International Journal of Science and Research (IJSR)
ISSN: 2319-7064
ResearchGate Impact Factor (2018): 0.28 | SJIF (2018): 7.426

An Observation on Global Crisis 2008-09 & Indian GDP Movements after Demonetization

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Abstract: ***The experiences of global crisis 2008 are still seen as the model to solve the uncertainties. The conditions that had influenced the economic growth of today's economic super powers during that period are discussed in this paper. The objective is to review the situation & counter measures taken to overcome the damages in that calamity. India being a fast developing nation is one among top 10 economic powers of the world. It is aiming to achieve 5 trillion dollars economy by 2024-25. Through this review, understanding the then conditions through GDP growth measures is made easy for any individual with no deep knowledge in economics. The present day India after reforms like Demonetization and GST is explained from the point of view of global crisis.***

Keywords: Economic powers, India, Global Crisis, GDP growth, Demonetization

1. Introduction

The economy of any country is interlinked to many sophisticated factors. To understand such conditions we need a holistic view procedure. Representation of growth of economy is always concerned with expressing economic position in best possible quantitative ways. GDP is one such popular measure to examine the direction of a country's economic growth. This paper is intended to present such details of today's significant economies of the world during the period of recent crisis 2008. It is important to emphasize the fact that growth rate of GDP of any country does not imply its total economic strength or ability, but it is indicative and significant.

The disparities between the developing nations and developed nations in the world exist in terms of their policies to stimulate their country's growth. This is because developing countries are not well defined economic structures and contain more informal economy.

A country like India, where economic stability and growth are given first priority rather than profitability, the first challenge always comes from its size and population along with majority of low & middle level incomes.

The developed nations like the Unites States felt a greater impact on their economy during recent global crisis 2008. Despite, the crisis countries like china could resist and do well all these years. There are many lessons to be learnt from such crisis periods. The counter measures by different countries with different situations remains as the experiences to face future uncertainties. This is to review the crisis & economic trends during that period and explain them in a simple manner.

Indian economy is witnessing a down trend in GDP growth rate after demonetization & GST reforms. Considering the fact that India is one of the rapidly growing economies of the world. The slowdown has to be backed by suitable counter measures. Crisis 2008 & the suggestive actions are emphasized to understand slowdown.

2. Global Scenario & Crisis 2008-09

The United States of America had a high exposure to the global crisis [1]. The early signs began with the Bear Stearns, an investment bank running into losses. Economy had a full impact with the failure of Lehman Brothers. The minimization of risk in hedge funds through pooling mechanism failed because of less quality securitized mortgages. Thus implications of such investments turned out to be worse. The faulty credit rating is one more reason for increase in such high risk investments with less knowledge on real quality.

Hence the figure 1 shows the decline GDP growth rate of US at that time. The sensitive global markets, felt the transmission of the crisis and the impact was seen in almost every country.

As the primary counter measure, US government and Federal Reserve decided to buy troubled assets from banks to stabilize economy.

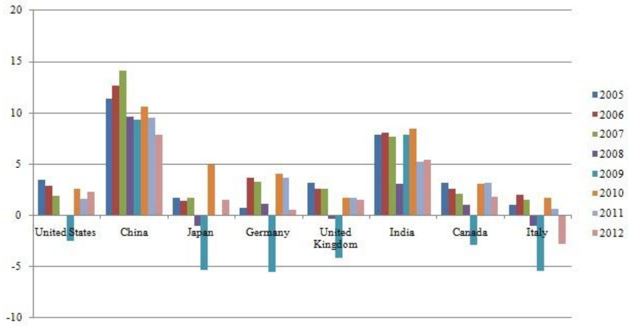

Figure 1: % GDP growth rate
Source: World Bank Data

The time when the crisis had hit Italy, it is already been suffering from political instability for past 20 years. This contributed to economic growth decline as well [2].

To revive from the impact, the Italy government had taken counter measures. Their policy confined to support banks & big firms and cut public expenditure. Though it had shown a positive response, government faced criticism for not being transparent, efficient and equal.

Canada had almost no effect on banking system. The small affects of crisis did not stimulate any transmission into its economy [3]. This is possible only because of adequate liquidity level, capital adequacy & funding of financial institution. Hence the ROE (return on equity) is more and remained profitable. It maintained the capitalization and liquidity ratios above norm averages. Following stringent standards for maintaining CRAR became beneficial.

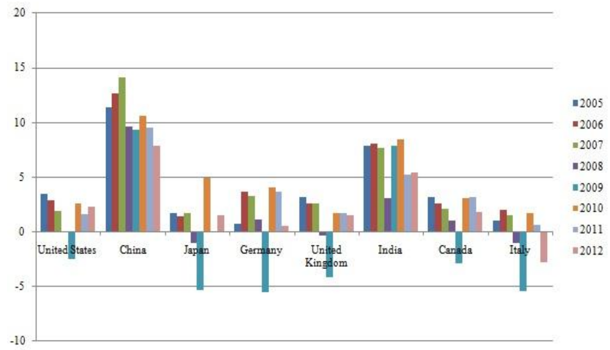

Figure 2: % GDP per capita growth rate
Source: World Bank Data

In UK, the early 90's have been revolving around the concepts of low inflation and interest rates. The policy is much not bothered about any catastrophe to come. The crisis hit was an unexpected event for British government [4].

An argument that UK could have manifested the crisis into an opportunity had existed then. The measures are initiated to create confidence in all major parties, to rebalance economy in manufacturing and exports and to tighten the credit.

The effect on GDP growth rate made British economy difficult for expansion. Issues under primary concern were export led economic growth strategy, credit issues, and drop in commercial properties, private firms backed by public finances and differences in interest rates and inflation. The uncertainties still exist today due to BREXIT proposal.

Japan had experienced the financial stress due to collapse of housing and securitization markets [5]. The securities are traded on international markets and impact is directly transmitted. High volatility of financial markets, sharp decline in prices of equities held by banks and decline in bank profits are the major reasons.

Japanese financial institutions are not so experimental and are more concentrated towards increasing financial strength rather than profits. The measures are taken to preserve financial soundness, observe to not have spill over, sustaining bank lending and maintaining the effective function of the financial markets.

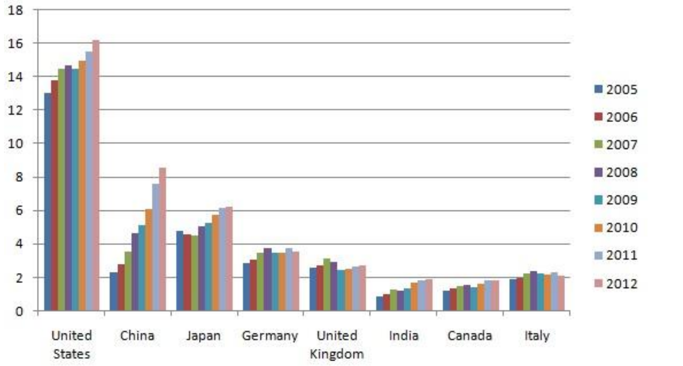

Figure 3: Economy in Dollars (Trillions)
Source: World Bank Data

In China, the labor markets were affected. Jobs are gone in export oriented manufacturing sectors. Hence, industrial employment has seen a decline. Instead a rise in jobs in service sector is also seen.

Three key issues [6] namely economic growth potential, social conflicts and response to risks are addressed by Chinese policy. There is a shift from "double prevention policy" to "Prudent & flexible monetary policy" fiscal policy. To fight back, the Chinese government adopted an aggressive fiscal stimulus. The goal is to preserve social stability & employment.

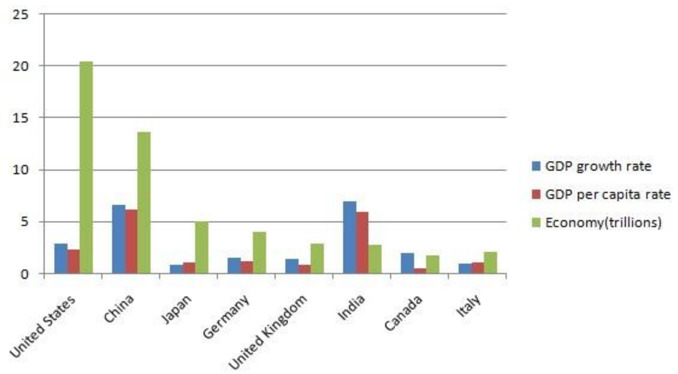

Figure 4: Position in 2018
Source: World Bank Data

Germany had supply side reforms during the period [7]. There is a largest fall in GDP growth rate. Macro Economic and structural imbalances are witnessed. The conflict is between political power and economic autonomy. Prior to crisis Germany had accepted Euro to avoid risks. But over estimated financial markets, improper ratings affected its economy.

The financial wealth of households had experienced a decline. Crisis has been transferred to the country from various channels. The increased focus on volatile sectors and product groups is reasonable for large decline.

Banks were first to get affected and experience losses. The counter measures more emphasized on reliance in domestic demand and balance in exports and imports.

3. An Insight into today's India

3.1 Demonetization

The Exercise of demonetization was taken up by Government of India on November 8th, 2016. The process is about invalidating the legal tender of 500 and 1000 rupee denomination notes. This large exercise was conducted with the motto of curbing the corruption and closing the monetary channels for militancy and terrorism [8].

The total amount under circulation by March 31st, 2016 is about 16,415 billion. The total of about 14, 180 billion is in the form of 500 and 1000 rupees notes. These figures signify the quantum of the exercise.

The initial months of the process caused a great amount of discomfort to the people. The optimistic approach towards digitalization was seen during this period. Government came up with all suitable policies to increase digital transactions.

The impact of demonetization in short term is largely seen in small households & firms and realtors. The long term effects & benefits are unveiling along with time. Demonetization was criticized for the way it was implemented, but the Indian government could manage these difficulties in some manner.

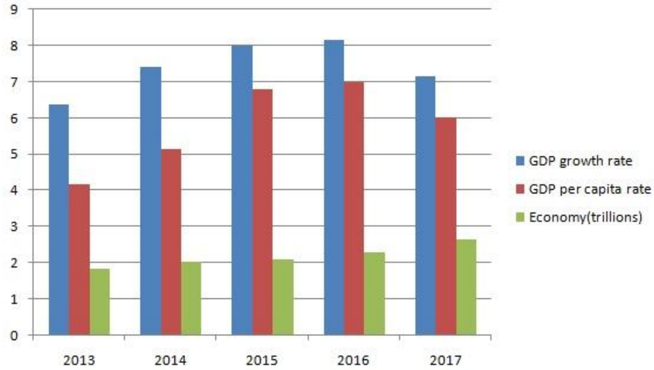

Figure 5: Indian GDP growth rate % during 2013-17

3.2 Goods and Services Tax

This is the second major economic reform after demonetization in terms of taxation process. It came into effect from July 1st, 2017.

Goods and Services tax had replaced several indirect taxes like VAT/ Sales tax, Central exercise tax, Service tax etc. Majority of goods and services are classified under different pre-defined slab rates for taxation. This reform came immediately after demonetization. The lack of infrastructure and readiness among participants created some disruption.

Government is always striving to keep the process effective since the time of its implementation.

3.3 GDP growth analytics Pre and Post

Today's Indian economy is indicating a decrease in GDP growth rate. The complex conditions are creating a tough job to identify the exact reasons for decline. The Automotive sector is also witnessing a negative growth after 2014. The corresponding GDP growth is presented in figure 6.

Figure 6: Indian GDP growth rate % from 2014 (2011-12 prices)

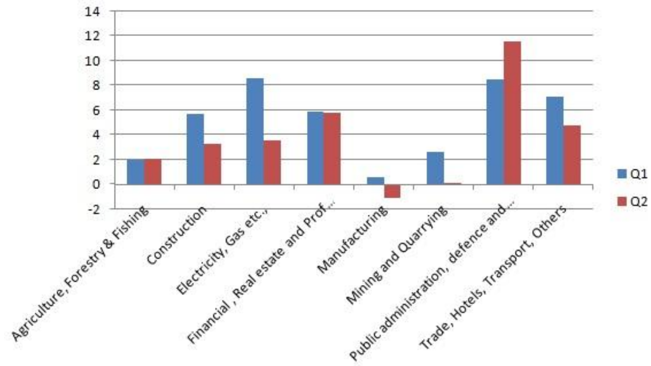

Figure 7: Indian sector wise GDP growth rate % for Q1 and Q2 of 2019-20 (2011-12 prices)

Figure 6 indicates the Quarter wise GDP growth rate from 2014. Figure 7 is showing till date 2019-20 quarter wise GDP growth rate which is self explanatory and shows a negative growth in manufacturing sector.

Demonetization & GST have directly shown its impact on small businesses especially domestic products. The taxation process is now easy due to GST but the lack of complete knowledge on the process is still costing low and moderate income business.

4. Conclusions

India was able to withstand the global crisis 2008 [9]. The experiences from Britain suggest to always being cautious, such that to be ready for any catastrophe. But today's GDP movements are partially emphasizing the crisis period. It is suggestive to look back into the conditions of various countries in past.

The strong domestic environment is always strength to any country. FOREX will also improve with increase in demand of its domestic products in a global market. There is a rise in unemployment in India. It has to be given utmost priority. Since, the crisis at any moment will further increase it.

India needs to maintain a good level of liquidity and capitalization from the experiences of Canada. The banks should ensure to have less leverages and best prudent culture has to be encouraged. Transparency in system needs to be increased; increase in confidence of private investors should be a policy line. Performance and reward system will be good aspect in Indian environment.

Promoting domestic demand, flexible monetary policy and autonomy are needed. Small and fundamental disparities between functioning of RBI and Indian government could lead for ineffectiveness. India is targeting for 5 trillion dollar economy by 2024-25. But present trends show that it could probably take some more time.

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