

# THE GLOBAL FINANCIAL CRISIS AND ITS IMPACT ON INDIAN IT INDUSTRIES

C.Thanga lakshmi

*Research Scholar, Manonmaniam Sundaranar University, Tirunelveli, Tamil Nadu, India*

## ABSTRACT:

*The global financial crisis is an outcome of deep economic recession which generally refers to business cycle contraction and slowdown activity over a long period of time. It is a situation where macro indicator like gross domestic product, employment, capital utilization, household incomes and business profit fall and bankruptcies and unemployment rates are rise. The aggressive monetary and fiscal measures undertaken so far will not be able to secure a sound recover for the Indian economy with the global economy unlikely to receive its growth soon. A strong recovery of growth to 8-9 percent, however, is possible for India if it unveils a "second round of reforms" similar to what it had done in the early 1990s. Currently India has one of the largest IT (Information Technology) sectors in the world. This paper aims to examine the experience of Indian "IT" industry with the 2007/08 global economic crisis. The paper based on secondary data analysis. This paper seeks in three core areas. The first section provides empirical evidence of the impact of the crisis. The second section gives a theoretical explanation of the data collected and analyzed using statistical tools to understand the impacts of economic crisis. The third part gives a summary of findings in Indian IT industry during two phases pre meltdown period (2007-2008) meltdown period (2008-14).*

**Keyword:** *Financial Crisis, bankruptcy, employment and GDP.*

## 1.1 INTRODUCTION

The term financial crisis refers to the loss of confidence in a country's currency or other financial assets causing international investors to withdraw their funds from the country. The financial crisis and associated recession originated in the US in early 2008 and then spread to Europe has by now engulfed most of the economies in both developed and developing world.

The root cause of the current global financial crisis is attributed to the subprime mortgage crisis originating in US in the year 2007. The subprime mortgage crisis that broke out in 2007 in US market was triggered by the faculty lending process, providing loan at a low interest rate at ease to low income group borrowers creation of housing bubble and the use of highly volatile complex "toxic" financial instrument the collateralized debt obligations (CDO). Few Indian banks having invested in the CDOs which had a few underlying entities having subprime exposure was affected by the crisis. The subprime crisis originating in US rapidly spread to other countries and gradually transformed to a global financial crisis.

The impact of the crisis has been reflected in the form of falling IT industry, collapse of the investment banks, shut down of big industrial firms, falling demand, increasing unemployment. Those having greeted exposure to global financial market were affected more than those having lesser exposure.

## 1.2 LITERATURE REVIEW

Literature survey is one of the most vital parts of any search work for the judgment of the relevancy of the research work under consideration. There is no scarcity of works in the area of global financial crisis. A good number of research works has been done on this topic. The following are the instances of some notable works in this area.

- i) Reinhert and Rogoff (2008): examined the relationship between the subprime crisis and financial crisis. they stated that the subprime was the reason of the financial crisis.
- ii) Subbaro.(2009): opined that the subprime crisis originating in US rapidly spread to other countries and permeated from the financial sector in the real economy through different channels.
- iii) Walia Surej (July 2012) had explored that the US meltdown through distinct ways; Examples: Financial markets trade flows, export and import. He added that manufacturing sector, Agriculture, mining, construction, transport, electricity service, finance insurance and real estates' contribution to GDP fall from 9.7% (2006-07) to 9.2% (2007-08) to 6.7% (2008-09). He further identified that GDP fell by 2.5 over previous year and explored that in 2009-10 all the sector have shown little recovery except agriculture which show five lakhs workers lost the job particularly in manufacturing ,IT and service sector .Adverse impact were also seen on export and import .The fall in export was more in the last two quarter of 2008-09 and first two quarter of 2009-10.
- iv) Naster Marie, stefunia, Alina and Roberta (Oct -2009): They have explored that the real GDP decline in the fourth quarter of 2008 and first quarter of 2009 at an annual rate of six percent approximately. The unemployment rate of 9.5% was found by June 2009 which was the highest rate since 1983, They also found that the 2007-08 Global crisis was very severe particularly after the collapse of Lehman Brother resultant a huge fall in demand.

### 1.3 OBJECTIVE OF THE STUDY

This present paper aims to examine the following objectives:

- i) To study the causes of global financial
- ii) To study the growth prospects of IT industry in India
- iii) To analyze its impact of financial crisis on the Indian IT industry in India.

### 1.4 SCOPE OF THE STUDY

The present study examines the impact of crisis on IT industries. For pre meltdown performance during meltdown period 2 years data has been collected (2014-15).

### 1.5 METHODOLOGY

The study of research methods provides you with the knowledge and skills you need to solve the problems and meet the challenges of the past faced decision making environment .We define business research as a systematic enquiry whose objective is to provide information to solve the managerial problems. The present study attempts to analyses the 2007.Global financial crisis and its impact on Indian IT industries.

#### 1.5.1 Period of the study

The present study is mainly intended to examine the financial performance of selected IT industries after global crisis in the year (2007-15).

#### 1.5.2 Method of Data collection:

Information for any research has been gathered from the primary and the secondary sources .primary data is to be collected originally, the entire scheme of the plan starting with the definitions of various terms used, units to employed, type of enquiry to be conducted ,extent of accuracy aimed at etc.is to be formulated where as the collection of secondary data is in the form of mere competition of the existing data.

#### 1.5.3 Secondary sources:

The secondary data included the study of various research papers in the field of project financing and credit appraisal .and all the data relating to history growth and development of selected units will be collected mainly from the books and magazine relating to the industry and published papers, reports articles and from the various newspapers.

**1.6 Limitation of the study**

- i) The study is based on secondary data collected from several websites .The limitation of secondary data, if any will also influence study.
- ii) The study is limited to five years after global crisis only.

**Reason for the global crisis**

The US subprime crisis is attributed as the main cause of the current global financial crisis. The major factors that contributed to the subprime crisis in US which is attributed as the major cause of the global financial crisis can be summed up as follows.

- i) The low rate of interest charged by US banks.
- ii) Use of highly volatile complex financial instruments as mortgage like the collateralized, debt obligation (CDO) and credit default swaps.
- iii) The credit bubble was due to low interest rates and easy borrowing conditions.
- iv) The profitability objective of the banks and the other financial institutions to expend the credit.

Other cause of global financial crisis have been identified are i) Misperception and under pricing risk factor ii) Loose monetary policy of US ii) Relaxation of lending standards iv) De-regulation of financial system .Now, the subprime crisis transformed to global financial crisis as the spillover affect of the crisis spread to the other countries rapidly.

**Information Technology in India**

Information Technology in India is an industry consisting of two major components. IT services and business process outsourcing (BPO).The sector has increased in its contribution to India's GDP from 1.2% in 1998 to 7.5% in 2012.According to NASSCOM the sector aggregated revenues of US \$ 100 billion in 2012,where export revenue stood at US\$ 69.1 billion and domestic at US \$31.7 billion, growing by over 9%.

**Impact of the Industry on the Indian Economy**

The success of the Indian software industry has had wide ranging affects across the Indian economy. Policy changes to enhance exports are facilitating rapid development of a domestic IT market, offering efficiency gains through adoption of information technologies. In sharp contrast to even a decade ago, Indian business, government and consumers have ready access to the newest software products and imported hardware.

The very high standards of management practical in Indian IT firms and the tremendous employment opportunities offered by the industry have had significant effects on the confidence,aspirations,and work ethic of young professionals in india.The leading software firms have pioneered a movement to modernize Indian management practices, adopting practices of creative organization with less hierarchical structures and strong ethics. In order to comply with international capital markets, IT firms have sets new standards in accounting and corporate governance. They have offered unprecedented high-paying employment opportunities for the young and educated labor force, particularly for women professionals.

**Future outlook of Information Technology**

The Indian IT market currently focuses on providing low cost solution in the services business of global IT ,presence of Indian companies in the product development business of global IT is very meager however, this number is slowly on the raise, US giants that outsource work to india,do not allocate the high end SDLC (Software Development Life cycle) processes like requirement analysis ,high level design and architectural design, although some Indian IT players have enough competency to take up and successfully complete these high level software jobs. The other prominent trend is IT jobs, that were earlier confined to Bangalore, are slowly starting to experience a geographical diffuse into other cities like Chennai, Hyderabad, Pune.

The growth is not fast paced, this can be largely attributed to the lethargic attitude of the government in providing proper tele- communication infrastructure. The penetration levels are higher for mobile, but the speed at which backbone infrastructure works (network speed) and the coverage it offers are far below what other countries of the world have currently in offer.

**Impact On India's Growth**

IT-BPM Industry = Unparalleled contribution to India.  
 GDP share = Highest relative share in national GDP =9.5%  
 Employees = Largest private sector employer =3.5Mn  
 Diversity = Ardent promoter of diversity =1.2 Mn women  
 Exports = Largest share in total services exports >38%  
 Market share = Leading global sourcing destination =55%  
 Entrepreneurship = 4<sup>th</sup> largest startup hub in the world=3100+  
 Investments = Magnet for PE / VC investments =53% USD 6 billion.

**2. FINDINGS**

- i) In the year 2014-15 the total growth of IT services is 12%.
- ii) The total Exports of IT industry in the year 2014-15 is 12.6%.
- iii) The total domestic revenue of IT industry is 10.2%
- iv) In the year 2015 compare to other sectors in the IT the hardware sector is only 0.4%.

**3. CONCLUSION**

The global economic slowdown has hit the vital sectors of our economy, posing serious threats to economic growth .The crisis is forcing countries around the world to test the limits of their fiscal and monetary tools. India is no exception. A series of fiscal and monetary measures have been taken by the government and the RBI to minimize the impact of the slowdown as also to restore the economic buoyancy.

The role of IT industry may be describes as shock absorbers in the financial crisis. IT industry is major investors in financial markets. On aggregate, the largest investors world wide are investment funds, followed by IT companies moreover a part of the assets under management of private equity and hedge funds are owned by IT companies.

Finally paper is concluded with the remark that the impact of the slowdown on India's growth rate is certainly not alarming. India still is one of the fastest growing economies in the world, with the right mix of monetary and fiscal policies plus domestic reforms of the productive sectors as an economy, India has the potential to emerge from this global recession stronger than before.

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