The year 2008 will be remembered for the havoc caused to the global economy and the spectacular fall in business confidence across the world.

Economists generally agree that the sudden worldwide recession was triggered by the US as “sub-prime” crisis. Europe followed suit, with many countries there being affected by bad housing loans. Asia, though a fast-growing economy as a region, with significant internal demand, quickly succumbed to the problems in America and Europe, as it was also heavily dependent on exports to these markets. The extent and depth of the crisis became apparent only during the third quarter of 2008. The global financial market collapsed, with a few financial institutions and banks closing due to the huge risks they had taken during prior years of rapid, undersecured growth. This in turn had a negative effect on almost all sectors resulting in the loss of millions of jobs worldwide. From moderate optimism, consumer confidence plummeted to very pessimistic levels due to job losses across sectors, and difficult credit and liquidity position.

India has been steadily integrating with the world economy since the early 1990s through various reforms and has enjoyed the upside of that integration through increased exports and growth of its information technology and business process outsourcing companies. This, coupled with robust domestic market, ensured that India grew at an average of 7% or more, through the 1990s till date with abundant jobs and moderate inflation.

But the downside of being part of the globalised world is that India cannot escape the fallout of the crisis, and must experience the pain of a global slowdown. The Indian economy is facing severe challenges, including shrinking external demand, overcapacity in its factories, job losses in its information technology and business process outsourcing companies, difficult business conditions for enterprises, rising unemployment in urban areas and greater downward pressure on overall economic growth. Half a million jobs were lost during the last quarter of 2008 alone. Beginning 2009, the number of jobs lost is expected to go up. The effect of recession and inflation had direct effects on all sectors such as exports, IT, real estate, steel, gas, airlines and automobiles, media and advertising – all of which suffered huge declines in growth and profitability.

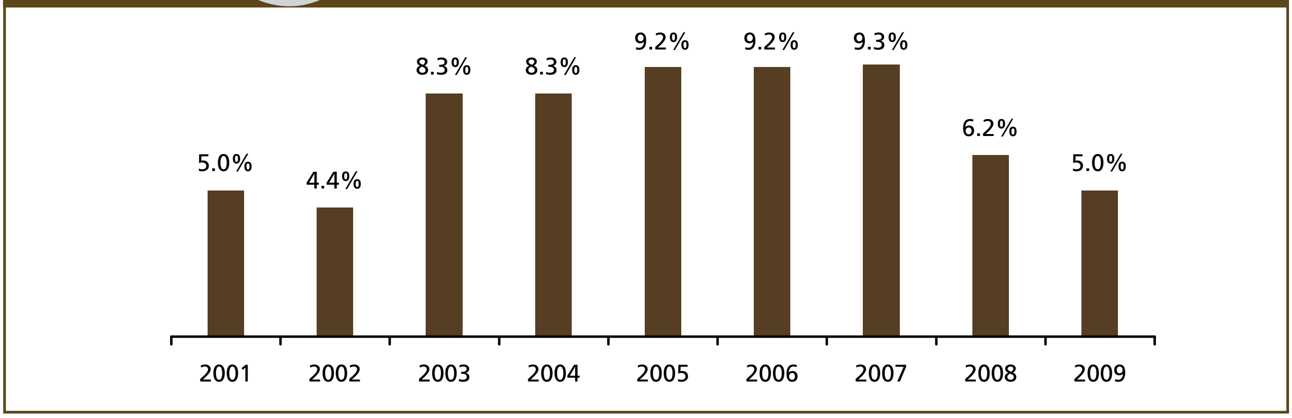
The Indian rupee weakened about 25% in 2008 against major foreign currencies, which has resulted in exports of goods and services becoming cheaper but imports getting dearer. Foreign investments have slowed to a trickle, and stock markets have plunged by 50% from the earlier highs.

The Indian banking sector is highly regulated, a significant part owned by government. The buoyancy in the last few years, in lending to businesses for high capital expenditure, business expansion, mergers and acquisitions, and to individuals for retail loans for housing, automobile and personal loans, has now significantly decreased.

The outlook for 2009–2010 is gloomy as the global economy will take time to recover. A stable financial sector, robust domestic market, proactive government and central bank fiscal and monetary policies (such as stimulus packages and loans at reasonable interest rates) are expected to help India face the crisis better.

Economic indicators such as GDP, inflation and unemployment are as follows.

India: GDP (%) growth year over year, 2001–2009

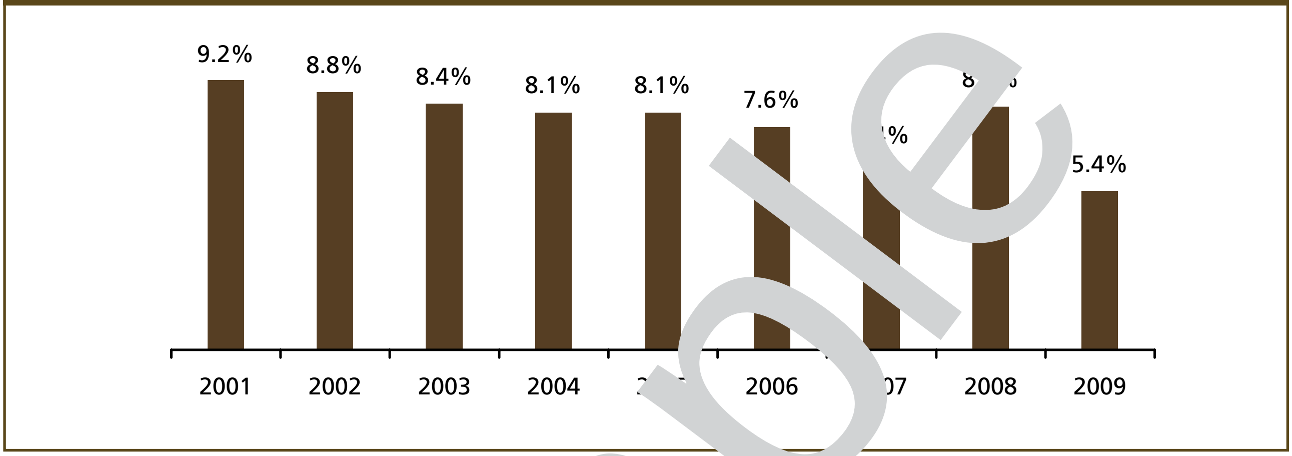


Source: IMF World Economic Outlook, October 2008; Economist Intelligence Unit, March 2009

Note: Data for 2009 is an estimate.

India enjoyed a high GDP growth of over 8% from 2003 to 2007, second only to China's. But these figures show a drastic drop from a healthy growth of 9.3% in 2007 to a moderate 6.0% in 2008 and a further decline to 5.0% in 2009. Shrinking external markets coupled with falling domestic demand has led to a sharp drop in GDP growth.

India: Inflation (%), year on year, 2001–2009



Source: IMF World Economic Outlook, October 2008; IMF International Financial Statistics, March 2009; Economist Intelligence Unit, March 2009

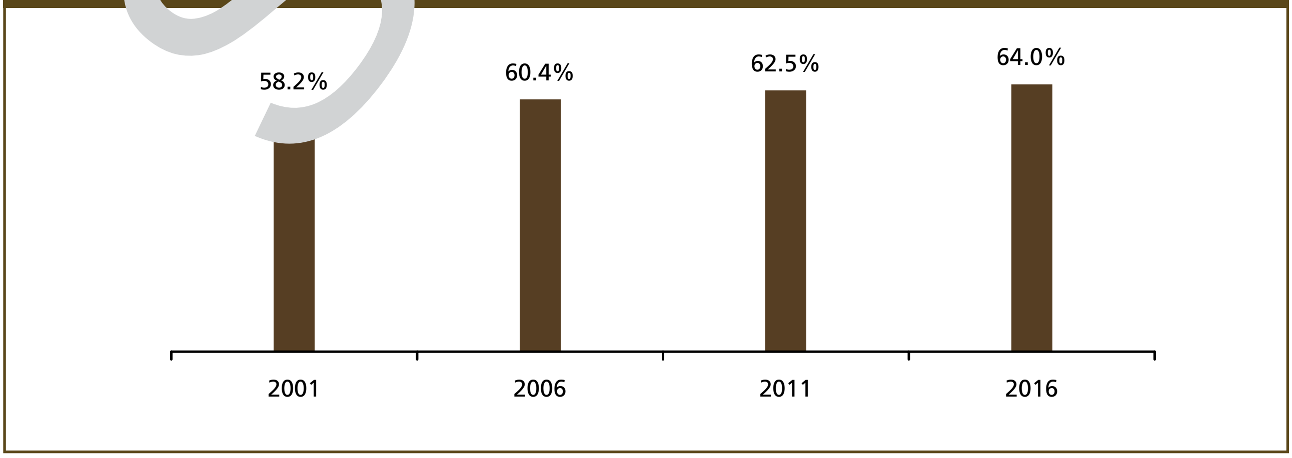
Note: Data for 2009 is an estimate.

Inflation gradually declined from 9.2% in 2001 to [illegible] in 2007. It spiked to 8.3% in 2008 because of increases in petroleum products and food prices. Inflation is expected to ease to about 5.4% in 2009, due to reduction of global crude prices and also softening of food product prices. The economic slowdown has also reduced demand, which in turn has had a cooling effect on inflation.

Favourable demographics

India is one of a few countries that enjoy favourable demographics. The labour force, which was at 58.2% to the total population in 2001, is expected to increase to 64% of total population in 2016.

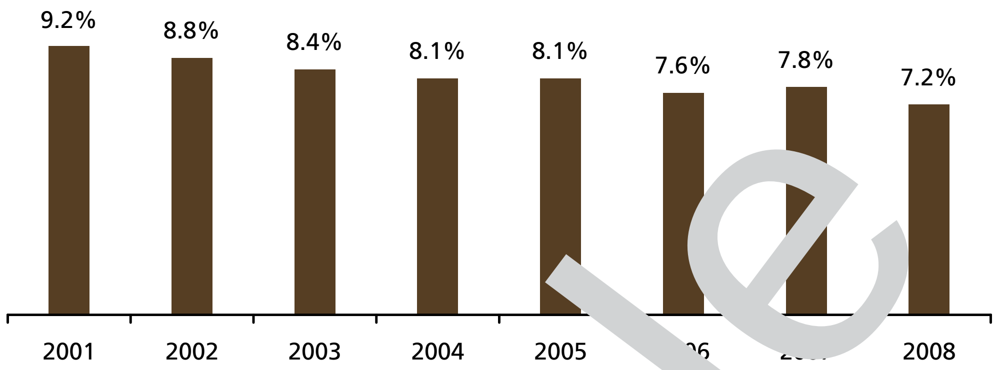
India: Workforce as a percentage of total population (%), 2001–2016



Source: EIU Mercer Human Resource Consulting Database of Presentations

Note: Data for 2001 and 2016 are estimates.

India: Unemployment rate, 2001–2008



Source: EIU (from Mercer Human Resource Consulting Database [illegible] Presenta[illegible]); Mercer's Global Compensation Planning Report, January 2009 update

Unemployment rates have declined marginally from 7.8% in 2007 to 7.2% in 2008. But due to the current economic crisis, the unemployment rate is expected to increase significantly in 2009. There have been severe job losses in many sectors such as IT, BPO, automobiles, manufacturing and other services. A GDP growth of 5% is not expected to create enough jobs for the millions of [illegible] educated and uneducated employees entering the workforce every year.

City snapshots

This report includes seven important metropolitan areas in India. A snapshot of each area is given below:

Bangalore	
Location	South-western India; capital of Karnataka; known as "Silicon Valley" and "Software Capital of India," because it is home to most IT companies, both Indian (such as Infosys and [illegible]) and multinational (such as IBM, Accenture, Microsoft and Oracle).
Population	[illegible].7 million
Major industries	Information technology, IT-enabled services, textile designing, manufacturing, biotechnology
State demographics	**Karnataka**
Annual GSDP growth (2007–2008)	14.3%
Employment	23.5 million
% of country employment	3.4%
State average income	INR 31,271 (USD 625)