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US RECESSION AND ITS EFFECT IN INDIAN ECONOMY

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ABSTRACT
The financial crisis of 2010 engulfed the global economy. It was also called as global financial meltdown. The downturn that begun in US in form of recession led to some negative impact on Indian Economy. The most immediate effect of this global financial crisis on India is an out flow of Foreign Institutional Investment (FII) from equity market. Due to this the banking and non-banking financial institution were severely affected and suffered losses. The recession caused financial crisis in USA and due to which the exports of Indian IT services and software were adversely effected. This global meltdown effected it sector and the GDP growth rate. This paper analyses the seriousness of impeding adverse situation of developing countries and discuss weather as a consequence of this, a global recession is inevitable. In this time of crisis government of India responded through its monetary policy instead of implicating fiscal policies. This paper is an attempt to analyse the impact of the global recession impact om Indian economy.

KEYWORDS: ***Indian economy, Foreign Institutional, Recession***

1. INTRODUCTION

The Great Recession began in December 2007 and ended in June 2009, which makes it the longest recession since World War II. Real gross domestic product (GDP) fell 4.3 percent from its peak in 2007Q4 to its trough in 2009Q2, the largest decline in the post-war era (based on data as of October 2013). Beyond its duration, the Great Recession was notably severe in several respects. The unemployment rate, which was 5 percent in December 2007, rose to 9.5 percent in June 2009, and peaked at 10 percent in October 2009.

The financial effects of the Great Recession were similarly outsized: Home prices fell approximately 30 percent, on average, from their mid-2006 peak to mid-2009, while the S&P 500 index fell 57 percent from its October 2007 peak to its trough in March 2009. The net worth of US households and nonprofit organizations fell from a peak of approximately $69 trillion in 2007 to a trough of $55 trillion in 2009.

After a long spell of growth, the Indian economy was experiencing a down turn due to the global recession. Service export growth was also likely to slow as the recession deepened and financial services firms, traditionally large users of out-sourcing services were restructured. In 2006-07 the GDP growth rate was 9.6% which became 9.3% in 2007-08 and due to the impact of the global financial crisis and global recession, the growth rate of Indian economy became declining. In 2008-09, it reduced to 6.8%. And the RBI annual policy statement 2009 presented on July 28, 2009, projected GDP growth at 6 % for 2009-10. This declining trend had affected adversely the industrial activity, especially, in the manufacturing, infrastructure and in service sectors mainly in the construction, transport and communication, trade, hotels etc. The International Monetary Fund (IMF) had also projected the growth prospects for Indian economy to 5.1 % in 2010-11. The financial crisis in the advanced economies and likely to slow down in developing economies could have adverse impact on the IT sector.

2. STATEMENT OF PROBLEM

India export to the united states was worth US$ 18,705 million, which was 15.43% of the total exports. Out of the 5 top countries India exported US lead the list. During the great recession of 2007 the US GDP shrunk by 4.2% and the unemployment rate peaked to 10% by the end of 2009 ,rising the public debt levels to 77% this directly impacted the purchasing power of individuals in the US which lead to decrease in exports to 10.70% by 2010 shifting it to the 2nd position .US has been a consistent investor in India's FDI during the great recession from 2007 to 2010 there was a sharp rise in direct investments from the US from 14.62 to 24.67(billion dollars) it can be said that this was due to investors looking for a safer investment atmosphere which at that time US failed to provide thus they shifted to india as India clocked a 10.07 growth in 2006-07.Thus we can see that the recession had a mixed impact on India.

3. SIGNIFICANCE OF THE STUDY

The Great Recession in United States become a excessive economic disaster mixed with a deep recession. While the recession formally lasted from December 2007 to June 2009, it took a few years for the financial system to get better. This slow recovery led to families and financial institution paying off money owed. According to the Department roughly 7.8 million jobs had been shed from February 2008 to February 2010, and actual GDP shrivelled via way of means of 4.2% among Q4 2007 and Q2 2009, making the Great Recession the worst financial. Unemployment rose from 4.7% in November 2007 to top at 10% in October 2009, earlier than returning progressively to 4.7% in May 2016.[5] The overall wide variety of jobs did now no longer go back to November 2007 ranges till May 2014.[6] Households and non-earnings corporations delivered approximately $8 trillion in debt at some point of the 2000-2008 length (more or less doubling it and fuelling the housing bubble), then decreased their debt stage in Q3 2008 till Q3 2012 .However, the debt held by of the general public rose from 35% GDP in 2007 to 77% GDP in 2016, because the authorities spent extra in personal sector (e.g., families and businesses) and particularly in Banking sector.

4. OBJECTIVE OF THE STUDY

(a) To study and analyse the problems faced by Indian and its economy due to recession of 2010
(b) To analyse how government took action and if that made any changes and helped India in recovery

5. SECONDARY DATA

Aftermath of the Great Recession

Although the Great Recession officially ended in the United States in 2009, the effects of the recession remained with many people in the United States and around the world for years to come.

In fact, between 2010 and 2014, several European countries, including Ireland, Greece, Portugal and Cyprus, defaulted, forcing the European Union to provide “bailout loans” and other cash investments. rice field.

These countries have also been forced to implement "austerity measures" such as increasing taxes and cutting benefit programs (including health and pension programs) to pay off their debts.

Dodd-Frank Act The Great Recession also ushered in a new era of financial regulation in the United States and elsewhere. Economists have argued that the removal of a Great Depression-era regulation known as the Glass-Steagall Act in the 1990s contributed to the problems that caused the recession. The truth is perhaps more complicated, but the repeal of the Glass-Steagall Act, which has existed since 1933, has allowed many of the nation's largest financial institutions to merge and form much larger companies. I was. This set the stage for the government to be too big to foil many of these companies' bailouts.

The Dodd-Frank Act, signed into law by President Obama in 2010, was intended to restore, at least in part, the US government's regulatory authority over the financial industry.

The Dodd-Frank Act gave the federal government control over banks believed to be on the brink of financial collapse, protecting investments and allowing "predatory lending" (banks offering high-yield loans). We implemented a variety of consumer protection measures to deter. I'm having trouble paying.

Since taking office, President Donald Trump and some members of Congress have made several efforts to undermine key parts of the Dodd-Frank Act.

6.DATA ANALYSIS

According to the U.S. National Bureau of Economic Research (the official arbiter of U.S. recessions) the recession began in December 2007 and ended in June 2009, and thus extended over eighteen months.

Stock Index Data

The NIFTY Index data from 2008-2010 , suggests that the US recession had a severe impact on the Indian share market . The NIFTY index dropped by a massive 55.28% during the course of time , plummeting the market by 3394.40 points . This carried the biggest impact on the Indian IT stocks like Tech Mahindra , Wipro , Infosys , HCL Tech.

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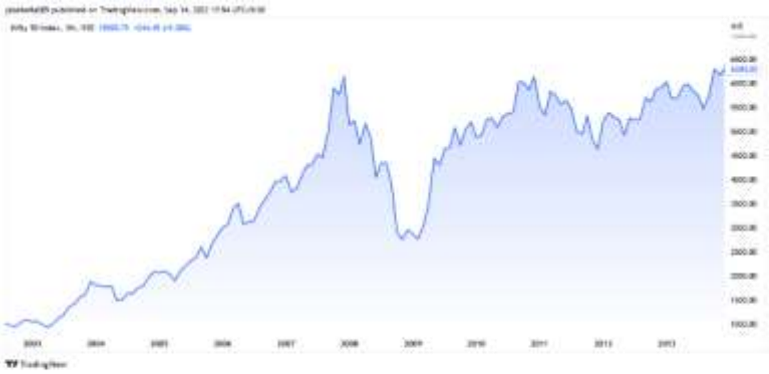


Unemployment Data

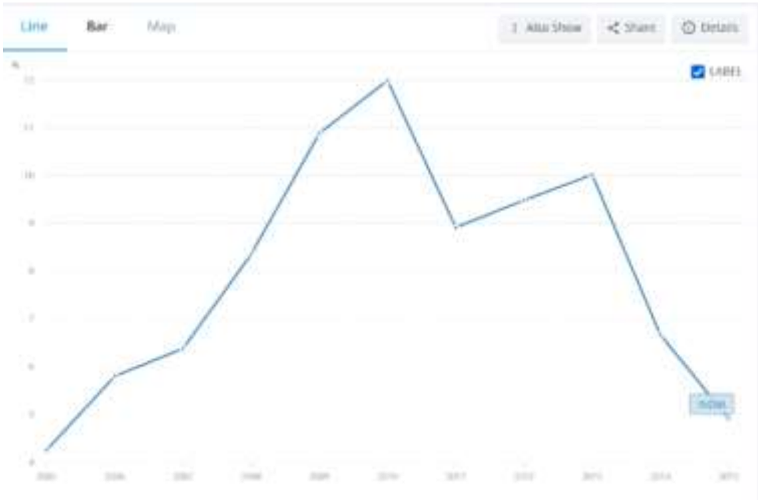
The 2008 U.S recession had an effect on the Indian job rates as suggested by the unemployment data . By the time the recession ended in 2009 , Unemployment rates had risen for for the first time in the past 5 years with a positive annual change of 0.15 % . This concludes that the organisations existing in the Indian Economic system had to cut jobs and had to do massive lay offs to compensate with the crisis and survive in the Gap that the recession had caused between the market supply and demand. More than 600,000 Indians, many employed in the gems and jewellery sector, lost jobs in just four months from October 2008 as the impact of the global economic crisis hit the country's shores.

About 500,000 people lost their jobs in the October- December 2008 period, while over 100,000 were shed in January this year, the Economic Survey said.

In September, the crisis turned severe following the bankruptcy of American financial services major Lehman Brothers.

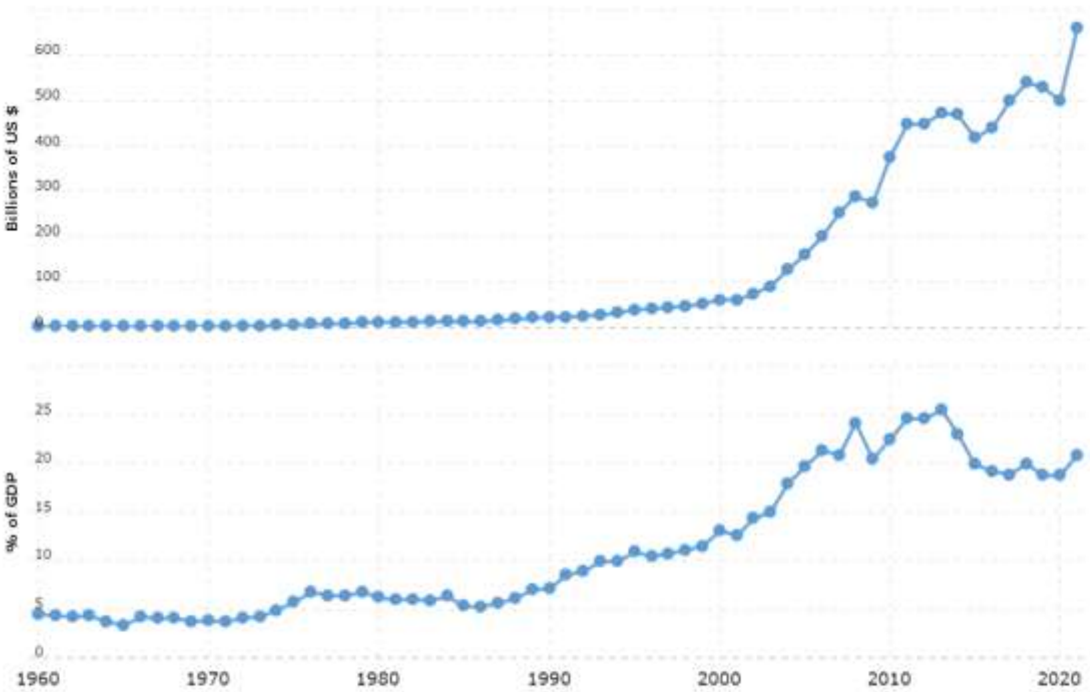
GDP Growth

The deceleration of growth in 2008-09 was spread across all sectors except mining & quarrying and community, social and personal services. The growth in agriculture and allied activities decelerated from 4.9 per cent in 2007-08 to 1.6 per cent in 2008- 09, mainly on account of the high base effect of 2007- 08 and due to a fall in the production of non-food crops including oilseeds, cotton, sugarcane and jute. The production of wheat was also marginally lower than in 2007-08



7.FINDINGS

As per 2009 data Exports had contracted by 12.1% in October, showing a negative trend for the first time in the last five years.



We can see in the following graph that the Indian export in terms of USD was on a constant rise till 2009 which when the US recession was at its most crucial phase. In 2010 the trend stabilizes again as the US economy goes into recovery. This shows the high dependence of Indian export on the European and US market.

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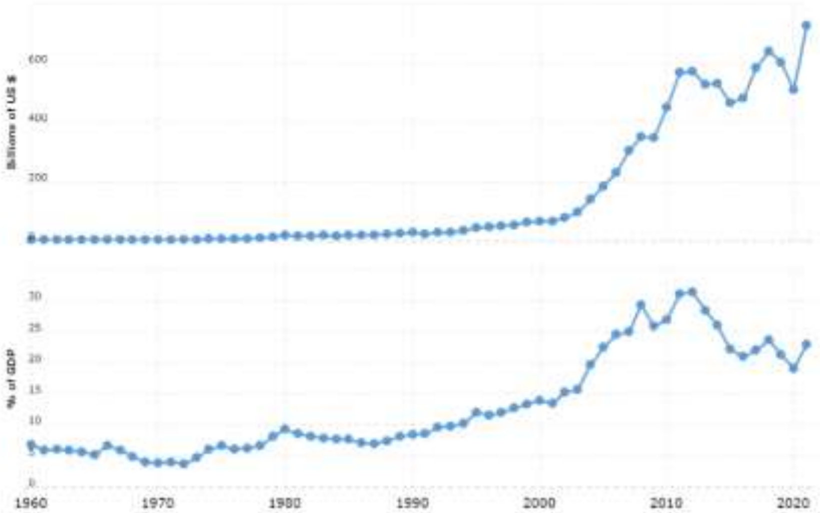
Impact on Imports



There was no major changes in the imports due to recession as most of Indian import are oil ,coal and precious stones while the industries impacted in the states by the recession were include retail, restaurants, travel/tourism, leisure/hospitality, service purveyors, real estate, & manufacturing/warehouse. The manufacturing sector had a growth rate of 10.5%. Manufacturing sectors like leather, textile, gems and jewellery have been hit hard because of demand slump in the US some of these industries like gems and jewellery relied on the US for raw material supply and textile has major export relation with the US justifying its downward trend. US was the top export partner of India in the 2006-08 but post the recession UAE took the place from 2009 pushing the United States to the 2nd position.

8.SUGGESTION

- India should evenly spread its export among different parts of the world as now it os concentrated to west and China to make sure a downfall in one does not have a major affect on any of the sectors
- Industries like textiles could be encouraged to sell domestically

9.CONCLUSION

The impact of the US recession on the Indian economy was mixed we saw a decline in exports while rise in FDI's the, imports remained mostly unaffected. Indian economic growth did slow down in the fiscal year 2008-09 to 7.8% but it can be said as it was due to the US recession as the recession saw its peak in 2009 and as there was a growth of 9.3% in the year of 2007-08 when the recession was in its early stage and unemployment had not yet hit. In the current days the Indian economy has seen a technical revolution and software's are one of the highly exported items and US continuing to be the biggest importer from us if a situation like 2010 returns this time the technical industry is expected to get the biggest hit. India did see a downward surge in employment during the recession and the impact is expected to be the same as in the current times the technical sector have the highest employment rate. In conclusion US being our biggest trade ally and positive or negative effect on its economy will have subsequent effect on the Indian economy.

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