getting out of control, they act in response by implement tight monetary policy (higher interest rates) and tight fiscal policy (higher taxes and lower government spending).

Moreover an economic boom is often carry on, e.g. firms may be able to temporarily produce more through paying workers to do overtime, but might not last. Also in a boom situation consumer’s confidence tends to rise and they start to move on for more savings and less spending.

6. Balance Sheet Recession

A balance sheet recession happens when banks and firms see a large decline in their sheets because of diminishing assets price and bad loans. Due to large losses, they need to restrict bank lending; less lending results in declined investment spending and economic growth, e.g. a fall in house prices causes a decline in consumer wealth and increases bank loses. This will lead not to recover quickly.

7. Supply Side Shock Recession

It is not very common one; generally happens due to shortage of supply of a particular item, e.g. a very rapid increase in oil prices could cause a recession due to decline in living standards. In 1973, the world was highly dependent on oil and the tripling of oil prices has caused a sharp fall in disposable income and also caused lost output due to lack of oil. But the rise in oil prices in 2008 was a minor factor for causing recession at that time. It also causes the Short Run Aggregate Supply (SRAS) to shift left.

8. Demand Side Shock Recession

An unexpected event that causes a sharp fall in aggregate demand is known as demand side shock recession. For example the short lived recession of 2001 (GDP fell only 0.3%) was partly caused by fall in consumer confidence as a result of 9/11 terrorist attack (and also end of dot com bubble).
**Terminology Related to Recession**

**Stagflation** identifies lower output and higher inflation. It is a situation where economic growth is very slow or stagnant and prices are rising. It is a combination for an economy which is stagnant as well as suffered with inflation. Stagflation happens when the economy is not growing but the prices are moving up.

**Depression** is a stable, long term downturn in an economic activity or more than one economy. It is a more drastic downfall than a recession. It is prolonged and deep recession where output fall by over 10% and very high rates of unemployment, also it will take 2 years or more to last e.g. balance sheet recession.

**Inflation** is a situation of overall upward price movement of all goods and services in an economy, generally measured by the Consumer Price Index and Producer Price Index. Moreover the value of dollar going to fall because of decline in the purchasing power and rise in the cost of living due to rise in the money supply.

(a) **Demand - Pull Inflation** signifies a kind of situation prices get increased as a result of excess demand over supply for an economy as a whole. It happens when supply cannot expand any more to meet demand.

(b) **Cost - Push Inflation** identifies a kind of circumstances occur when common price levels rise due to rising input costs. Usually there are three factors that play major role to enhance the Cost- push inflation: rising wages, higher corporate taxes, and import inflation (cost of imported raw material or semi finished goods raised due to rise in international costs or depreciation of local currency).

**Hyperinflation** defines the circumstance when price raises very sharply because of the increased supply of money in the economy. But it is not supported by growth in GDP which creates an imbalanced situation of supply and demand for money; as result higher price rise and depreciation of local currency.

**Headline Inflation** are simply the comparison of yearly inflation at same time period, in order to measure the actual year – to – year values of inflation to compare them. It is also known as top-line inflation.
Deflation is a situation in which general price level decreases. It increases the real value of money that allows one to buy more things with the same amount of money over time. Under the situation of deflation the money supply decreases which will leads to shortage in demand; as a result direct reduction in government spending, personal spending, investment spending, increased unemployment can be seen in the economy as a whole.

Decoupling of economy takes place when two different resources naturally rise and fall together and moving in opposite directions, such as one of them is rising and the other is falling. The impression that the world’s emerging markets are not required depending on demand driven by US for their economic growth in long run after the happening of recessions in the west. It is like that global demand for factors such as capital and raw material has diminished in one part of the world’s economy which suffers with crisis, but on the other hand it will be beneficial for other countries.

Double Dip recession is a situation where the demands for goods and services are low because of the layoffs and spending cutbacks from the previous recession. It occurs when the GDP slopes back to negative after a quarter or two of positive growth. A double – dip recession happens when a slowdown followed by a short-lived recovery, chased by another recession. It could be a double- dip or even triple – dip recession in the worst cases for an economy. In some cases a double- dip downfall has the ability to throw a country in to a situation of depression.

PARAMETERS TO ANALYZE THAT A NATION IS IN RECESSION

- People buying less stuff or declined aggregate demand for products
- Reduction in factory production
- Growing unemployment and contracting employment opportunities
- Collapse in personal income
- A damaging stock market environment
- Lessening demand for imports in the country
- Rising government borrowings
- Steep downfall in business confidence and profits
- Decline in the interest rates from central banks
- Down fall in GDP consecutively for two quarters
HISTORY OF GLOBAL RECESSIONS

The USA has faced around 32 cycles of expansions and contractions, with an average of 38 months of expansion and 17 months of contraction. Following is the history of recessionary periods in the USA:

- Fear of 1797
- Depression of 1807
- Panic of 1819
- Terror of 1837
- Horror of 1857
- 1870’s Recession
- Recession of 1890’s
- Panic of 1907
- Post World War I Recession
- Recession of 1926
- The Great Depression
- Late 1940’s recession
- Recession of 1945
- Early 1950’s Recession
- Late 1950’s Recession
- Recession of Early 1960’s
- Recession of Late 1960’s
- Oil Crisis of 1970’s
- 1980’s Recession
- 1990’s recession
- Recession of Early 2000’s
- Recession of Late 2000’s
OCCURRENCE OF RECESSION 2008

USA is a consumption based economy and the starting point of the global financial crisis 2008 is also USA. In USA 2/3rd GDP comes from its consumers and it follows a credit – free flowing policy for its consumers; by providing easily to them –

- For personal consumption – Credit card loans
- For purchase of cars – Auto loans definitely you possess something known as home. During the period of boom in the Real Estate business, there was a great demand for houses as the interests were low and the investors that it would
- For purchasing house – Home loans

The whole scenario began with a dream of all Americans that each and every American should have own home. Despite of the factor of who are you, what you do, but if you are an American then be good time to give away loans. And then they started to give ‘Sub – Prime’ loans (prime means the customer has good track record of repaying loans), which means that they have a low credibility to repay loans or to the people with defaulter and unsustainable income. Without knowing the fact about whom you are giving loans? They just thought that housing prices will rise in future also. Moreover the financial institutions repackaged these debts into financial institutions named as Collateralized Debt Obligation (CDO), and sold them to other investors worldwide. That is how it becomes very risky deal that was passed on manifold through derivatives trade in the global market.

Although the interest rate for the sub- prime loans was 2 percent higher than the interests on prime loans. This added more risk to the repayment by the default borrowers; because higher interest rates significantly mean more EMIs payment in addition than for the prime borrowers. Even government also motivated the lenders to offer loans to the sub- prime borrowers, with a vision to provide homes to the poor and youngsters without any predefined security.

HOW IT BECAME A FINANCIAL CRISIS

It was never expected that such a huge boom in Real Estate Business would end into such an abrupt condition and the prices would reach all time low. And the housing boom has started petering out in 2007. The major cause behind all this was the enormous increase in the supply
of housing but their prices and demand were diminishing at the global level. This leads to rise in the default rate among borrowers, who think that it is of no use to pay a house with a declining value. So, they were either not willing to pay or no longer able to repay their loans. And this coincided with a slowdown in the US economy as the prices of houses have dropped down to 50% of their original value in 2006. Suddenly the business giants have understood that the defaulter clients are not doing payments anymore even after getting warnings from the lenders, which results into a huge loss due to not covering even principal amount of the loan. A severe credit shortage was experienced in the economy and credit crunches spread in the market that brings a downfall in investments across the market followed by decrease in production, rise in layoffs, downfall in the demand and consumption. As a result the whole economy has started to follow the spiral slowdown overall. And the big businesses like Lehman Brothers, Bears Sterns, Citi Group, JP Morgan, AIG (American Investment Group), Merrill Lynch, Freddie Mac and Fannie Mae’s bad assets has reached to magnanimous amounts and declared as bankrupt. And then US Bank has started to restrict lending to its consumers and businesses, which in return made its consumer to spend less and hence this lead to decline in the dollar value and the stock markets started crashing and the vicious circle moved on throughout the whole economy and affected almost every part of the world, because of the poor regulation of financial institutions and inaccurate credit ratings.

**HOW IT AFFECTS INDIAN ECONOMY**

The recession has not only limited to USA, rather it has spread over to European Union, UK and Asia. The whole worldwide economy was suffering with the financial crisis that originated from the USA. And Indian Economy has too felt the impact of financial crisis to some limit. Although it is very hard to quantify the impact of slowdown on Indian Economy but it was said that certain sectors of our economy got badly affected by the spread out effects of the financial crisis. And Indian economy is also going through a kind of downfall; because in today’s era of globalization and liberalization none of the economy can functions in isolation. Therefore India can’t move ahead alone as all the economies are interlinked with each other and India too followed the same. Any prime rise and fall in the trade balance of an economy or economic conditions will cause enormous troubles for all other economies too. And this is absolutely a reason of concern for all the policy makers and industries. Today, a global recession has become biggest threat to world. And because of this global recession, it is a macroeconomics crisis. In the last few years, unemployment has become a serious and
top most problem in many parts of the world. Also increased globalizations have put more employees’ job into risk. Developing economies like India and China are affected by the negative influence of the US Subprime Market Crisis and facing their bad times.

India is a ‘Goldilocks’ economy – neither too dependent on export-driven growth (as are China and the East Asian Tigers), nor too reliant on foreign money for investment-driven growth (such as Russia and a few other countries in Eastern Europe. As a result, the impact of recession on India has been neither severe nor sustained.

POSITIVE AND NEGATIVE IMPACT OF RECESSION FOR AN INDIVIDUAL

Positive Points-

- It provides a good opportunity to start up a new venture in emerging economies; as talent is available and resources at a lower cost.
- It will help to think more in a creative manner to utilize the resources optimally
- It leads to a decreased level of competition in the market
- It makes you to understand that don’t take anything for granted and take tough decisions
- It helps you to become conscious about the real wealth lies inside you and not the material you own
- It encourage you to think out of the box and accept changes that happens around you
- It carries you to the basics and forces you to become less wasteful

Positive Points for India as a country-

- There is less outsourcing of talent and other material
- Companies from the west has started India as a good place to outsource their website development plans, big research works and designing work etc.
- It is said that in the long run Indian IT, BPO and KPO companies will be in a good to attract more projects from US, due to its economic stability
- Now a day’s Indian IT industries has started to follow new work strategies to cope up with recession like keeping their expenses up to such a level of higher working time of the staff, quality of output is superior and reduction in the output time.
Negative Points-

- Bankruptcy
- Falling stocks
- Credit destruction
- Deflation
- Slumping dividends
- Deterioration in quality of goods and services
- Lack of confidence among consumers, producers and government
- Employee layoffs
- Benefit reductions
- Imbalanced aggregate supply and demand cycle
- Rising unemployment in the economy
- Declined production and consumption level

ROLE OF BRIC COUNTRIES DURING CRISIS

BRIC is an increasingly popular acronym used to describe the nations of Brazil, Russia, India and China. These are the leading “emerging markets” representing great investment potential. The combined population of the four counties is approximately 2.8, or about 40% of the global population. These countries are popular with investors because China’s GDP which has grown about 10% a year for the last 20 years is now about one–fifth the size of the U.S., and ranked fifth currently, will soon be the second largest. Brazil, Russia and India on the other hand ranked as tenth, eleventh and twelfth respectively with GDP growth between 5% to 9% during 2008, when the whole economy was crashing. These countries survived with a stable growth, Russia is the weakest growth prospect and its growth in the past year has been driven mainly driven by energy export and its recovery is linked to the recovery of in Europe. However both Brazil & India has escaped from the worst impact of recession, not because of any virtue on their part but because the financial sector in these economies is partially closed. India has managed to get back on the growth track by virtue of strong domestic demand. Moreover for China’s growth - needs a new sponsor, now the Western consumers will take a long to recover consumption levels. Growth in domestic consumption can be the new driver for the Chinese economy.
INDIAN CORPORATE SECTOR

Basically Indian corporate sector has two major components, namely, the government owned and private owned companies. Though Government companies are basic, heavy and capital intensive by nature because the government sector accounts for nearly two – thirds of the productive industrial capital and being govt. owned venture, the choice of location, pricing, investment, employment and all other important decisions or policies are taken centrally.

On the other hand private sector is primarily deals in the industries which provide services to the consumer market directly. And their basic aim is to earn profit and economic advantage, not to make any social services free of cost.

**Indian Corporate Sector Comprises:**

- Automobile
- Aviation
- Banking and Insurance
- Education and Entertainment
- FMCG
- Health
- Human resourcing
- IT
- Gems & Jewellery
- Marketing
- Petrochemical
- Pharmaceuticals
- Real Estate
- Retail
- Sales and Advertising
- Telecommunications
- Textiles
ROLE OF INDIAN IT SECTOR & FINANCIAL CRISIS

According to NASSCOM, the volume of Indian IT Industry is US$ 64 billion as of 2008, and is growing with an annual rate of 28% since 2001. Though Indian Industry is basically divided into major two markets i.e. domestic market and exports market. And 62-66% of the total revenue is generated from IT Industry out of total exports segment. Apart from this 34-38% revenue is accounted from the domestic IT market. And due to increased adoption of technology and outsourcing, the domestic market is gaining force which helps in driving overall economic growth and stability.

**Indian IT Sector includes:**

IT (Information Technology) & ITES (Information Technology Enabled Services)

**IT-**

- Hardware
- Software

**ITES-**

- BPO (Business Process Outsourcing)
- KPO (Knowledge Process Outsourcing)
- LPO (Labour Process Outsourcing)

In IT Industry people from almost all courses can be absorbed because varieties of functions are outsourced and it needs variety in domain knowledge too. Therefore anyone can enter into this line according to his/her profile and area of interest. Range of services provided by BPO services:

- Customer support services
- Technical support services
- Telemarketing
- Insurance
- IT helpdesk Services
- Data processing and analysis
- HR services
- Banking
- Legal Services
- Editing and indexing services
- Finance and Accounting
- Online research
- Healthcare services
- Pharmacy co vigilance

Over the past few years, Indian IT sector has shown an incredible growth and is expected to glow in future also. Indian IT & ITES contributes 52% of revenues to GDP growth. IT sector alone has the capability to take Indian economy to a higher level and has the potential to raise the efficiency and productivity of every sector of the country. IT Sector on its own has a contribution of 26% of Total Indian exports. Like the gulf countries have a lot of deposits in crude oil for keep going of their economy. In the same manner we Indians have a lot of talent deposits in our energetic youngsters. The factors responsible for raising the demand for IT Industry are:

- There has been a marvellous improvement in the computer technology; like use of laptops whenever & wherever a person wants to get connected or wants to work.
- More people are literate in the urban areas about the use and benefits to use such technologies.
- New technology has made life easier in terms of doing day to day tasks like – method of payment, online shopping, online ordering etc.
- Increased competition among the MNCs has led to increase then credibility and to focus on operational efficiency through ERP.
- Most of the service providers are aware about the use of IT and trying to implement in their work areas like – Banks, Education, Retailers, and Customer Care etc.
- It is more convenient and cost effective source for almost every task.

**Growth of Indian IT Industry has happened because of:**

- Low cost of labour
- Easily availability of labour
- Talented labour & easily speak English
- Better quality of services provided
- Innovative and visionary staff members
- Global delivery models available or easy accessibility in the global market
- Emerging economy with abundant of IT skill.

Though before the occurrence of crisis, there were more than 1500 software companies in our country. And more than 1300 IT companies were functioning in Bangalore, while the employees engaged in this sector had grown to 553000 in 2008, which were 415000 during FY 2006.

Before the financial crisis of 2008 the Indian IT sector has earned approximately 60% of IT revenues from Banking and Financial sectors. But due to down fall the financial sector has collapsed and then 43% of the western countries have cut down their spending on IT Sector. This results into layoffs, salary cuts, no work etc. at global level. And a downfall in the economy of USA is also bad information for Indian economy. Because most of Indian IT companies have direct dealing with USA. Indian exports and IT business has grown manifold over the years but after crisis all the private as well as public organizations were afraid to take new projects or new plans. Rather were trying to their best in older projects with which they were already dealing in.

**IMPACT OF RECESSION 2008 ON INDIAN IT SECTOR**

Most of the Indian IT companies have their outsourcing deals with USA and exports of other things also contributed around 22% of the Indian Economic growth. In fact the Indian IT sector drives about 75% of their revenues from USA based IT – and ITES Company which contributes about 5.5 per cent of total exports from India. Therefore the financial crisis in the US will definitely impact Indian IT sector. And if fortune 500 companies cut their IT budgets, than Indian firms would get badly affected.

Although in the beginning Indian officials has denied to accept the impact of US slow down on Indian economy but later the government had to admit the fact that US slowdown will have some impact on Indian economy too. The crisis which affected the whole economy had a minor impact on India, because of its strong fundamental and less exposure of financial sector with the global financial market. May be this has happened to the Indian economy
(saved from the crisis influence) because Indian financial market is closely regulated by the
government, unlike in US where capitalism rules.

Indian IT industries are facing heavy losses due to slowdown in global economy. Especially
from the dealings with US, as Indian IT companies have big tickets and huge amount of
revenue comes from the banks and other financial institutions of US and after crisis their
profit margins are shrinking. The outsourcing market is suffering from crisis globally and
Indian IT industry is highly depends on outsourcing specifically. But due to slowdown of
world economy the IT companies are predicted for a down fall of 15% in growth from 30%
in BPO sector. According to NASSCOM BPO sector has to cut 250000 jobs in the F.Y.
2009-10, which was 700000 earlier. According to Dataquest Indian IT industry survey, 20 top
IT companies have saw a dip in their growth, which were growing around 45% in 2006 – 07
but now grown only 29% growth.

**HOW INDIA SAVED ITSELF FROM THE INFLUENCE OF GLOBAL SLOWDOWN**

The whole economy is suffering from financial crisis generated from the USA. India too has
been hurt by the same but still Indian economy may be in a better position. Though Asia has
recovered the fastest. Because of their good fiscal positions, more credible monetary policies,
stability in corporate sector and healthy bank balance sheets. But India has come up with
quick recovery and more sustainable growth for future than many of the other economies.
This happens because Indian banks did not have major exposure to sub-prime loans as done
in US. RBI’s decisions for using the range of financial instruments in a proper manner, in
right direction and were taken in time. In India the speed of financial reforms is slow because
the banks are careful towards permitting foreign investments to enter in Indian business
sectors, enormous bureaucratically problems and regulatory constraints have turned out to be
beneficial for India. Though India has been criticized for its slow growth always but in
overall observation it has proven to be a turtle with slow speed to be blessed in a disguise
(cover). But the IT and ITES based companies has to deal with the USA and they are bound
to suffer with their business.

All the companies who deal in exporting business has to face such problems because they
have no choice to escape. In India many other sectors apart from the IT industry, suffered
with a minor impact of slowdown, especially who did transactions in export of their product or services and generated revenue from US/UK, some of the sectors such as:

- Textile
- Gems & Jewellery
- Spices
- Aviation
- Automotive parts / automobile
- Tourism

Although the global economy is suffering from downturn but still there are some industries that did well during the recessionary period like:

- Food industry
- Railways
- PSU Banks
- Healthcare Industry
- Education Industry
- Telecom Industry
- IT Industry
- Luxury Items industry
- Marketing Consultants
- Entertainment Industry