US RECESSION AND ITS IMPACT ON INDIAN ECONOMY

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From December 2007 to June 2009, the United States suffered an extended economic downturn that came to be known as the Great Recession. It was the worst financial crisis in the US since the great depression, leaving an impact on homes and businesses in America and around the world. When an economy escalates over a period of time and reaches the peak, the graph eventually starts to fall down leading to an economic recession which seems common to any economic cycle.

To begin with, the main reason behind the US great recession was the fall in the mortgage market. The failures in financial regulation and excessive borrowing by households contributed to the primary cause of recession which was the subprime mortgage crisis. When someone wants to buy a house, they will often borrow hundreds of thousands of dollars from the bank. In return, the bank gets a piece of paper called a mortgage. Every month the home owner has to pay back a portion of the principle plus interest to whomever holds the piece of paper. If the home owner fails to pay back the money, it's called default.

A subprime mortgage is normally issued to borrowers with low credit ratings. As the housing market were booming in the early 2000’s, banks began to offer subprime mortgage. Many people with low credit ratings started to take the subprime mortgage loans because they stood to make a large profit if their house increased in value. In 2007, the actual recession started as the demand for the housing went down, the prices of homes dropped rapidly. People stopped investing in real estate market since it was no longer profitable. Many people were not able to pay their mortgages because at a particular point the value of mortgage was higher than the value of house itself. The bank foreclosed their home. Since the foreclosed houses were now worth less money, financial institutions lost money along with the homeowners resulting in housing market failure and the bank crumbled.

Due to these, the economy descended and the great recession officially begun. The economic downturn was devastating. Many people and businesses suffered huge financial losses and therefore they started to spend less money, further damaging the economy. Financial firms were not in a position to lend money. In 2008, the government stepped in and bailed out the bank which led to a great national deficit. The Great Recession not only totally destroyed the economy of the US but also had a major impact worldwide. The Indian economy was also one of them that suffered economically due to the US financial crisis in 2008.

India’s banking sector was not directly integrated with the global financial market in the 2000s and also the markets of mortgage-backed securities were not exposed to the global market. However, India's economy in terms of global trade and capital flow is mostly integrated with the global financial market, which might deviate towards the fact that the Indian economic market was affected by the US economic crisis in 2008. The fall in the capital flows, foreign trade, and low exchange rate flow transmitted a negative impact on the Indian economy.

As per the Reserve Bank of India, the trade flows of the country slowed down before the US recession happened. These initial lowering down of trade flows were seen to be collapsing after the US recession broke down. The trade collapse triggered by the global economic crisis was found to be more serious than the balance of payments crisis. India’s export ratio to the Unites States was hindered due to the economic crisis. Majority of US clients were interested in working in an Indian company as an outsourcer. The Indian company who used to employee US clients faced problems replacing them with the new one.

Despite some negative impacts on the Indian economy due to the US recession, many factors saved India from facing severe consequences. India was hugely dependent on its own agricultural products due to which India did not have to suffer huge losses as it was self-sufficient. India was also not active in the markets of mortgage-backed securities and credits which were the sole reason for the failure of the US economy. Although the Indian Merchandise exports market was highly affected by the US recession but the service exports did not fall. Foreign Direct Investment went high, financiers retrograded flows into India whereas the long-term investors were found continuing with their projects.

The Reserve Bank of India under the direction of the government of India lowered interest rates and expanded credit value. Excise duties were cut by the government of India to match demand. In these crucial times of US recession, many Indian companies brainstormed and came up with some brilliant ideas regarding rural financing, efficiency, human factor, core competencies, strategic planning, etc.

The rural India consists of 70% of the country's population as per the census of 2001. The huge population has caused the demand for consumption to increase but has very low income. Due to the high demand in consumption the micro financing came into action leading to the market growth in the rural areas. While the urban areas were hindered by the US recession, the rural area prospered in a way.

Recession is an inevitable phenomenon in an economic cyclethat cannot be unseen. The economic calamities it brings to a nation are huge. All the companies in the developed and developing nations need to have a contingency plan so as to operate smoothly and bear minimum loss during the recession that might outrage in the future.