Review Article

Economic Slowdown and its Impact on Earnings of Indian Security Market

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Abstract

Empirically, the response and volatility of this paper return looked at bad macroeconomic news during the recession. We believe that macroeconomic announcements are the most important because they contain bad news about bond growth, and shrinking, to a lesser extent or may say less good news. The good news about inflation in the recession is relatively more important, but in addition the bond market is strongly responsive to bad news in the role of non-farm pay. The paper is mainly divided into three parts. The first part explains the impact of the recent global meltdown of the Indian economy. The second part is about the recent global collapse and yield with bonds. The conclusion is derived in part third.

Keywords: Bond Market, Yield, Recession, Interest Rates

Introduction

Around the middle of 2007, the world started in the shortest time in the US and my sub-prime crisis despite the downturn in developed countries affected everyone in the world. As many banks as the world have been, almost collapsed and at the edge of each government, the military was made to put them, including Lehman Brothers, Bear Stearns, AIG, Merrill Lynch and other financial lions, the company was a beet.

The infection is in the real sector and the bankruptcy and financial recession seems deep and recovery seems to be longer than expected. Many economists predicted the 2008-09 Great Recession, the worst global recession since the thirties(1).

The recession is a decline in gross domestic product (GDP) growth for two consecutive quarters this year. A recession usually occurs when consumers lose confidence in economic growth and spend less. This leads to a decrease in demand for goods and services, again leading to a decline in production, a sharp increase in curves and unemployment.

Investors are spending less because the stock market is afraid that it will fall into negative
feelings because they will fall stock prices. In other words, the recession can be defined as real GDP, income, employment, industrial production, and a significant decline in economic activity that lasts for more than a few months, typically seen in wholesale(2).

**Objectives of the Study:**
- To study the impact of economic recession
- To examine the impact of recession on Indian bond market and earnings

**Impact of Recession on Indian Economy:**
The Indian financial system is at least one of the world’s most influential and highly praised by many economists and financial experts. Because of this recession, which has been well-formalized as an insulator of the bank of India, the bank has been relieved of its fiscal policy(3).

The degree of impact has been limited for a number of reasons, for example, shortly after:

- India's growth is driven largely by Foreign Savings. Domestic dependence has been around 1.5% recently.
- Comfortable Indian holdings have confidence in our ability to manage our balance of payments, despite the low export demand and soft capital flows.
- Social safety & Rural Employment Generated programs remains strong thanks to agricultural loans and delegation for social security and rural development.
- Exports of goods are about 15% of relatively modest GDP(3).

**Effects of the Global Crisis:**

- **Slowdown in gross domestic product (GDP):**
The slowdown in the Indian economy is evident mainly in the construction, Transportation and telecommunications, trade, hotels, restaurants and services sectors, particularly in manufacturing and infrastructure sectors such as industrial activity slowdown, moderation and low GDP growth.

- **Reduced employment:**
The recession is likely to have a double impact on the outsourcing industry. Find valuable Rupee, a difficult survival with the performance deterioration of US companies will affect the profitability of BPO operating at a net profit margin of 7-8 percent(4).

- **Taxation:**
The recession has seriously reduced frontal indirect taxes on the hostility of the center's tax collection. The load GDP ratio steadily increases from 8.97% to 12.56% between 2000-01 and 2007-08. This trend is reversed because the current year's load GDP ratio drops to around 10 per cent in the reduction of customs and excise duty, mainly as a result of the recession.

- **Decrease in exports:**
Exports growth was strong until August 2008; Exports growth, however, led to a sharp decline and US companies, which caused the crisis, remained negative by the end of the year as large outsourcing contracts.
• **Foreign Exchange Market:**
The current economic crisis has largely separated from FII foreign institutional investors, external commercial borrowing (ECB) and trade credit conversion. Foreign investors were put up for record $ 13.3 billion and throughput was observed at September 2008 and October 2008, with the face value of the Rupee's March 2008 Rs .40.36 per USD at Rs.51.23 per USD was observed (21) Depreciation of 2% during the year 2008-09. But now it is restored (5).

• **Money Market:**
Money markets consist of credit markets, bond markets and securities markets. All of these markets are regulated by the Federal Reserve Bank of India, and are in some ways related to the health of the banking system. The bank's NPAS can actually rise due to delays, but this increase is not a systemic risk given the strength of the bank's balanced beam (6).

• **Stock market:**
The business performance of most companies was evident in the considerable demand during the same period, with the impact of moderation on demand (7). Operating profit has led to a bearish trend in the stock market and showed negative growth. FIIs from foreign institutional investors have affected the Indian stock exchange market since the FIIs in which the economic downturn has sold foreign investment.

We put much pressure on the domestic financial system that leads to the liquidity crisis in all major sectors of the country (8).

**Impact of Recession on Indian Bond Market:**
The government securities somewhat like stock market plays an important role in the Indian economy as it determines the benchmark for determining the various rates of the country through income taxes or returns on government subsidies listed as risk-free returns of any economy.

The year 2008-09 remains unique in relation to other events that are etched for our hearts, i.e. Global economic growth, liquidity crises, institutional failure, government bank bailouts and slowing fiscal and monetary stimulus are offered globally as a result of the G20 country's synchronization and coordination efforts (9).

Among these uncomfortable procedures, volatility was especially in the bond market worldwide in the local market. Earlier on the back of the monetary easing and run off by the influence of profligacy financial bonds released later (10).

With an unprecedented stimulus package launched worldwide, Gibbon has borne more of the fiscal soundness of the economy in terms of rising fiscal deficits, which led to higher lending issued by the central bank (11).

The economy will still juggle with the effects of the recession and high fiscal deficits, resulting in higher market bond loans. This is shown in the following table 1.
Table 1: Market Borrowings of the Central and the State Government.

<table>
<thead>
<tr>
<th>Year</th>
<th>Centre Gross</th>
<th>Centre Net</th>
<th>States Gross</th>
<th>States Net</th>
<th>Combined (Centre &amp; States) Gross (2+4)</th>
<th>Combined (Centre &amp; States) Net (3+5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993-94</td>
<td>503.88</td>
<td>285.26</td>
<td>41.45</td>
<td>36.38</td>
<td>545.33</td>
<td>321.64</td>
</tr>
<tr>
<td>1994-95</td>
<td>381.08</td>
<td>200.74</td>
<td>51.23</td>
<td>51.23</td>
<td>432.31</td>
<td>251.97</td>
</tr>
<tr>
<td>1995-96</td>
<td>405.09</td>
<td>267.9</td>
<td>62.74</td>
<td>59.31</td>
<td>467.83</td>
<td>327.21</td>
</tr>
<tr>
<td>1996-97</td>
<td>361.52</td>
<td>263.56</td>
<td>65.36</td>
<td>65.36</td>
<td>426.88</td>
<td>328.92</td>
</tr>
<tr>
<td>1997-98</td>
<td>596.37</td>
<td>404.94</td>
<td>77.49</td>
<td>71.93</td>
<td>673.86</td>
<td>476.87</td>
</tr>
<tr>
<td>1998-99</td>
<td>939.53</td>
<td>629.03</td>
<td>121.14</td>
<td>107</td>
<td>1060.67</td>
<td>736.03</td>
</tr>
<tr>
<td>1999-00</td>
<td>996.3</td>
<td>730.77</td>
<td>137.06</td>
<td>124.05</td>
<td>1133.36</td>
<td>854.82</td>
</tr>
<tr>
<td>2000-01</td>
<td>1151.83</td>
<td>737.87</td>
<td>133</td>
<td>128.8</td>
<td>1284.83</td>
<td>866.67</td>
</tr>
<tr>
<td>2001-02</td>
<td>1338.01</td>
<td>923.02</td>
<td>187.07</td>
<td>172.61</td>
<td>1525.08</td>
<td>1095.63</td>
</tr>
<tr>
<td>2002-03</td>
<td>1511.26</td>
<td>1041.18</td>
<td>308.53</td>
<td>290.64</td>
<td>1819.79</td>
<td>1331.82</td>
</tr>
<tr>
<td>2003-04</td>
<td>1476.36</td>
<td>888.16</td>
<td>505.21</td>
<td>463.76</td>
<td>1981.57</td>
<td>1351.92</td>
</tr>
<tr>
<td>2004-05</td>
<td>1065.01</td>
<td>460.5</td>
<td>391.01</td>
<td>339.78</td>
<td>1456.02</td>
<td>800.28</td>
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<tr>
<td>2005-06</td>
<td>1600.18</td>
<td>982.37</td>
<td>217.29</td>
<td>154.55</td>
<td>1817.47</td>
<td>1136.92</td>
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<td>2006-07</td>
<td>1793.73</td>
<td>1112.75</td>
<td>208.25</td>
<td>142.74</td>
<td>2001.98</td>
<td>1255.49</td>
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<tr>
<td>2007-08</td>
<td>1882.05</td>
<td>1095.04</td>
<td>677.79</td>
<td>562.24</td>
<td>2559.84</td>
<td>1657.28</td>
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<tr>
<td>2008-09</td>
<td>3185.5</td>
<td>2423.17</td>
<td>1181.38</td>
<td>1037.66</td>
<td>4366.88</td>
<td>3460.83</td>
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<tr>
<td>2009-10</td>
<td>4924.97</td>
<td>3943.58</td>
<td>1311.22</td>
<td>1148.83</td>
<td>6236.19</td>
<td>5092.41</td>
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<tr>
<td>2010-11</td>
<td>4794.82</td>
<td>3263.99</td>
<td>1039.1</td>
<td>882.69</td>
<td>5833.92</td>
<td>4146.68</td>
</tr>
<tr>
<td>2011-12</td>
<td>6003.82</td>
<td>4843.19</td>
<td>1587.62</td>
<td>1367.72</td>
<td>7591.44</td>
<td>6210.91</td>
</tr>
<tr>
<td>2012-13</td>
<td>6739.87</td>
<td>4929.9</td>
<td>0</td>
<td>0</td>
<td>6739.87</td>
<td>4929.9</td>
</tr>
</tbody>
</table>


The table 1 above shows the market borrowings of the central government in the last two decades. It was all a period of continuous increase in government loans. However, since the 2008 crisis, lending has risen sharply. The increase is almost twice that of central and state borrowers. The government bond market has had
considerable volatility in recent months compared to the past.

The bond market volatility was partially driven by more than expected stocks (the government has a loan schedule for the second half of the fiscal year when it announced Rs 52 crore (872), 2011-12 Rs 2.2 crores more than the budget amount) and uncertainty about the path of inflation(12, 13).

The unanticipated increase in government subsidies for H2 2011-12 has resulted in a significant increase in interest rates on the 10-year bond yields, reaching almost 9% of others (Figure 5.4). This market is largely isolated from demand shocks from overseas, mainly domestic institutions, especially commercial banks, because the debt is an investment in FII investment ($ 55 billion in outstanding, $ 150 billion in bonds and $ 15 billion in bonds).

The rate of public contribution is influenced by inflation, liquidity, capital flows, fiscal deficits and market lending, including macroeconomic factors, such as GDP growth, with high volatility in all markets, but today also is affected by demand and supply factors such as issuance The agenda announced by the central bank for the implementation of the yield loan program(12, 13).

**Status of Earnings in Recession:**
Generally, the yield of government bonds declines in recession. The economic downturn often increases savings and people demand the security of the bonds. This however deteriorated further in the recession of the euro zone by their combination between the US and Britain in 2008 and 2012.

The depth of the recession meant that tax revenues would fall significantly(14). The market thinks that the size of the recession is meaningful and the debt rate in GDP increases at an unsustainable rate. Leaving the obligatierent activity indicating that the retreat can provide both rising bond yield and ascending combination.

Failing to reduce government spending and debts - even attempting to cut. And the double burden of declining GDP and tax revenue - further tightening caused a deep recession. The long-term recession (for example, Japan has high debt, long-term economic downturn and low bond yield) But other factors has not always caused a rise in bond yields. The recession can certainly aggravate and support the debt crisis.

**Conclusion:**
Up primal anxiety for many reasons has left India's widespread global financial infatuation. India's growth process is largely dependent on domestic consumption and the period of overseas savings by about 1.5%. While the financial market is very volatile and turbulent, it is also a very comfortable level of foreign exchange reserves to prevent the excessive risk of taking the prudent policies of India, which have received financial stability of patients.

Concerns about high fiscal deficits have increased pressure on government bond
yields. High yield bonds have the potential to increase the cost of lending to the corporate sector and are risky to the economic recovery.

However, the central bank has announced plans for 2009-10 for the purchase of government securities worth Rs 80,000 crore in the first half and open market operations worth up to 80 thousand crore in securities.

In addition, Market Stabilization Scheme (MSS) purchase auctions and open market purchases were in line with the normal market government borrowed and de sequencing MSS balance.

References: