An Overview of Indian Stock Market in Global Recession

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ABSTRACT

Recession can be defined as an extended period of significant decline in economic activity including negative Gross Domestic Product (GDP) growth. After the dark night, sun rises. So investors should keep patience into his mind and should wait for the market to come out from the economic recession because in past investors got more than their losses.

1. INTRODUCTION

Recession can be defined as an extended period of significant decline in economic activity including negative Gross Domestic Product (GDP) growth. Consumer's Confidence goes downward, falling real income, dercreasing in sale and production even condition of unemployment grown up. Other aspects of recession relate to investments includes heightened risk aversion on the part of investors and a subsequent flight to safety. On the other hand the benefit or recession lead to recoveries and follow to relatively predictable pattern of behavior. Recessio of America became global recession.

2. GLOBAL RECESSION SCENARIO

Now-a- days, the world going through an economic crisis. This crisis recession is not Ist time for America, it came previously for many times for America Previous recession can be defined by following Table.

Table : 1

Recession Period in America

Year	Recession Period	Span of Recession
1923	14 months	May 1923 to July 1924
1926	13 months	Oct. 1926 toNov. 1927
1929	43 months	Aug. 1929 to March 1933
1937	13 months	May 1937 to June 1938
1945	08 months	Feb. 1945 to Oct. 1945
1948	11 months	Nov. 1948 to Oct. 1949
1953	10 months	July 1953 to May 1954
1957	08 months	Aug. 1957 to April 1958
1960	10 months	April 1960 to Feb. 1961
1969	11 months	Dec. 1969 to Nov. 1970
1973	16 months	Nov. 1973 to March 1975
1980	06 months	Jan to July 1980
1981	06 months	July to Nov. 1981
1990	08 months	July to March 1990
2001	08 months	March to Nov. 2001

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In the year 1929 there is very long span for recession i.e. 43 months while minimum span of recession in the year of 1980 and 1981, in these years it is only for 6 months. Present recession is in the hands of future. Can not be defined the span of present recession. The present storm of recession started from US banks who gave high risk loans to poor credit history holders people. Most of investors sold their securities globally as they heard that US banks are going to bankrupt. Firstly some countries thought that they were not affected by it but this confussion finished in a short time. India is also one of those countries who comes in the effect of this Crisis. There has been a huge outflow of funds, stock market has collpsed, exports are down and job cuts by Various sectors. National Bureau of Economic Research of America has officially announced on 1 Dec. 2008 that the economy of America is Under recession. This recession started from the begining of 2008. The Indian government has announced to achieve the growth rate 7% in place of 10% which declared earlier. Our banking, finance and insurance sectors are badly effected by global recession.

3. IMPACT OF RECESSION ON STOCK MARKET

In this period the production rate became negative. Industrial production rate in Oct., 2007 was 9.9% it became 4.1% in Oct 2008. In the last quarter of 2008 the industrial production rate came in Negative 2% while in Previous this negative Industrial production rate was in April 1993.

During 2006-07 to 2007-08, the growth rate in financial sector has been higher than other reality sector growth rates. After Liberalization of capital acounts in 2004-05 there is an increase in foreign inflow. The stock index no. started to make new records and also increased in trade volumes. During the last 9 months of 2007. market capitalisation at BSE increased by approx 102% (Rs. 35,45,041 Crores to 71,69,985 Crores) and at NSE it increased approx 94% (from Rs. 33,67,350 Crores to Rs. 65,43,272 Crores). In last 9 months of 2007, most of financial experts were excited to see this progress of stock market as sensex was going to touch new heights but this increase in stock market could not effect the GDP Rate. This rate decreased inplace of increase in last quarter of 2007-08 it comes on 8.8% from 9.2% The trades & investments in stock market did not helped in GDP growth, rather created inflationary pressure in India. In this period the inflation rate increased upto 12% approx due to increase in prices of daily needs goods & infrastructure goods.

Stock market started to fall from Jan. 08 which could not stable upto date. In during 9 months (Jan. 08 to Sept. 08) the sensex of BSE came on 8000 points from 20,000 points (declined by 60% approx). In this period stock market capitalisation of BSE declined by approx 42% (amounted as Rs. 41,65,384 crores) and NSE by approx 40% (amounted Rs. 39,00,185 crores). In this period BSE (Bombay Stock Exchange) and NSE (National stock exchange) jointly lost Rs. 5647685 Crores which is more than our aggregative liquidity stock in India. The reality sector felt down from Sky to earth and broke the backbone of this sector. The regulators of stock market presumably did not pay enough attention to this loss, probably because it is not a based entity and saw no need to bailout. In the last month '08 the Indian stock market fell some relief and used to stay BSE sensex between 10,000 to 11,000 points. Mean while a bluechip company's directors ramling Raju cuts the legs of market to disclose the scandle of fake accounts & cash Balance. By this Scandle the stock market sensex came on the knees and cried again to help of the government. The market price of Satyam Co. comes on Rs. 25 from 280 Rs. per share (decreased by 90% appox).

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4. STEPS TAKEN BY COUNTRIES WORLDWIDE

To come out from this storm of recession the central Banks of the various countries have cut in their Interest rates. The Rate of central Bank of different countries in december 2008 were as follows :

This Table reveals that some countries are going to do Zero percent rate of Interest while other countries are going to their low level rate of interest. The Reserve Bank of India has annouced several times to cut in repo rate to give the additional funds to the market. Government of India is also announced an inftastructure package to the market for coming out from the economic crisis but the impact of these announcement proved as a drop in the ocean. After all these remedies this market could not get rid off this problem.

Table : 2

The Rate of Central Banks of Different Countries

Name of Bank	% Rate of Intt.
Swiss National Bank	0.05
Federal Reserve Bank	0.25
Bank of Japan &	
- Hong Kong Bank	0.30
Bank of Canada	1.5
Bank of England	2.0
European Central Bank	2.5
Korean Bank	3.0
Bank of Newzealand	6.5
Indian Reserve Bank	6.5
Reserve Bank of China	6.66
Brazil	13.75
Turkey	16.25

5. SUGGESTION TO THE INVESTORS

In the period of recession investors should keep an eye on the picture of various market sector before investing the money. Although there is no need to be discouraged because there are many base for investors to protect their investments and profit during the economic cycle, In the recession period investor should invest in hight quality companies with long business histories. High quality companies means strong balance sheet including with little debts and strong cash flows. A company having a strong balance sheet and cash flows may able to handle the economic down turn comparatively other than companies. In recession period investors should invest in fixed income market especially in high yield bonds, mortgage securities or in govt. Securities or government treasury bonds. Although low interest rate is not to create higher return but gives lower risk factor. Investor should re-examine opportunities for riskier investments in the context of what is usually a low interest environment. As a result equity market tend to do very well during economic recovery.

6. CONCLUSION

In conclusion the investors in recession period should to minimise the risk in his portfolio and maintain capital to invest in the recovery. After the sorrows comes joy, After the dark night, sun rises. So investors should keep patience into his mind and should wait for the market to come out from the economic recession because in past investors got more than their losses.

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