

Indian prime minister warns of “severe and prolonged” global downturn

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Amid deep concerns about the growing international economic turmoil, Indian Prime Minister Manmohan Singh held a meeting yesterday with the country’s top corporate leaders to assure them that his government would take measures to maintain economic growth.

Acknowledging the seriousness of the situation, Singh declared: “The financial crisis has exacerbated a global downturn that was expected earlier but is now likely to be more severe and prolonged. A crisis of this magnitude was bound to affect our economy and it has.”

The meeting was attended by 15 CEOs and business leaders, including Mukesh Ambani, chairman of Reliance Industries, India’s largest company by market capitalisation; Sunil Mittal, chairman of the Bharti Group, the largest mobile phone company; K.P. Singh, chairman of DLF Ltd., the largest real estate developer; and K.V. Kamath, CEO of ICICI Bank, the largest leading private lender.

Business groups have been pushing for lower interest rates and greater liquidity in the credit market, and further pro-market reforms from the Congress Party-led government. The Federation of Indian Chambers of Commerce & Industry has sought a reduction of the cash reserve ratio—money that banks must deposit with the country’s central bank—from 5.5 percent to 4.5 percent and a cut in the key interest rate to 5 percent.

On October 29, the Association of Chambers of Commerce and Industries warned that Indian companies would be forced to undertake massive job shedding of between 25 to 30 percent in the period ahead. Three days later, under pressure from the government, the association revised its prediction but declared that it was still valid for real estate, brokerage and investment advisory industries.

With national elections due before next May, the government is acutely sensitive to the prospect of a jump in joblessness. Prime Minister Singh told the meeting yesterday: “While every effort needs to be made to cut costs and raise productivity, I hope there will be no knee-jerk reaction such as large-scale lay-offs which may lead to a

negative spiral. Industry must bear in mind its societal obligations in coping with the effects of this global crisis.”

India’s growth rate for 2008 was predicted to be 9 percent at the beginning of the year but has been revised down by the Reserve Bank of India (RBI) to 7.5 percent. Other analysts forecast a growth rate of 7 percent. Singh sought to reassure business leaders that “the government will take all necessary monetary and fiscal measures on the domestic front to protect our growth rate.”

Last Saturday the Reserve Bank unexpectedly took several steps to ease the credit market, cutting the cash reserve ratio from 6.5 to 5.5 percent, lowering its key interest rate from 8 to 7.5 percent, and cutting the proportion of bank funds kept in government bonds. It was the first time since 1997 that the central bank has taken action in all three areas together.

The decision was taken after overnight interbank lending rates shot up to a crippling 21 percent on Friday. The Reserve Bank had already cut the cash reserve ratio twice and interest rates once in October. The moves on Saturday were estimated to add 400 billion rupees (\$US8.2 billion) to the credit market.

The Reserve Bank’s actions provided an immediate shot in the arm, bringing the overnight lending rate down to 7 percent. Bombay’s Sensex stock exchange shot up by 5.6 percent on Monday. The value of the rupee also improved marginally, reaching 48.80 to the US dollar on Monday, after hitting 50.29 rupees a week before.

Economic slowdown

The freeing up of credit, however, will do little to address the long-term impact of the global financial crisis and economic downturn on the Indian economy. Like other so-called emerging markets, India has been affected by huge outflows of foreign capital, which have driven down share and currency values. This year the Sensex index has fallen

by about 50 percent, and the rupee by about 20 percent.

Foreign investors have sold \$13 billion worth of Indian shares this year, compared to a record influx last year of \$17.4 billion. The country's foreign exchange reserves plunged by \$15.4 billion last week from \$274 billion to \$258 billion—the largest fall in eight years.

The economy is slowing markedly as recession hits India's major markets in the US and Europe, and demand for Indian exports falls. Export growth was 10.4 percent in September on an annualised basis, the lowest in 18 months. The trade deficit for the six months from April to September widened to \$59.8 billion, from \$39.1 billion for the same period last year.

According to the ABN AMRO Bank purchasing managers' index (PMI), the activity of Indian factories has fallen sharply. The seasonally adjusted survey of 500 companies, released last weekend, showed the index slumped to 52.2 in October, its lowest since the survey began in April 2005. The output index fell from 61.7 in September to 54.1 and new orders dropped from 62.6 in September to 54.4, both the lowest ever recorded by the survey.

Export orders also shrank for the first time since the index began in 2005, hitting 49.7 in October compared to 53 in September. Employment levels fell to 50.1 in October compared with 51.3 in September. The survey reported that jobs were being cut due to lower international demand.

Last Friday, Finance Minister Palaniappa Chidambaram responded to warnings of job cuts by declaring that even an "economy growing at 7 percent is still a job creating economy, not a job destroying economy." He claimed that India was not as vulnerable as China because the country was a "domestic driven consumption and investment driven market where the contribution of exports to the growth is not as big as China's."

Already, however, the slowdown of exports is having a serious impact. Textile Minister Shankersinh Vaghela told reporters on Saturday: "Big stores in US and Europe are cancelling purchases orders from Indian garment exporters, who are also facing the problem of payment defaults from international buyers." The US and European markets account for 70 percent of India's textile and garment exports.

Vaghela dismissed a suggestion by reporters that the government had any responsibility to prevent job cuts, saying, "this is an issue of private firms, government cannot do much about it." According to Apparel Export Promotion Council chairman Rakesh Vaid: "Indian garment exporters are expecting a 10 percent decline due to global recession this year."

After agriculture, the textile industry employs largest

number of people in India. Panipat in Haryana and Tirpur in the southern Indian state of Tamil Nadu have already been affected by the slowdown. In Tirpur alone, 16,000 workers have lost their jobs this year, with another 15,000 expected to be laid off.

India's diamond industry is also feeling the heat. The US accounts for 40 percent of India's exports of gems and jewelry and the trade is worth \$US25 billion. In the past six months, the US market has slumped by 15 to 20 percent. In Surat in the western state of Gujarat, the 700,000 people employed in the diamond industry now face an uncertain future.

On Sunday, the Press Trust of India reported that the country's largest car exporter, Hyundai Motor India, has had to shelve 25 percent of its orders. "Many dealers from our major markets like South Africa, Columbia and Iceland have asked us to put on hold shipments. They have not given us any time when they would like to pick up the orders," the company's managing director H.S. Lheem said.

India's much-vaunted information technology (IT) industry is feeling the impact of the financial turmoil in the US where many major banks and financial institutions relied on Indian business process outsourcing (BPO) companies. Satyam IT company has already announced that 4,500 employees will be laid off. Other major IT firms, including TCS, Insofy and Wipro, have deferred promotions and cut their hiring of new recruits.

Despite the assurances of the Singh government, the looming global recession will have major ramifications for the Indian economy. The job cuts already taking place are just an indication of the devastating consequences for tens of millions of workers throughout the country.



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