THE COMMERCE SOCIETY

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GLOBAL RECESSION

PRELUSION

The clouds in the sky are hinting at a recession. Noble economists, all around the world, have gone to the extent that we have already entered the recession. The global economy is “perilously close” to a recession, said the World Bank in its recent report in January, when it slashed its forecast for global growth rates to 1.7% from its previous projection of 3%. If that forecast proves accurate, it would be the third-weakest annual expansion in three decades, behind only the deep recessions that resulted from the 2008 global financial crisis and the pandemic in 2020. Well, it is time to tell, whether the world economy will hit a recession or not, but before that it is important to know the reasons for such statements. •The first and the foremost reason was the rapid increase in interest rates(repo rate in particular) by Central Banks of various countries in order to control inflation. But, as a result, the overall investment declined and supply side was severely burdened. The World Bank said that tighter monetary policies from central banks around the world may have been necessary to tame inflation, but they have “contributed to a significant worsening of global financial conditions, which is exerting a substantial drag on the supply side.” •The World Bank report also pointed out that rising interest rates in developed economies like the United States and Europe will attract investment from developing countries, thereby reducing their domestic investment and causing them to depend on loans from such countries, whereby interest rates are already high. •At the same time, the report said, those high interest rates will slow growth in developed countries at a time when Russia’s invasion of Ukraine has kept world food prices high. •The United States, China and Europe are all undergoing a period of pronounced weakness, and the result is that the developing economies are facing the repercussions owing to low investments and supply chain disruptions.

RESEARCH METHODOLOGY

The purpose of this research is to analyse the global recession of 2023, its causes, and its impacts on various economies across the world. The report aims to provide a comprehensive overview of the current economic situation, drawing upon both primary and secondary sources of information. For primary research, we conducted structured interviews with individuals who are experts in the field of economics and finance. These interviews were aimed at gaining insights into the perspectives of individuals who have a deep understanding of the current economic scenario. The interview questions were designed to elicit information on the causes of the recession, its effects on various economies. In addition to primary research, we conducted a thorough review of published literature, including reports and data published by international organisations such as the International Monetary Fund (IMF). For example, we referred to the Global Economic Outlook report of January 2023 published by the IMF, which provides a comprehensive overview of the current global economic situation.

Introduction

WHAT IS RECESSION?

A recession can be described as a time of economic decline marked by a decrease in GDP, trade, and industrial output. Throughout history, different civilizations have experienced fluctuations in their economic cycles, and today, a recession is generally defined as two consecutive quarters of negative economic growth.

The causes of a recession can range from changes in monetary and fiscal policy to shifts in consumer spending and external factors such as natural disasters or geopolitical events. The impact of a recession can be far-reaching and long-lasting, affecting individuals, businesses, and entire economies.
When economic activity decreases, disposable income is also reduced, which leads to a drop in consumer spending, intensifying the recessionary cycle. Businesses may have to lay off employees, leading to higher unemployment, which further lowers consumer spending.

SIGNS OF A POTENTIAL RECESSION

Prior to a recession, various warning signs can be observed, including:

1.The Treasury Yield Curve Reversal
When long-term interest rates become lower than short-term interest rates, it is referred to as a reversal in the Treasury yield curve. This is seen as a reliable indicator of an impending recession because it shows that investors have a negative outlook on the economy. This can result in decreased investment and reduced consumer spending, further damaging the economy.

2. Sustained Stock Market Decline

A persistent decrease in the stock market often signifies decreased investor confidence, which can be a precursor to a recession. This can cause a reduction in consumer spending as people become more cautious with their money.

3. Rising Wages

Rapid growth in wages that surpasses the rate of inflation is referred to as runaway wage growth. This can indicate an overheating economy, leading to increased production costs for businesses and resulting in decreased investment, lower profits, and decreased consumer spending.

4. Increasing Inflation

If there is a sustained increase in the general price level of goods and services, it is called rising inflation. High inflation can cause decreased consumer spending as individuals have less disposable income and decreased investment as businesses face higher production costs.

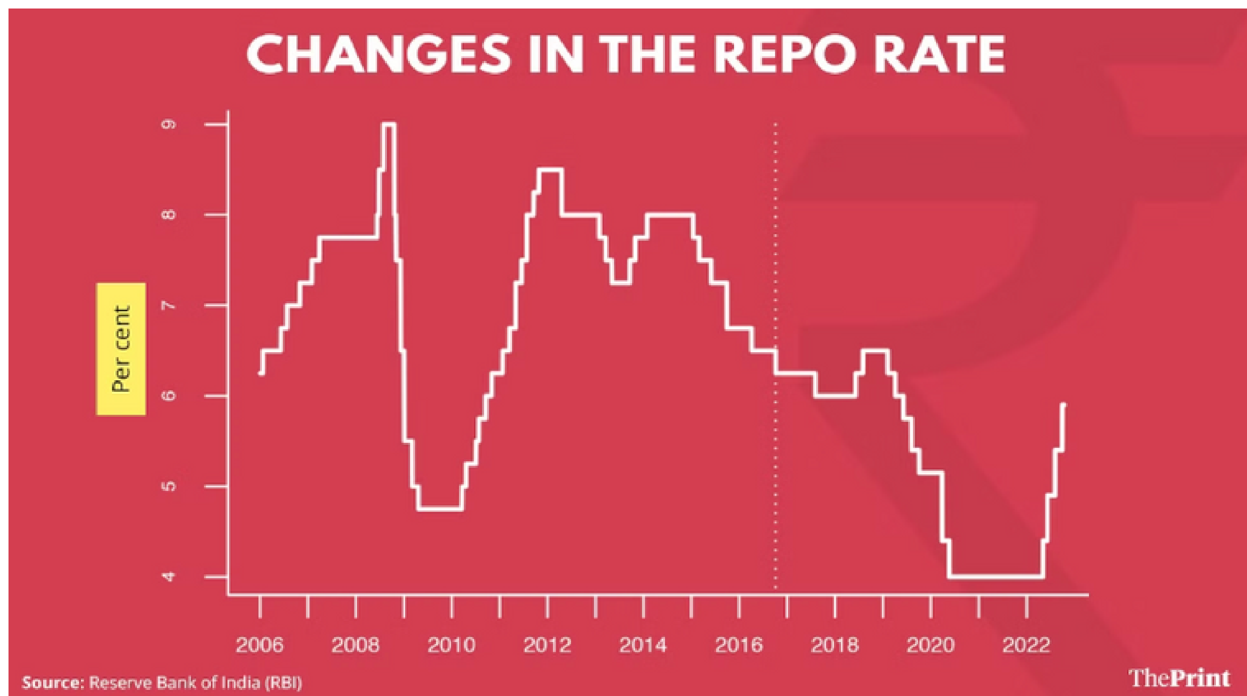
5. Lowest Unemployment

When the unemployment rate reaches its lowest point, it is known as unemployment bottoming out. Although low unemployment is generally seen as a positive sign, it can also lead to increased competition for workers and result in runaway wage growth, decreased investment, and reduced consumer spending.

6. Decreased Housing Construction and Sales

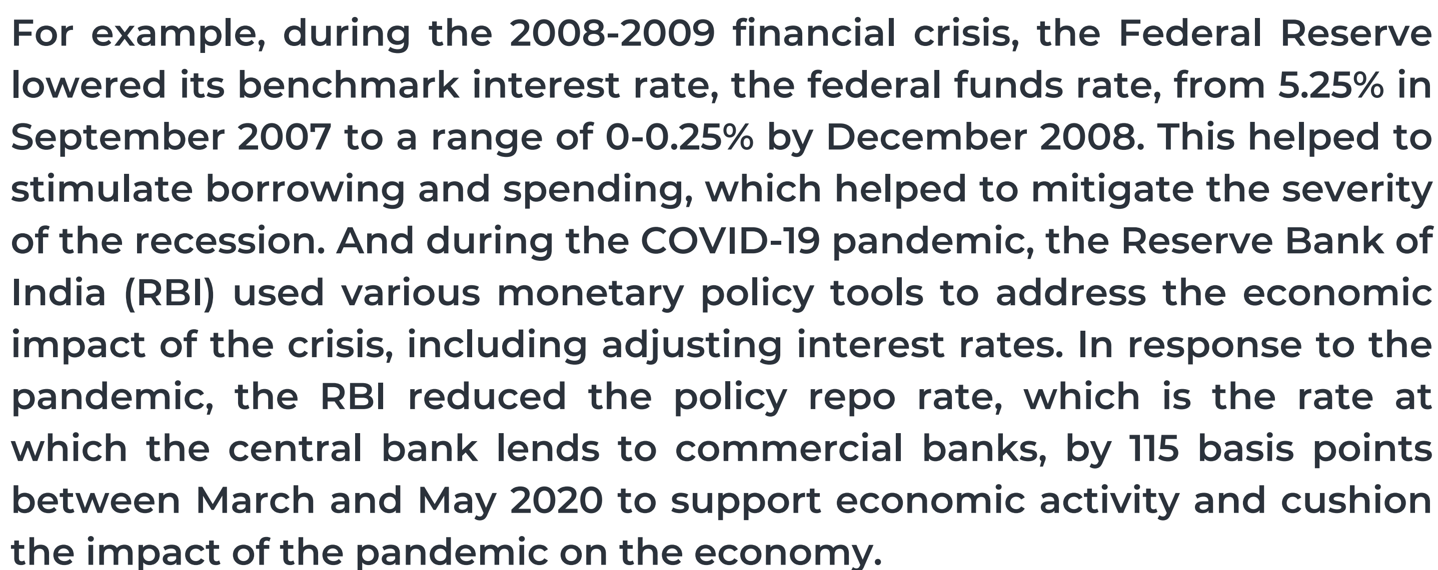
A slowdown in the housing construction and sales industry can be an indication of a slowdown in the overall housing market, often viewed as a barometer of the economy as a whole. This downturn can result in a decrease in consumer spending as individuals become more reluctant to make major purchases like homes and reduced business investment because of decreased demand for their products. Furthermore, the slowdown in the construction sector can also cause job losses, exacerbating the economic downturn.

ROLE OF INTEREST RATES IN CONTROLLING RECESSION



Interest rates play a crucial role in controlling recession by influencing the level of economic activity. The Central bank uses monetary policy to control interest rates as a means of managing the economy.

During a recession, the central bank will typically lower interest rates in order to stimulate borrowing and spending. Lower interest rates make it less expensive for businesses and consumers to borrow money, which can encourage them to invest in new projects and make purchases. This increased spending can help to boost economic growth and reduce unemployment. Central banks can also use other monetary policy tools to influence interest rates, such as buying and selling government securities. When the central bank buys securities, it injects money into the economy and pushes interest rates down. When it sells securities, it removes money from the economy and pushes interest rates up.


For example, during the 2008-2009 financial crisis, the Federal Reserve lowered its benchmark interest rate, the federal funds rate, from 5.25% in September 2007 to a range of 0-0.25% by December 2008. This helped to stimulate borrowing and spending, which helped to mitigate the severity of the recession. And during the COVID-19 pandemic, the Reserve Bank of India (RBI) used various monetary policy tools to address the economic impact of the crisis, including adjusting interest rates. In response to the pandemic, the RBI reduced the policy repo rate, which is the rate at which the central bank lends to commercial banks, by 115 basis points between March and May 2020 to support economic activity and cushion the impact of the pandemic on the economy.

In addition to this, RBI has also announced several measures such as liquidity injection, credit guarantee schemes and more unconventional policy tools to help mitigate the impact of the pandemic on the Indian economy. The given illustration demonstrates that the Reserve Bank of India employs monetary policy tools, such as the Repo Rate, to mitigate economic downturns, as observed during the financial crisis of 2008-2009 and the COVID-19 pandemic of 2020-2021.

However, it's worth noting that there are limits to how effective monetary policy can be in controlling a recession. The Central banks can influence the level of interest rates but it can't control all the factors that contribute to economic downturns. Additionally, lowering interest rates can also lead to inflation and asset bubbles if not done carefully.

In summary, interest rates play a key role in controlling recession by influencing borrowing and spending, as well as currency exchange rates. The Central bank uses monetary policy tools to control interest rates and stimulate economic growth during a recession. However, it's important to note that there are limits to the effectiveness of these tools and potential side effects. Central banks should also be aware of other factors that affect the economy and have a comprehensive approach to tackling the recession.

POLICIES OF CENTRAL BANKS OF VARIOUS COUNTRIES

Federal Bank of US raised its repo rates continuously for three times as a response to combat inflation . RBI in India is also moving along similar trends. This ultimately reduces the money supply. In the year 2022, inflationary pressure was the biggest elephant in the room that pushed major central banks to opt for monetary policy tightening. Inflation has been at a multi-year high and in most major countries like the US, the consumer price index reached a multi-decadal high. Experts believe that the hike in key rates is likely to bottom out in 2023, however, when will that take place is key to watch.

Unless supply disruptions and labor-market pressures subside, those interest-rate increases could leave the global core inflation rate (excluding energy) at about 5 percent in 2023—nearly double the five-year average before the pandemic, the study finds. To cut global inflation to a rate consistent with their targets, central banks may need to raise interest rates by an additional 2 percentage points, according to the report's model. If this were accompanied by financial-market stress, global GDP growth would slow to 0.5 percent in 2023—a 0.4 percent contraction in per–capita terms that would meet the technical definition of a global recession.

The experience of the 1970s, the policy responses to the 1975 global recession, the subsequent period of stagflation, and the global recession of 1982 illustrate the risk of allowing inflation to remain elevated for long while growth is weak. The 1982 global recession coincided with the second-lowest growth rate in developing economies over the past five decades, second only to 2020. It triggered more than 40 debt crises] and was followed by a decade of lost growth in many developing economies.

HOW FAR THOSE POLICIES ARE SUCCESSFUL?

Impact wise these policies are not much desirable in trend to reduce the inflationary trends but their negative connotations are high. Reducing money supply in the economy takes away the liquidity from high growth sectors which put constraints on them in future. Further these companies tend to reduce employment opportunities . Weak global demand was seen as the biggest challenge for businesses to overcome in 2023, followed by the high cost of borrowing, high input costs and talent shortages.Geopolitical trends continue to dominate thinking, being cited as the top factor shaping global economic activity in the year ahead.

This wider economic impact channels through trade, investment, labour and technology flows, creating myriad challenges and opportunities for business," the report said. "At the other end of the spectrum, the fall of the cryptocurrency sector is expected to have relatively little spillover into wider financial markets and the majority of chief economists do not expect further economic disruption from COVID-19.

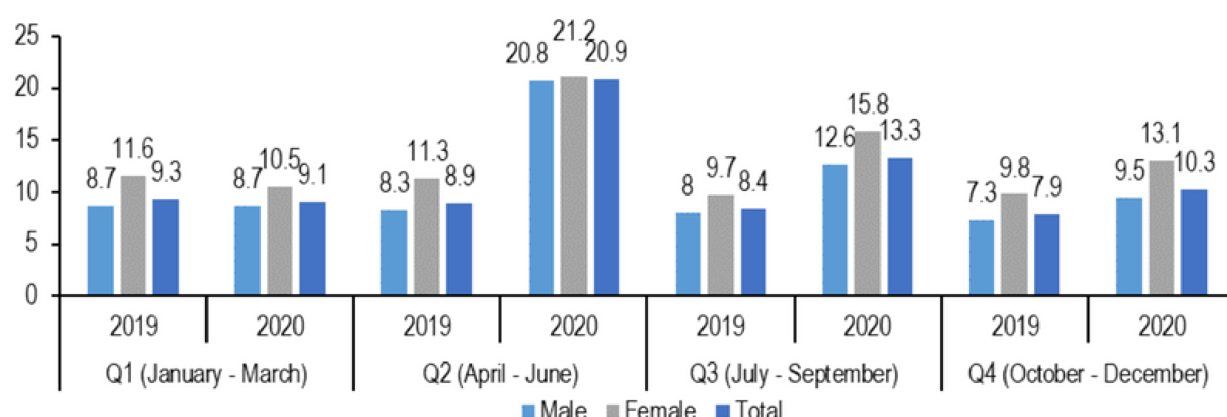
POST COVID
IMPACT

The COVID-19 pandemic has had a profound impact on the global economy, leading to a widespread recession that has affected nearly every sector. This research report aims to examine the key impacts of the COVID-19 recession and its effects on various aspects of the economy and society.

Impact on Employment and Unemployment

One of the most immediate impacts of the recession has been job losses and rising unemployment. Millions of workers have been laid off or furloughed, and many small businesses have been forced to close. This has led to a significant increase in the number of people who are out of work and struggling to make ends meet. The unemployment rate has increased in many countries, particularly in sectors such as hospitality, travel, and retail that have been hit hard by the pandemic.

Figure: Unemployment rate in urban areas across all age groups as per current weekly activity status (Figures in %)

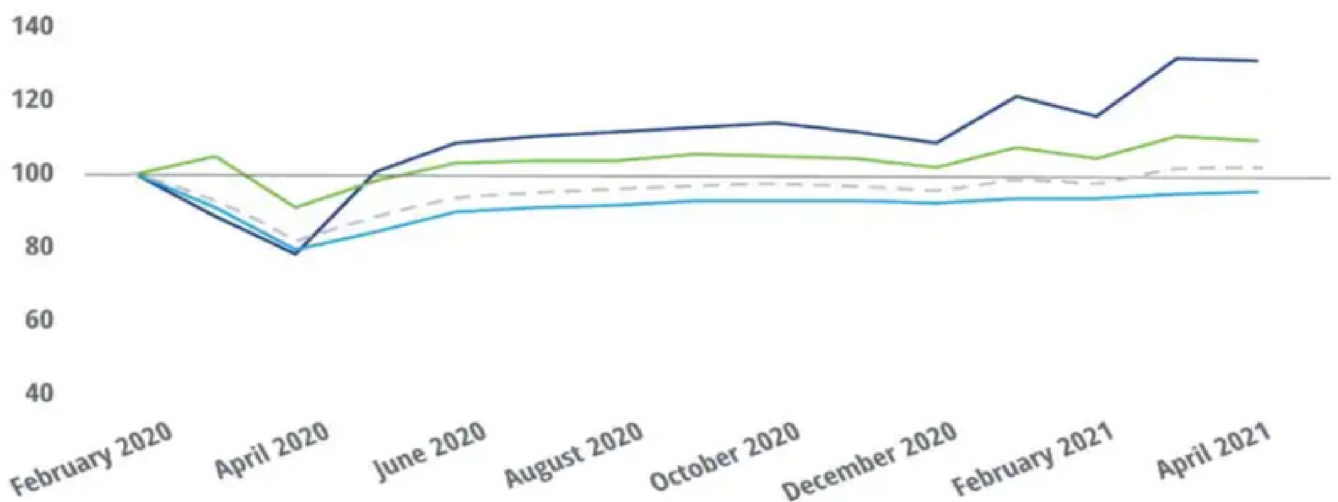


Note: PLFS includes data for transgenders among males.

Sources: Quarterly Periodic Labour Force Survey Reports, Ministry of Statistics and Program Implementation; PRS.

Impact on Consumer Spending

With so many people losing their jobs or facing financial uncertainty, consumer spending has dropped dramatically. This has had a ripple effect throughout the economy, affecting businesses and industries that rely on consumer spending to drive growth. The decrease in consumer spending has led to a reduction in demand for goods and services, which has put additional pressure on businesses and the economy as a whole.



Note: The index is created from actual figures (seasonally adjusted annual rate) by rebasing February 2020 values to 100.
Sources: United States Department of Commerce (sourced through Haver Analytics); Deloitte Services LP economic analysis.
Deloitte Insights | deloitte.com/i

Impact on Business Investment

The recession has also led to a decrease in business investment. Many companies have scaled back their investment plans in response to the uncertain economic environment, which has had a negative impact on economic growth. The decrease in business investment has led to a slowdown in the creation of new jobs, as well as a reduction in the production of goods and services.

Impact on Government Debt

Governments around the world have responded to the economic crisis by implementing stimulus packages and providing financial support to those in need. This has resulted in an increase in government debt, which could have long-term consequences for the economy. The increase in government debt will likely lead to a reduction in government spending on programs and services in the future, which could have a negative impact on the recovery of the economy.

Impact on Digital Transformation:

The pandemic has accelerated the pace of digital transformation, as businesses and consumers alike have had to adapt to a new way of working and living. This has created new opportunities for growth in the tech sector, but it has also led to job losses in industries that are struggling to make the transition. The digital transformation has also widened the gap between those who have access to technology and those who do not, which could have long-term consequences for the economy and society.

Unequal Impact:

The impact of the recession has not been evenly felt across all segments of society. Lower-income households and communities of color have been disproportionately affected, as they are more likely to be employed in industries that have been hit hardest by the pandemic. The unequal impact of the recession highlights the need for targeted support and investment in communities that have been affected the most.

Conclusion

The COVID-19 recession has had a profound impact on the global economy and society, and its effects will be felt for years to come. The impact on employment and unemployment, consumer spending, business investment, government debt, digital transformation, and the unequal impact of the recession are all areas that need to be addressed in order to support the recovery of the economy. It is important for governments and businesses to work together to mitigate the negative impacts of the recession and support the recovery of the economy.

HOW RECESSION IS PREDICTED?

Recession is a term that is used to describe a significant decline in economic activity that lasts for more than a few months. It is a phenomenon that affects the entire economy, including production, employment, and spending. Predicting recessions is an important task for governments, businesses, and individuals, as it allows them to prepare for the impact of economic downturns and make informed decisions.

Economic Indicators:

Economic indicators are used to predict recessions and provide information about the state of the economy. Some of the most commonly used indicators include:

1.Gross Domestic Product (GDP)
GDP is the total value of goods and services produced in a country. If the economy is contracting for two consecutive quarters, it is considered to be in a recession.

2.Employment of Employment
The employment approach involves tracking the number of jobs in an economy. If the number of jobs decreases for six consecutive months, it is considered to be a sign of a recession.

3.Interest Rate
Interest rates play a crucial role in determining economic activity. An increase in interest rates can slow down economic growth, making it more difficult for consumers and businesses to access credit. This can lead to a decrease in spending, which can result in a recession.

4.Inflation
Inflation is the rate at which the general level of prices for goods and services is rising. High inflation rates can cause consumers to reduce their spending, which can lead to a decrease in demand for goods and services, and eventually, a recession.

5.Stock Market
The stock market is often considered to be a leading indicator of the economy. A significant decline in the stock market can be an indicator of a recession, as it suggests a decrease in investor confidence and a reduction in spending.

6.Consumer Confidence
Consumer confidence is a measure of how confident people are about the economy and their personal financial situation. If consumer confidence is low, it may lead to a reduction in spending, which can result in a recession.

Early Warning Systems

Early warning systems are designed to provide an early signal of a potential recession. These systems use a combination of economic indicators to predict recessions. Some of the most commonly used early warning systems include:

Index of Leading Indicators
The Index of Leading Indicators (ILI) is a composite of several economic indicators, including stock prices, building permits, and the money supply. The ILI is designed to provide a forward-looking view of the economy and is considered to be a leading indicator of economic activity.

Composite Leading Indicator (CLI)
The Composite Leading Indicator (CLI) is another early warning system that is used to predict recussions. It is a composite of several economic indicators, including employment, consumer confidence, and manufacturing activity.

Business Cycle Indicators (BCI)
Business Cycle Indicators (BCI) are designed to provide information about the state of the economy and the likelihood of a recession. The BCI is a composite of several economic indicators, including GDP, inflation, and employment.

Role of Central Banks:

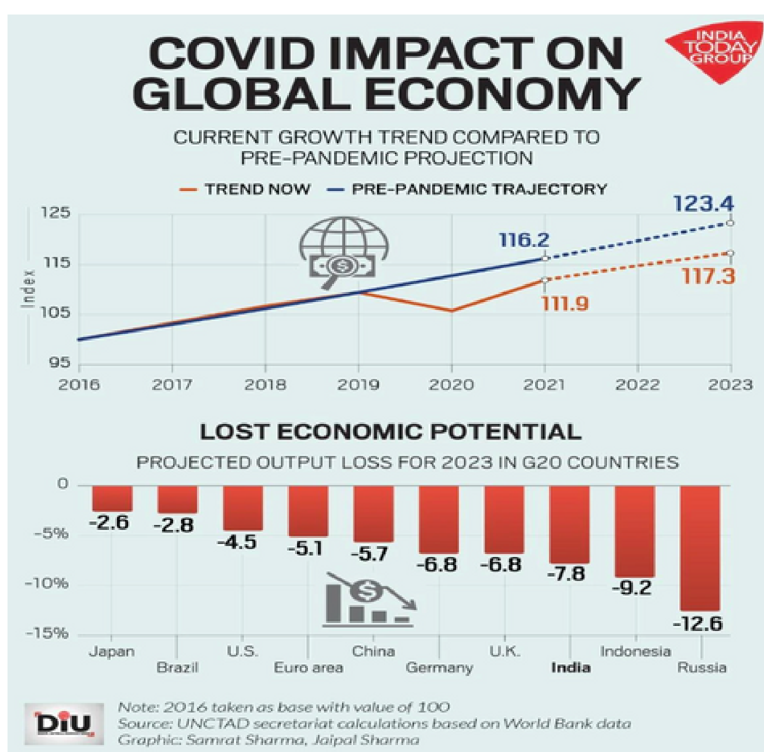
Central banks play a critical role in predicting recessions and managing the impact of economic downturns. Central banks use a combination of monetary policy tools, such as interest rate adjustments, to influence economic activity. For example, if the central bank believes that the economy is overheating, it may increase interest rates to slow down economic growth and prevent inflation. On the other hand, if the central bank believes that the economy is in danger of entering a recession, it may lower interest rates to encourage spending and investment.

FACTORS CONTRIBUTING TO THE GLOBAL RECESSION OF 2023

COVID'S IMPACT ON GLOBAL ECONOMY

Major output loss in 2023

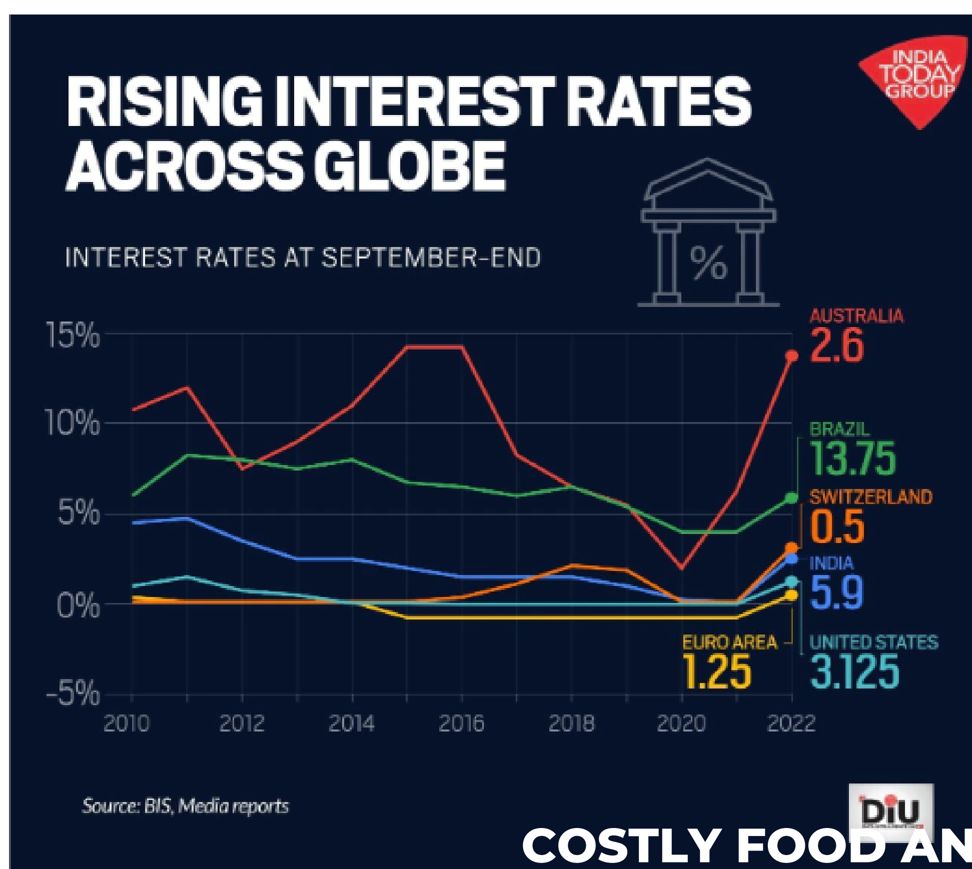
According to a report by the United Nations Conference on Trade and Development (UNCTAD), the global output would have increased by 23% since 2016 if the pandemic had not occurred. However, the current projection is for growth of only 17%. The global economic slowdown is expected to result in real GDP remaining below pre-pandemic levels and is estimated to cost the world over $17 trillion, equivalent to nearly 20% of global income.



The report highlights that countries such as Russia, Indonesia, India, the United Kingdom, and Germany are among those that may contribute the most to this global output loss. Specifically, India is projected to experience an output loss of 7.8% in 2023, the Euro area a loss of 5.1%, China 5.7%, the United Kingdom 6.8%, and Russia 12.6%. The report also notes that rising interest rates, weakening currencies, increasing public debt, and rising prices for food and fuel have introduced uncertainty in global markets.

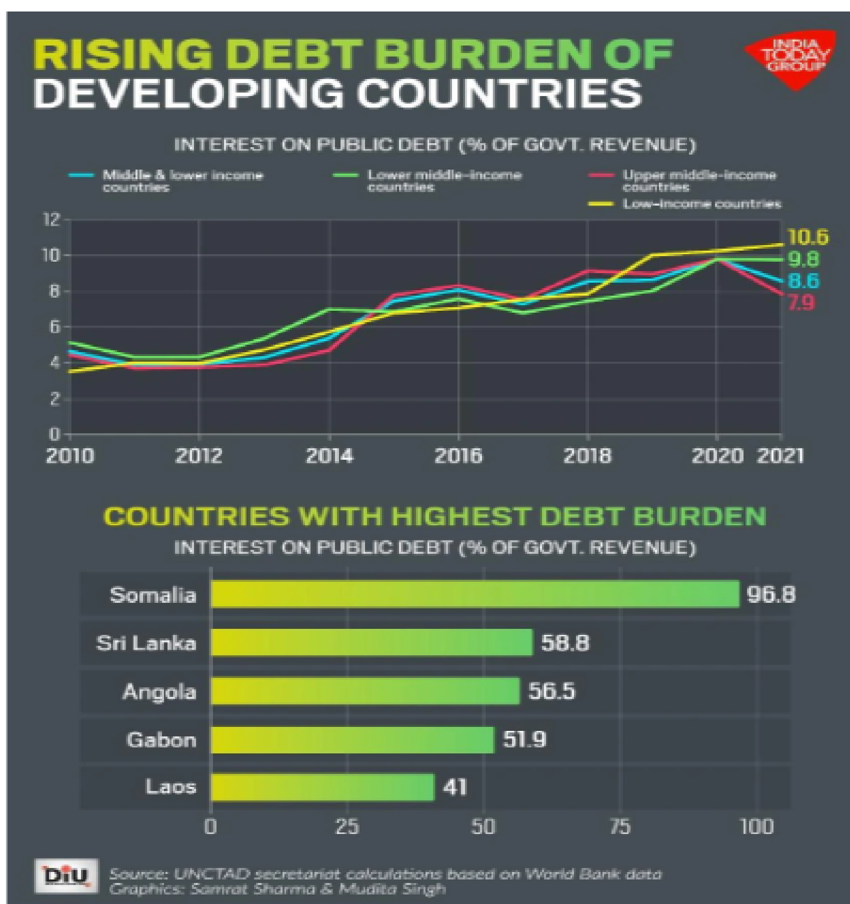
RISING INTEREST RATES

According to a new study from the World Bank, the strategy of central banks raising interest rates to combat inflation may not be effective and could potentially lead to financial crises and recessions. The World Bank Group President, David Malpass, expressed concern about the slowing of global growth, stating that there is a likelihood of further decline as more countries fall into recession. He added, "My deep concern is that these trends will persist, with long-lasting consequences that are devastating for people in emerging markets and developing economies.



THE INCREASING PUBLIC DEBT

The International Monetary Fund (IMF) has warned of the possibility of a recession in the fiscal year 2023/24. The Managing Director of the IMF, Kristalina Georgieva, stated that the global economic growth may decrease by $4 trillion through 2026. She also mentioned that the situation is likely to deteriorate before it improves.



The IMF's forecast indicates that all regions will be affected by the economic downturn, however,developing countries are expected to be hit the hardest. Many of these countries are at a high risk of defaulting on their debt. Lower-income and lower-middle-income countries are particularly struggling, as they are spending a larger proportion of their revenue to service their public debt. Countries such as Somalia, Sri Lanka, Angola, Gabon, and Laos are among those with the highest proportion of revenue required to service their public debt.

COSTLY FOOD AND FUEL

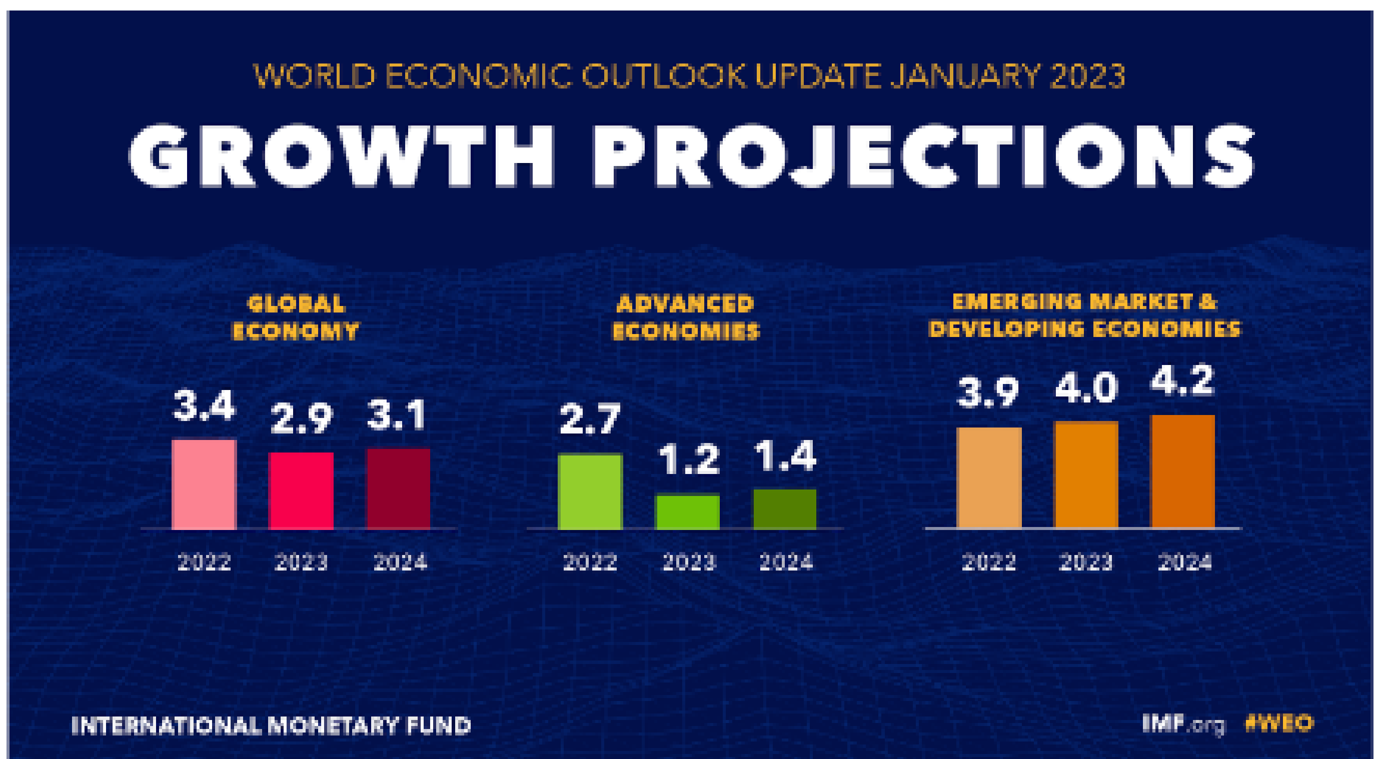
The prices of food and fuel, which have a direct impact on the daily lives of common individuals, have seen a significant increase in 2022. The food price index reached an all-time high of 125.7 in 2021 and further rose to 146.94 by September 2022. Additionally, the average price of the Indian basket of crude oil was $102.14 a barrel from April to October 2022. This is a significant increase from the previous financial year where the price was $44.82 a barrel and the 2021-22 financial year where it was $79.18 a barrel.

CRISIS INTENSIFYING

The Covid-19 pandemic hit the global economy hard. And even as the economy struggled hard to recover from this, the Russia-Ukraine war arrived as another great setback. These two factors combined are expected to push the global economy into recession The World Bank has cautioned that a recession could occur in 2023, and that developing countries will likely be heavily impacted by a severe and prolonged economic downturn. It noted that the global economy is experiencing a significant slowdown due to rising inflation, increased interest rates, decreased investment, and disruptions caused by Russia's invasion of Ukraine. "Given fragile economic conditions, any new adverse development — such as higher-than-expected inflation, abrupt rises in interest rates to contain it, a resurgence of the COVID-19 pandemic, or escalating geopolitical tensions — could push the global economy into recession," the World Bank said in its Global Economic Prospects report. The IMF said that colliding pressures from inflation, war-driven energy and food crises and higher interest rates were pushing the world to the brink of recession.

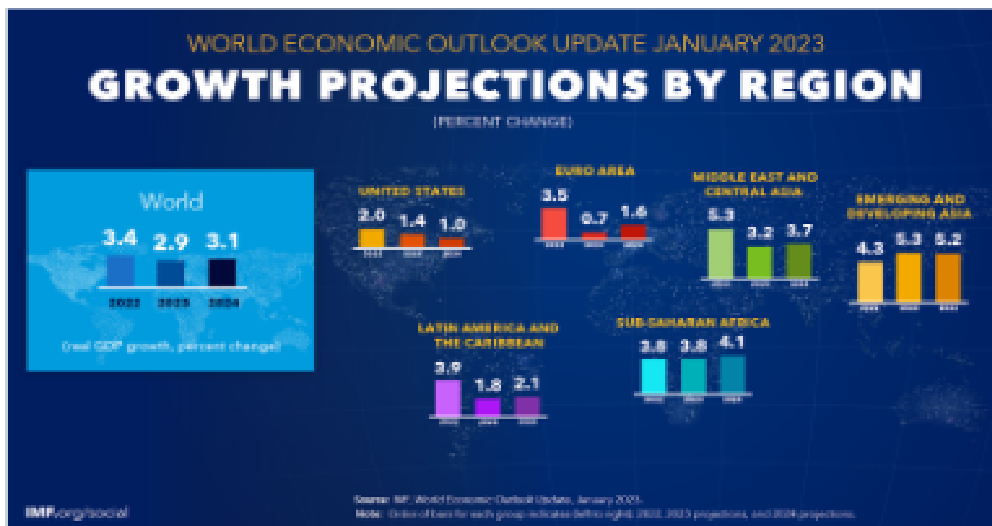
The World Bank Group President, David Malpass, has stated that the crisis in development is escalating and that emerging and developing countries are facing a prolonged period of slow growth due to heavy debt and insufficient investment. The economies of the three largest countries in the world, the United States, China, and the Euro Area, have been experiencing significant slowdowns. In these circumstances, even a minor impact on the global economy could cause it to enter a recession. The cost of living crisis, tightening financial conditions in many regions, Russia's invasion of Ukraine, and the ongoing COVID-19 pandemic are all having a major impact on the economic outlook.

The World Bank has significantly reduced its growth projections for 2023 and states that the global economy is in close proximity to a recession. According to the recent January 2023,The World Economic Outlook Update predicts a decline in global growth from 3.4% in 2022 to 2.9% in 2023, before rebounding to 3.1% in 2024. This growth rate is lower than the historical average of 3.8%. The low growth in 2023 is attributed to rising interest rates and the war in Ukraine, but growth is expected to pick up with the reopening of China and recovery from the effects of the war. The decline in 2023 is driven by advanced economies, but growth is expected to bottom out in emerging market and developing economies in 2022. World trade growth is also expected to decline to 2.4% in 2023 before rising to 3.4% in 2024. These forecasts are based on assumptions about fuel and non fuel commodity prices, which have been revised down, and interest rates, which have been revised up. The update also predicts that global inflation will decrease to 6.6% in 2023 and 4.3% in 2024, which is still higher than the pre-pandemic levels.



Advanced Economies

According to the World Economic Outlook Update, advanced economies are expected to experience a sharp drop in growth from 2.7% in 2022 to 1.2% in 2023, before rebounding to 1.4% in 2024, with a downward revision of 0.2 percentage point for 2024. This means that around 90% of advanced economies are projected to experience a decrease in growth in 2023.



United States

The World Economic Outlook Update projects that growth in the United States will decline from 2.0% in 2022 to 1.4% in 2023 and 1.0% in 2024. Despite the decline, growth in 2024 is expected to be faster than in 2023, rebounding in the second half of the year, as is the case for most advanced economies. There is a 0.4% upward revision for annual growth in 2023, reflecting the resilience of domestic demand in 2022, but a 0.2% downward revision of growth in 2024 due to the rapid rise of Federal Reserve interest rates, which is expected to reach a peak of about 5.1% in 2023.

Euro Area

According to the World Economic Outlook Update, growth in the euro area is expected to hit a low of 0.7% in 2023 before rebounding to 1.6% in 2024. The forecast for 2023 has been revised upward by 0.2%, taking into account the impact of faster rate hikes by the European Central Bank,

declining real incomes, the carryover from 2022, lower energy prices, and additional fiscal support in the form of energy price controls and cash transfers.

United Kingdom

According to the World Economic Outlook Update, the UK's growth is projected to be -0.6% in 2023, with a downward revision of 0.9 percentage points from October 2022.
This reflects the combined impact of tighter fiscal and monetary policies, unfavourable financial conditions, and high energy retail prices that are putting pressure on household budgets.

Japan

According to the World Economic Outlook Update, Japan's growth is projected to increase to 1.8% in 2023, benefiting from sustained monetary and fiscal policy support. The appreciation of corporate profits due to a weaker yen and postponed projects are expected to boost business investment. However, in 2024, growth is projected to decrease to 0.9% as the impact of previous stimulus measures wears off.

Emerging market and developing economies

The growth of emerging market and developing economies is expected to experience a slight increase, from 3.9% in 2022 to 4.0% in 2023 and 4.2% in 2024, with a 0.3% upward revision in 2023 forecast and a 0.1% downward revision in 2024. Half of these economies are expected to see a decrease in growth in 2023 compared to 2022. Growth in emerging and developing Asia is expected to rise in 2023 and 2024 to 5.3 percent and 5.2 percent, respectively, after the deeper-than-expected slowdown in 2022 to 4.3 percent attributable to China’s economy. The Middle East and Central Asia region's growth is expected to decrease from 5.3% in 2022 to 3.2% in 2023, with a decrease of 0.4% from the October estimate, primarily due to a more significant slowdown in Saudi Arabia's growth from 8.7% in 2022 (which was 1.1% higher than expected) to 2.6% in 2023, with a decrease of 1.1% from the October estimate.

India

Growth in India is set to decline from 6.8 percent in 2022 to 6.1 percent in 2023 before picking up to 6.8 percent in 2024, with resilient domestic demand despite external headwinds.

GLOBAL FINANCIAL STABILITY

The dangers to financial stability remain high as investors reassess their views on inflation and monetary policy. Although there has been some improvement in global financial conditions since the October 2022 Global Financial Stability Report, concerns persist that attempts by central banks to control inflation through monetary policy may result in a recession in major advanced economies. The changing global financial conditions in selected regions are depicted in the attached figure.

The decline in demand and weaker inflation have caused investors to anticipate fewer future policy rate hikes, leading to lower earnings projections and decreased margins, while the risk of a recession has risen in Europe and the United States. However, inflation risks persist with high core inflation, tight labor markets, and the potential for supply chain disruptions. To manage these risks, financial conditions may need to be further tightened or central banks may need to raise policy rates. The market is experiencing significant volatility due to the conflict between rising recession risks and uncertainty regarding monetary policy. Although some central banks in advanced economies have reduced the magnitude of rate hikes, they have also indicated the need to keep rates higher for a longer period to control inflation. Risk assets may fall if earnings deteriorate further or if investor outlook on monetary policy changes based on central bank communications. The recent easing of the dollar rally has contributed to improved risk appetite, and some emerging market central banks have temporarily stopped tightening due to signs that inflation may have peaked.

RECESSION FEAR
EUROPE

The European Commission stated that the EU is one of the most affected advanced economies due to its proximity to the war and dependence on gas imports from Russia. The energy crisisis negatively affecting households' purchasing power and impacting production.

While prices are expected to decrease in 2023, inflation is still predicted to be at 7% in the EU and 6.1% in the eurozone, before decreasing to 3% in the EU and 2.6% in the eurozone in 2024. The EU's forecast is based on the assumption that geopolitical tensions such as the war in Ukraine will neither normalise nor escalate and that sanctions against Russia will remain in place. However, Gentiloni added that the impact of adopted or planned fiscal energy measures adds uncertainty to the forecast for energy inflation. The EU labour market is expected to react to the slowing economy but "remain resilient", with employment growth expected to be at 1.8% before "coming to a standstill in 2023". Unemployment rates in the EU are projected to be at 6.2% in 2022, 6.5% in 2023, and 6.4% in 2024. Gentiloni stated that the labour market is still very strong, the strongest labour market in decades, and labour shortages are expected to abate. GDP growth is expected to be stronger than the EU first predicted, at around 3.3% in the European Union due to the easing of COVID-19 measures. However, GDP growth will be around just 0.3% in the EU and the eurozone in 2023, the European Commission predicted.

“Policymakers face a dilemma between tightening too much and too little,” the report says. “Fiscal policymakers face significant challenges too, not least because of the greatly reduced fiscal space in the wake of government expenditure during the pandemic. While the outlook is generally gloomy and uncertain, potential bright spots include the easing of inflationary pressures and the possibility for consumer sentiment to stabilise and improve. While the cost-of-living crisis still looms large and will affect many individuals, 68% of those surveyed for the report said it will ease in severity over 2023.

CASE STUDY
PAST RECESSION EXPERIENCES

THE GREAT DEPRESSION OF 1929

The Great Depression of 1929 was a severe worldwide economic downturn that lasted from 1929 to 1939. It was the longest, deepest, and most widespread depression of the 20th century. The depression originated in the United States and quickly spread to other countries, affecting economies on every continent. The Great Depression was a turning point in the history of the modern world and had far-reaching effects on international politics, social conditions, and the global economy, sparking fundamental changes in economic institutions, macroeconomic policy, and economic theory.

Impact on Business Investment:

The Depression was particularly long and severe in the United States and Europe; it was milder in Japan and much of Latin America. The Great Depression varied in timing and severity across countries with the worst impact felt in the US and Europe. The depression was caused by a combination of factors including a decline in consumer demand, financial panics, and poor government policies. The gold standard also played a role in transmitting the American downturn to other countries. The recovery from the depression was driven by abandoning the gold standard and monetary expansion. The impact of the Great Depression was significant, causing extreme human suffering and leading to economic policy changes.

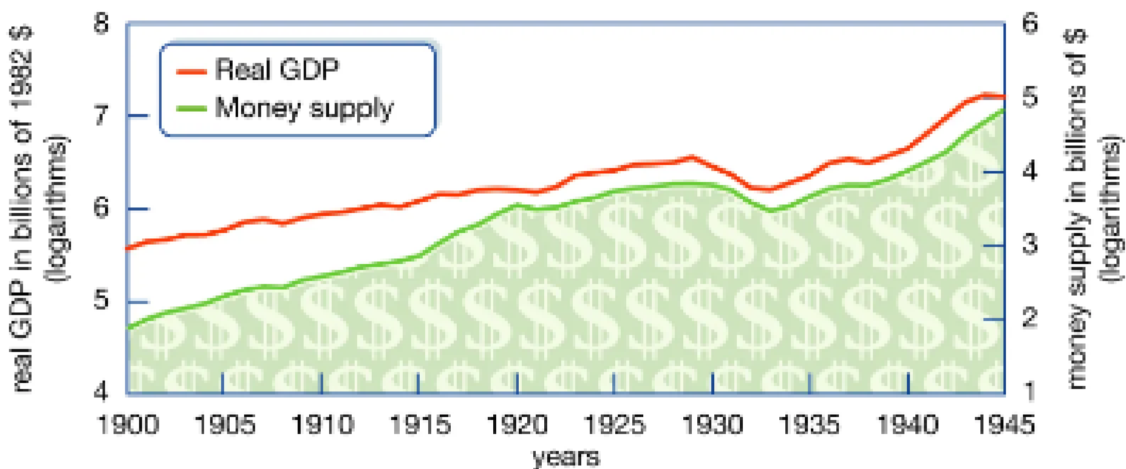
The Great Crash of 1929

The roots of the Great Depression can be traced back to the decade preceding the stock market crash of 1929. The stock market crash of 1929 marked the beginning of the Great Depression, it was caused by the rapid rise in US stock prices in the 1920s, leading to speculation and tight monetary policy aimed at controlling it, many people invested in stocks on margin, which meant they borrowed money to invest in the market. The rise in interest rates caused a decline in construction and automobile purchases, leading to a decrease in production. The stock market bubble burst due to unsustainable stock prices and panic selling, reducing aggregate demand and causing a decline in consumer and business spending. The crash led to a sharp fall in real output in the US, making people feel poorer and further depressing spending, contributing to the onset of the Great Depression. On October 24, 1929, known as "Black Thursday," the stock market plummeted, and investors panicked, selling their stocks en masse. This caused a chain reaction that further weakened the economy. Banks failed, businesses went bankrupt, and unemployment skyrocketed.

Banking panics and monetary contraction

In 1930, the US experienced four waves of banking panics that resulted in widespread bank failures. The panics were driven by a loss of confidence in the solvency of banks and a simultaneous demand for cash. Banks, unable to meet the demand, had to liquidate loans, causing even previously solvent banks to fail. The panics were exacerbated by factors such as increases in farm debt and U.S. policies that favored small, undiversified banks. By 1933, 20% of the banks in existence at the start of 1930 had failed, leading to a national bank holiday declared by President Franklin D. Roosevelt. The heavy farm debt and the decline in farm commodity prices also contributed to the banking crisis.

The money supply in the United States declined by 31% from 1929 to 1933, largely due to the Federal Reserve's decisions to contract the money supply and raise interest rates, as well as the effects of the banking panics. This decline had a severe contractionary effect on the economy, causing a drop in consumer and business spending, reduced borrowing, and decreased investment, contributing to the Great Depression. The figure shows In normal circumstances, the money supply and output grow consistently, as seen in the 1920s. However, in the early 1930s, there was a significant drop in both the money supply and output.



The Gold Standard

The gold standard was a factor in the transmission of America's economic decline during the Great Depression to the rest of the world. The Federal Reserve's decisions regarding the money supply were influenced by the gold standard, as it was necessary to defend the fixed price of the currency in terms of gold. The tendency for gold to flow out of other countries and towards the US intensified as the US economy contracted, which led to central banks raising interest rates worldwide to maintain the international gold standard. This resulted in a global decline in output and prices that nearly matched the downturn in the US. The Bank of England's decision to raise interest rates to stem gold outflow from Britain led to high unemployment in the country in the 1920s.

The Economic Impact

The Great Depression had devastating effects on the global economy. Industrial production fell by nearly 50%, and international trade plummeted by two-thirds. Unemployment rates reached unprecedented levels, with 25% of the American workforce being out of work. The depression also had profound social and political consequences. The number of people living in poverty increased dramatically, and homelessness became a widespread problem. The despair and hopelessness caused by the Great Depression fueled political extremism and ultimately led to the rise of totalitarian regimes in several countries. The Great Depression had a profound impact on the world, both in terms of human suffering and changes in the world economy. One quarter of the labor force in industrialized countries was unemployed, and standards of living dropped sharply. The response to the depression led to the expansion of labor unions and the welfare state, and hastened the end of the international gold standard. The depression also led to the establishment of unemployment compensation and social security programs in the US. However, the full recovery from the depression did not occur until the end of the decade.

Spread of The Great Depression of 1929:

The Great Depression of 1929 had a profound and far-reaching impact on the global economy. The economic downturn, which began in the United States, quickly spread to other countries through trade and financial linkages. The fall in demand for goods led to declining exports and rising unemployment, particularly in countries that relied heavily on foreign trade. Additionally, the banking crisis in the United States resulted in a loss of confidence and a collapse of the international banking system, further exacerbating the effects of the depression. Countries such as Germany, which was already facing high levels of debt and high unemployment, were particularly hard hit. Other countries, including the United Kingdom, Japan, and India, also experienced significant declines in output and standards of living. The spread of the Great Depression

The COVID-19 recession has had a profound impact on the global economy and society, and its effects will be felt for years to come. The impact on

demonstrated the interconnectedness of the world economy and the profound consequences of economic events in one country for the rest of the world. The figure attached shows the impact of The Great Depression from International perspective. Nearly all the countries faced a decline in their Per capita Income during that period. India was one of the many countries that were hit hard by the economic crisis. The depression had a significant impact on the Indian economy, causing a sharp decline in agricultural and industrial production, as well as a decrease in foreign trade. The fall in demand for Indian goods in the international market led to widespread poverty and unemployment. The depression also worsened the existing socio-economic problems in India such as famine, poverty, and the unequal distribution of wealth and resources. The Indian government's efforts to counter the depression, such as reducing spending and increasing taxes, further exacerbated the situation. Despite these challenges, the depression had a lasting impact on the Indian economy, providing a push for reforms and development in the decades to come.

Recovery

The Great Depression was caused by monetary contraction and the gold standard. Devaluation of currencies and monetary expansion were the leading sources of recovery around the world. The United States' monetary expansion, which began in 1933, was particularly significant, leading to a 42% increase in the money supply by 1937. The New Deal, introduced in 1933, had limited direct effect on the economy due to small increases in government spending, however, some programs such as the WPA and the TVA may have had a positive impact on consumer and business sentiment. The National Industrial Recovery Act of 1933 and the Agricultural Adjustment Act of 1933 were hindrances to recovery as they discouraged competition and production. The 1937-38 recession slowed down recovery in the United States. World War II played a modest role in

the recovery of the U.S. economy. The government budget deficit and the increase in the money supply helped complete the return to full employment. The role of fiscal expansion and military expenditure in generating recovery varied across countries. Fiscal policy was effective in Germany and Japan in the 1930s. Germany increased its budget deficit through public works and rearmament spending, while Japan experienced a rise in government expenditures, mainly military spending, leading to larger budget deficits. This, combined with monetary expansion and a weak yen, led to a quick return to full employment in Japan.

The End of the Great Depression :

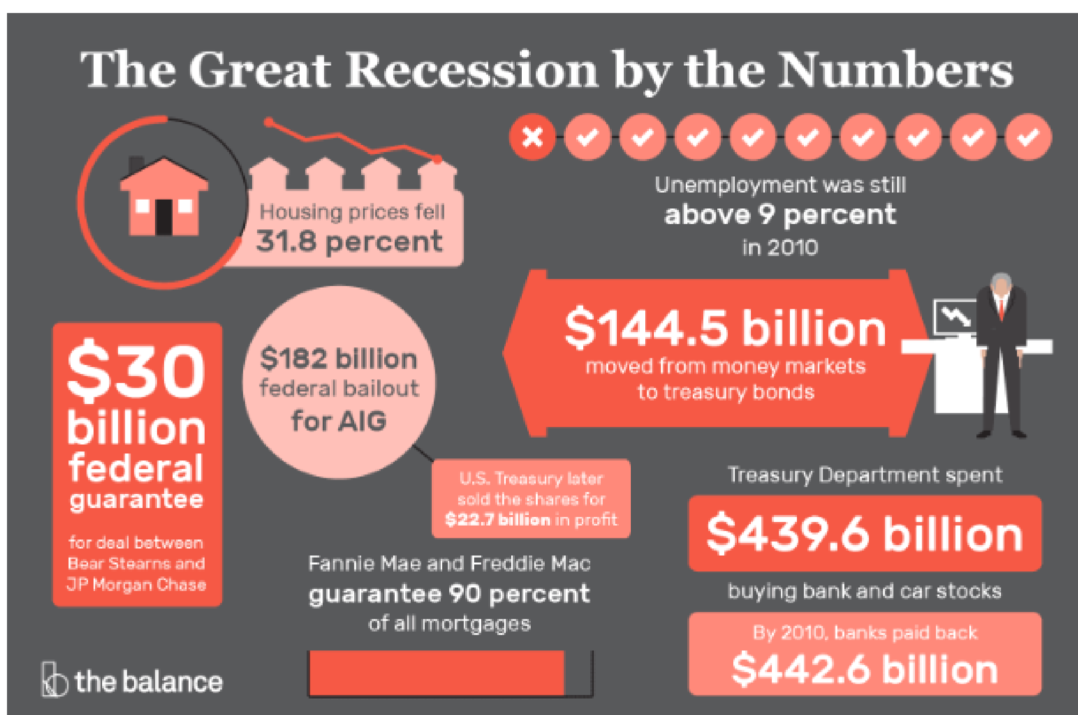
The Great Depression finally came to an end with the outbreak of World War II. The war led to increased government spending and a shift from a peacetime to a wartime economy, which created jobs and boosted economic growth. After the war, the world economy rapidly recovered and continued to grow until the 1970s.
The US economy began to recover in 1933 and grew rapidly in the mid-1930s with a 9% average growth rate per year between 1933 and 1937. However, it wasn't until 1942 that the country's output returned to its long-run trend path. Recovery varied in other countries: the British economy stopped declining after abandoning the gold standard in 1931, while Latin American countries began to recover in early 1932. Germany and Japan also began to recover in 1932. Canada and some smaller European countries started to recover in 1933 while France entered the recovery phase in 1938.

The Great Depression remains a crucial event in world history and a cautionary tale about the dangers of economic speculation and the importance of government intervention in times of crisis. The lessons of the Great Depression have shaped economic policy and shaped our understanding of the role of government in the economy. The memory of the Great Depression continues to inform debates about economic policy and to serve as a reminder of the human costs of economic failure.

CASE STUDY
PAST RECESSION EXPERIENCES

The 2008 Financial Crisis

The near-collapse of the banking system was the end outcome of a chain of events that each had their own trigger that led to the Global Financial Crisis of 2008. It affected people and organisations all across the world. The crisis, which is frequently referred to as the "Great Recession," did not happen suddenly. When a nation's economy experiences persistently negative growth in its gross domestic product (GDP), growing unemployment, dropping retail sales, and declining income and manufacturing activity, it is deemed to be in a recession. The crisis was caused by a variety of circumstances and its ramifications are still being felt today. A lot of average individuals lost their jobs, their life savings, their homes, or all three as a result of the historic financial and economic collapse. Real estate boom was fueled by easier money and relaxed credit standards.



Reasons for the crisis

First, the Federal Reserve, the central bank of the United States, having anticipated a mild recession that began in 2001, reduced the civil finances rate 11 times between May 2000 and December 2001, from 6.5 percent to 1.75 percent. That significant drop enabled banks to extend consumer credit at a lower high rate(the interest rate that banks charge to their " high, " or low- threat, guests, generally three chance points above the civil finances rate) and encouraged them to advance indeed to "subprime," or high- threat, guests, however at advanced interest rates(see subprime lending). Consumers took advantage of the cheap credit to buy durable goods similar as appliances, motorcars, and especially houses. The result was the creation in the late 1990s of a " casing bubble "(a rapid-fire increase in home prices to situations well beyond their abecedarian, or natural, value, driven by inordinate enterprise).

Another major reason was fiscal deregulation, which was a major contributor to the 2008 fiscal extremity. The anticipation that house prices will continue to rise led homes, especially in the United States, to go into debt recklessly to buy and make homes. Analogous prospects for property prices also encouraged inventors and homes toover-borrow, numerous mortgages, especially in the United States, were close to or indeed exceeded the purchase price of a home.

The 2008 Financial Crisis

So, the admixture of free credit score musts and nicely priced cash prodded a casing smash, which drove enterprise, pushing up casing charges and developing an factual property bubble. As a result, whilst house charges commenced to fall, banks and buyers incurred huge losses due to the fact they had espoused so important.

The major reason was Policy Crimes and Regulation. Regulations on subprime loans and MBS products were too lax and inadequately regulated. numerous individual borrowers not only made loans so large that they would be delicate to repay but also overrated the income of the borrowers and made inflated pledges by investors about the safety of the MBS products used. There was also an increase in fraudulent conditioning, similar as they were vended. also, as the extremity escalated, numerous central banks and governments failed to completely appreciate the expansion of non-performing loans during smash times and the multifaceted nature of mortgage losses across the fiscal system.

Recovery

The Central banks lowered interest rates to veritably low situations, advanced large quantities of plutocrat to institutions and banks with good means that couldn't adopt in fiscal requests, and bought a substantial quantum of fiscal securities to support dysfunctional requests and stimulate profitable activity.The Governments increased their spending to stimulate demand and support workers throughout the frugality, guaranteed deposits and bank bonds to shore up confidence in fiscal enterprises, and bought power stakes in banks and other fiscal institutions in order to help insolvencies that could have aggravated fear in the fiscal requests. Strengthening supervision of fiscal companies In response to the extremity, controllers have stepped up their scrutiny of banks and other fiscal institutions. In addition to numerous new global regulations, banks now need to assess the pitfalls of advancing more directly and use more flexible backing sources. The Controllers have also come more watchful about how pitfalls can spread throughout the fiscal system and are calling for measures to help them from spreading.

ORGANISATION OF PETROLEUM EXPORTING COUNTRIES - CRISIS 1973

Introduction

On October 19, 1973, immediately following President Nixon's request for Congress to make available $2.2 billion in emergency aid to Israel for the conflict known as the Yom Kippur War, the Organization of Arab Petroleum Exporting Countries (OAPEC) instituted an oil embargo on the United States (Reich 1995). The embargo ceased U.S. oil imports from participating OAPEC nations, and began a series of production cuts that altered the world price of oil. These cuts nearly quadrupled the price of oil from $2.90 a barrel before the embargo to $11.65 a barrel in January 1974. In March 1974, amid disagreements within OAPEC on how long to continue the punishment, the embargo was officially lifted. The higher oil prices, on the other hand, remained (Merrill 2007).

Introduction

As Arthur Burns, the chairman of the Federal Reserve at the time, explained in 1974, the “manipulation of oil prices and supplies by the oil-exporting countries came at a most inopportune time for the United States. In the middle of 1973, wholesale prices of industrial commodities were already rising at an annual rate of more than 10 per cent; our industrial plant was operating at virtually full capacity; and many major industrial material were in extremely short supply” (Burns 1974). In addition to these cost pressures, the U.S. oil industry had a lack of excess production capacity, which meant it was difficult for the industry to bring more oil to market if needed (Alhajji 2005). Thus, when OAPEC cut oil production, prices had to rise because the American oil industry could not respond by increasing supply. Additionally, non-Organization of the Petroleum Exporting Countries (OPEC) oil sources were declining as a percentage of the world oil industry, and OPEC was therefore gaining a larger percentage of the world oil market. These market dynamics, matched with the effect of OPEC nations' greater participation rights in the industry, allowed OPEC to wield a much larger influence over the price setting mechanism in the oil market since their formation in 1960 (Merrill 2007).

The devaluation of the dollar that was experienced in the early 1970s was also a central factor in the price increases instituted by OAPEC. Since the price of oil was quoted in dollar terms, the falling value of the dollar effectively decreased the revenues that OPEC nations were seeing from their oil. OPEC nations resorted to pricing their oil in terms of gold and not the dollar (Hammes and Willis 2005). Due to the ending of the Bretton Woods agreement, which had pegged gold to a price of $35, the price of gold rose to $455 an ounce by the end of the 1970s. This drastic change in the value of the dollar is an undeniably important factor in the oil price increases of the 1970s.

The Role Of Federal Reserve

From the vantage point of policymakers in the Federal Reserve, the 1973-74 oil crisis served to further complicate the macroeconomic environment, particularly in regard to inflation. Fed Chairman Burns argued in 1979 that the inflation appeared to be the result of a plethora of

So, the admixture of free credit score musts and nicely priced cash prodded a casing smash, which drove enterprise, pushing up casing charges and developing an factual property bubble. As a result, whilst house charges commenced to fall, banks and buyers incurred huge losses due to the fact they had espouseforces: “the loose financing of the war in Vietnam. The devaluations of the dollar in 1971 and 1973, the worldwide economic boom of 1972-73, the crop failures and resulting surge in world food prices in 1974-75, and the extraordinary increases in oil prices and the sharp deceleration of productivity” (Burns 1979). The intellectual consensus among policymakers at the time was that cost-push inflation (the type of inflation arising from an increase in the prices of inputs to the economy, i.e., worker wages) was outside the influence of monetary policy (Romer and Romer 2012). In the words of an economist who presented to the Federal Open Market Committee in May of 1971, “the question is whether monetary policy could or should do anything to combat a persisting residual rate of inflation … The answer, I think, is negative. … It seems to me that we should regard continuing cost increases as a structural problem not amenable to macro-economic measures” (Romer and Romer 2012).

Economists have since come to understand that a central bank can influence the extent to which supply shocks affect inflation, but they face a trade-off. Higher oil prices, because of the widespread effect they have on commodities throughout the economy, will tend to generate both inflationary pressures and slower growth. In the short run, these forces tend to have an inverse relationship, meaning when one rises, the other falls and vice versa. Ben for example, discussed this in 2004: “How then should monetary policy react? Unfortunately, monetary policy cannot offset the recessionary and inflationary effects of increased oil prices at the same time. If the central bank lowers interest rates in an effort to stimulate growth, it risks adding to inflationary pressure; but if it raises enough to choke off the inflationary effect…it may exacerbate the slowdown in economic growth.” He goes on to explain that the decision to tighten or ease monetary policy ultimately depends on how policymakers balance the risks inherent in pursuing employment and price stability objectives (Bernanke 2004).

The Role Of Federal Reserve

Ultimately, the oil crisis of 1973 and the accompanying
inflation was a result of many factors culminating in a perfect economic storm. The oil embargo of 1973 was just one of many complicating factors that led U.S. policymakers to overestimate our national potential and to underestimate their own role in the broad inflation that occurred throughout the 1970s

THE INDIAN MODEL

Recession 2008 (compared with 1997)

An economy is best judged not in fair weather but foul. India has successfully weathered the great financial crisis of September 2008. The global recession started in December 2007. The initial impact on India was muted: GDP growth slowed from 9% in 2007-08 to 7.8% in April-September 2008, still a very high rate. But after Wall Street collapsed in September, India's growth plummeted to 5.8%, 5.8% and 6.1% in the next three quarters.

In 1997, India's foreign exchange reserves were strained, interest rates went sky-high, companies defaulted on loans and dragged down banks. But in 2008, India's high foreign exchange reserves prevented any panic, even after foreign institutional investors withdrew $12 billion from the stock market and foreign credit suddenly vanished.

Indian corporates were much less over-borrowed in 2008 than in 1997, and Indian banks were far better capitalized, so they withstood the financial crisis. Companies that had borrowed big for new projects in 1997 collapsed, and many begged for debt forgiveness. In 2008, Tata Steel, Tata Motors and Hindustan Aluminium had raised gargantuan dollar loans for foreign acquisitions, yet managed to weather the storm.

So resilient was India's performance that the very foreign investors who had withdrawn $12 billion in 2008, flooded back into Indian stock markets at the rate of $1billion per week in May 2009. This was in stark contrast with the Asian financial crisis, when foreign institutional money remained a trickle for years.

Reasons why India suffered so little in the Great Recession that laid low the biggest economies of the West?

First, Indian banks and financial institutions had almost entirely avoided buying the mortgage-backed securities and credit default swaps that turned toxic and felled western financial institutions.

Second, India's merchandise exports were indeed hit by the Great Recession - they declined by around 30%. But service exports did not fall - computer software and BPO exports held up well. This provided an important cushion to Indian exports. Third, remittances from overseas Indians continued unabated, hitting a record $46.4 billion in 2008-09, up from $43.5 billion the previous year. The 2008-09 flow was 4% of GDP. To put this in perspective, India's entire merchandise exports were barely 5% of GDP in the mid-1980s. So, emigration (including the so-called brain drain) plus policies to eliminate the black market premium on the dollar now provide a huge balance of payments cushion. Back in the 1991 crisis, India turned to the IMF as lender of last resort for a structural adjustment loan of $4 billion. Remittances now make the IMF (and World Bank) look puny.

Fourth, foreign direct investment remained high at $27.3 billion in 2008-09 despite the global financial crisis. Financiers reversed flows into India, but long-term investors in plants and factories completed their ongoing projects. Lesson: foreign direct investment is a stabilizing force.

Fifth, monetary policy, which was savagely restrictive in 1998, was accommodating in 2008. In 1998, to check a run on the rupee and penalize banks trying to hoard dollars, the RBI raised the bank rate and cash reserve ratio of banks hugely. This sucked out liquidity, and interest rates skyrocketed. This checked the run on the rupee, but was terrible for industry. By contrast, the RBI in 2008 did not tighten money to save the rupee, which was allowed to fall from Rs 40 to Rs 52 to the dollar. Instead, the RBI lowered interest rates and expanded credit. The government cut excise duties to stoke demand. This combination of easy fiscal and monetary policy cushioned the shock to the economy in ways that were missing in 1997-98.

INDIA AND GLOBAL RECESSION

Current Situation

It is predicted that India's economy will reach $10 trillion by 2035 and rank third globally by 2032. The IMF has projected India's economy to grow by 6.1 per cent. The growth projections are attributed to less favourable external conditions and rapid policy tightening. With major economies staring at slowing economic growth rates and surging inflation, India's indomitable domestic demand and rapid infrastructure development are insulating its economy from recessionary pressures.

As the World Bank highlights the risk of the global recession in 2023 due to incessant rate hikes carried out by central banks around the world, India finds itself in a sweet spot as the fastest-growing major economy and remains relatively isolated from the current gloomy outlook. Following are the major reasons for India's inherent strength and how it would probably fare in the tumultuous period ahead.

A rich demographic dividend powering consumption and growth:

With an ever-increasing labor force participation rate, more Indians are entering the job market and contributing to the formal economy.

This is reflected in India's net direct tax collections comprising income and corporate tax reaching a record high of Rs 14.09 lakh crore in 2021-22, with GST collections rising month-on-month due to strong domestic consumption. Not only has this helped the Indian government in buffeting itself from inflationary pressures that have derailed many developed economies, but it has marked the beginning of a multi-year growth cycle that is bound to power the Indian economy to the 3rd position in terms of GDP by the end of this decade.
Moreover, the Reserve Bank of India's (RBI's) efforts in stemming inflation by increasing repo rates judiciously have helped businesses in adapting to the changing market environment, without paralyzing the domestic sector with adhoc central body interventions like it is currently being done in countries like China

Favorable business climate enticing investments from across the globe:

Even while the world was grappling with the after-effects of the COVID-19 pandemic, India has been successfully attracting foreign investments into the local economy, serving to amplify the Indian government's infrastructure push through the $1.4 trillion National Infrastructure Pipeline (NIP) project or the Pradhan Mantri Gati NSE 1.46 % Shakti scheme.

Ease of doing business has been a high priority and the government's efforts are visible in the fact that India jumped 79 positions from 2014 to the 63rd position in 2020. The country recorded a 23% growth in foreign direct investment (FDI) inflows post-Covid when compared with the equivalent pre-Covid period and continues to attract FDI equity inflow in sunshine sectors such as manufacturing, information technology (IT) and other services industries. With rapid urbanization and holistic governmental efforts to develop the rural economy paying off, India continues to maintain its position as a top investment destination that seems unperturbed by the current recessionary climate engulfing developed economies.

Decoupled domestic economy ramping up dormant sectors:

While countries like the USA and those across Europe overheat due to inflation and structural problems plaguing their economies, the Indian economy remains insulated from global headwinds as it continues to power on the back of domestic demand and the services industry.

The central government's push on making India a global manufacturing hub has been paying off, with the 'Make In India' program slated to facilitate the creation of 100 million new jobs and establish India as a formidable alternative to countries like China.

This will bolster the Indian economy further and should help in tiding over any slowdown in demand or investments from international markets and firms. In fact, the focus on other sectors such as renewable energy, defense development, logistics and warehousing augurs well for the future growth prospects of the Indian economy. A steadfast ruling dispensation focused on unlocking growth opportunities, a rising middle class powering domestic consumption, and an iron-willed determination

to shore up local industries are just a few factors that are softening the impact of an inevitable global recession, thereby making the Indian economy the brightest spot on the global landscape.

Will India be Able to Avoid a Recession?

India's economy has been moderately integrated with the global economy, but it is not invulnerable to the US or global recession. According to the data, India contributes a relatively small amount to the world's exports (2.2%), and even when it comes to GDP, it is still low when compared to other nations. However, the trade routes will have some effect on India.

The US accounted for most of India's software exports. So, a US recession will undoubtedly have a significant negative effect on India's software exports, margins, and employment in the service sector.

Foreign Portfolio Investment (FPI) fund flows, forex reserves, and the rupee have already begun to be impacted by Fed rate increases. As the Dollar keeps getting stronger following the Fed's most recent 75 basis point jumbo rate hike, the declining Rupee is coming under new pressure. The Rupee is falling to new lows because of rising crude oil prices, continued Fed rate hike expectations, and the expanding current account deficit.

The rate cycle of the RBI may not be opposite to that of the Fed, and rate increases will undoubtedly have an impact on India's economic growth. To reinstate a pretense of price stability without stifling growth, the RBI's monetary policy panel must walk a fine line between two opposing objectives. On September 30, the RBI raised the repo rate by 50 basis points, to 5.9%. All this puts India's growth rate, current account deficit, macroeconomic stability, and currency at risk. The Indian economy will continue its current course, according to Finance Minister Nirmala Sitharaman, despite the global economic challenges.

Even though India's economy is not fully integrated with the global economy, policymakers cannot ignore the global headwinds. A moderate

growth rate of around 5% (as predicted by UNCTAD) would still rank India as having the ‘fastest growing economy,’ millions would still be forced into poverty. The poorest people will be hit the hardest by rising inflation as a result of currency depreciation and widening "twin deficits," which will further fuel it.

Will India be Able to Avoid a Recession?

Amid the current geopolitical developments, as exports slow down globally and central banks tighten their fiscal policy, it is widely expected that India may see an economic slowdown in the medium term. Rising crude oil, food and fertilizer prices will weigh on household finances and spending in the months ahead.

RBI's rate hikes to prevent inflation will slow down the economy. However, India's underlying economic fundamentals are stronger as compared to other countries and despite the short-term turbulence, the impact on the long-term outlook will be marginal.

The results of reforms and schemes such as production-linked incentives and the government's Atmanirbhar Bharat (self-reliant India) are expected to show up. This would lead to higher employment, increased production and increased spending which should balance out the slowdown and kick start economic growth.

India is looking to clock $350bn worth of services exports in 2022-23, a growth of 40% over the previous fiscal year as key sectors including travel, hospitality, and entertainment set to post swift recovery post pandemic. As manufacturing moves out of China, India is all set to seize the opportunity and capitalize on it. The manufacturing sector witnessed a 460% jump in 2021-22 as against 2019-20 with new investment announcements by the private sector increasing by 150% in the same period in comparison to the previous financial year.

India has emerged as a preferred investment destination which could be enhanced even further due to the geopolitical problems due to the Russia-Ukraine war.

The financial system is more resilient now with bad debts of banks having been cleaned up. And with digitalization, the economy is

expected to get more formalized giving the government more tax-raising clo jiut. Finally, most of India's sovereign debt is owned domestically which protects the country from the risk of defaults and a full-blown sovereign debt crisis, which several developing economies could face in the coming months and years.

In closing :- Since the US is one of the great superpowers, a mild or deeper recession will eventually have worldwide repercussions. Given that Indian businesses had significant outsourcing agreements with US clients, a slowdown in the US economy is undoubtedly terrible news for India. Over the years, India’s exports to the US have grown. As of now, the US recession is likely to be a shallow one. It can slow down India’s exports but will also lower commodity prices globally which is positive.
So, for now, the recession is likely to be shallow and its impact will be moderate on India.

PRIMARY RESEARCH

- Data suggests that recession may not be a reality but we may face a brief period of slow-down. The difference between a recession and a slowdown is that in the case of a recession, the GDP falls down substantially while in the case of a slowdown, the pace of growth is slow. Suppose, the economy is expected to grow by 7% but due to the slowdown, it will grow by say, 2%. The economy can expect a slowdown due to various reasons like the rise in interest rates worldwide and the covid-19 pandemic. Still, calling it a recession would be an exaggeration. India has a huge population and thus our domestic consumption is more than sufficient to stimulate the economy, however, our exports can suffer. The worldwide impacts of the recession, or the slowdown to be precise, would not be uniform as such.
- When compared to the Great Depression of the 1930s, the magnitude of this slowdown would be much less especially if governments across the globe were more vigilant. The learnings from the 1930s or for that matter the 2008 crisis have helped to prevent any such future catastrophes.
- No significant economic factors have led to the supply chain disruptions and since now the lockdown is over, the supply chain issues will gradually settle down though it may take some time due to the external shock. We are in the new normal and the economy is expected to revive soon.
- The demand which has gained momentum should not slow down to ensure that job creation rises. Spending by domestic consumers and the increasing domestic consumption will help to increase the GDP and lead India to become a self-sufficient country.
- Central banks should now start cutting the interest rates to ease the liquidity situation in the country and stimulate spending by making EMIs lower. The overall consumption and aggregate demand will get a good boost after a yearlong of tight liquidity in the economy.

PRIMARY RESEARCH

- It’s the best time to put money in the market for the youth. Due to the power of compounding and the fact that markets are not doing that great, there are opportunities to invest wisely in mutual funds and particular stocks to gain capital appreciation.
- Due to the increase in capex in the annual budget, the employment level is expected to rise in the 2nd or the 3rd quarter of the fiscal. The government is pushing for capital expenditure since a lot of jobs can be created in this sector, besides developing the infrastructure of the country.
- The entire world is fighting inflation and as a response, the Central Banks have followed a policy of tight liquidity. The government should take the driver’s seat in such a situation by promoting public investment in form of capital expenditure and revenue expenditure. Hopefully, in the next 9 months, India will successfully fight inflation and the slowdown.
- India is already the fastest-growing economy in the world, having clocked 5.5% average gross domestic product growth over the past decade and is set to overtake Japan and Germany to become the world's third-largest economy in the coming decade.
- According to the survey of World Economic Forum (WEF), a global recession is likely in 2023, but pressures on food, energy and inflation may be peaking.
- Even though the US, the Euro zone and most of countries are headed to recession, India is unlikely to face the impact given the "not so coupled" nature of its economy with the global economy and is relatively independent of global markets. Indian economy is a lot decoupled from the global economy, given its large domestic demand, even though India is a net importer of energy. But India have enough forex reserves on one hand and Indian companies have managed to maintain healthy balance sheets.

PRIMARY RESEARCH

- The World Bank slashed its 2023 global economy growth outlook to 1.7% for 2023 from its earlier projection of 3%. the third weakest pace of growth in nearly three decades, overshadowed only by the global recessions caused by the pandemic and the global financial crisis. The tighter monetary policies from central banks around the world may have been necessary to tame inflation, but they have contributed to a significant worsening of global financial conditions, which is exerting a substantial drag on activity.
- Recessions are a regular part of a healthy economy and their length varies. Predicting the length of a recession is difficult. The general indicator of a recession is two quarters of negative gross domestic product (GDP) growth, but that's only one indicator. There were two quarters of declining real GDP in 2022 in various countries, but other economic indicators showed that the economy was not recessionary. Recessions tend to be short-lived in terms of duration, but they can feel like they go on for years as the economy takes time to shake off their effects.
- Some of the world’s biggest economies and their central banks will face a tricky task this year taming inflation via higher interest rates without triggering a recession. Inflation has rapidly accelerated and is now at or near its highest rate in decades in most developed economies like the US and in Europe, causing living standards to stagnate or decline in many countries. Easing supply-chain bottlenecks and labor markets cooling due to falling vacancies could allow for a softer landing, requiring less monetary tightening.
- Strong household balance sheets, together with tight labor markets and solid wage growth could help sustain private demand, although potentially complicating the fight against inflation.
- There are multiple economic indicators to watch to assess whether we’re in a recession. While they are usually reliable indicators and can demonstrate slowdowns across all sectors of

PRIMARY RESEARCH

- the economy, they're not always definitive. the following economic indicators help predict the near future of certain industries and represent changes in different areas of the economy. The indicators include: Gross domestic product (GDP), Consumer Price Index (CPI), Producer Price Index (PPI), Non-farm payrolls, Unemployment rate, Consumer Confidence and Consumer Sentiment, Durable goods orders and Retail sales. If all of these indicators show negative numbers, it can be assumed that the economy is in a recession.
- Getting your financial house in order is critical to surviving a recession and even the current level of volatility in the market. Some ways to protect yourself includes maintaining a diverse financial portfolio with a significant proportion in stable alternative asset classes that are not market linked, avoiding unnecessary large expenses, and having a proportion of savings that are easily liquid.
- Also, it is very important to consider parking your money in avenues that offer inflation-beating returns to avoid negative returns in the long term. During a recession, it is critical to consider your long-term goals and avoid making hasty decisions that could prove costly and cost you your investments.
- According to the report of World Employment and Social Outlook (2023), Global unemployment is slated to rise slightly in 2023, by around 3 million, to 208 million (corresponding to a global unemployment rate of 5.8 per cent). The moderate size of this projected increase is largely due to tight labour supply in high-income countries. This would mark a reversal of the decline in global unemployment seen between 2020-2022. It means that the global unemployment will remain 16 million above the pre-crisis benchmark (set in 2019).

CONCLUSION

After more than two years of a devastating pandemic and the global economic shockwaves triggered by the Russia-Ukraine conflict, growth prospects of the world's economy seem uncertain once again. The IMF predicts that global growth will slow sharply. Given the scale of supply chain disruptions, it is possible that the IMF could issue a further downward revision to its growth projections later this year.

The threat of recession is real, especially in advanced economies but in India, things look better. Central banks around the world will have to take care while increasing interest rates. Increasing rates too fast could lead to a recession. RBI governor, Shaktikanta Das has made it clear that the central bank will not use excessively harsh measures to restrain prices. The Monetary Policy Committee will increase interest rates to contain inflation but ensure that growth revival is not derailed. It is also expected that the ban on exports of key commodities and the recent reduction in fuel taxes may result in relieving price pressures which may make it unnecessary for the RBI to increase rates too rapidly.

India is placed in a much better position as opposed to most economies due to its strong credit growth, increasing investments by the corporate sector and a high budget allocation to capital spending by the government. Most economists believe the Indian economy seems strong enough to maintain solid growth momentum.

The Silver Lining

Not all businesses and industries feel the same pain during economic downturns. Some businesses even benefit as consumers cut back on substitute products. Recessions are painful for investors and businesses who rely heavily on debt and leverage to take on risky, speculative investments or business investments.

In case there is a recession in the next few months, it should be looked at as a bump in the road that India is reasonably equipped to withstand as the long-term growth story of the country is still intact.

"As sure as the spring will follow the winter, prosperity and economic growth will follow recession." After a recession as economies recover, equity markets often achieve higher highs than before the recession. Hence, such times present a money-making opportunity to investors with the time and patience to wait it out.

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THANK YOU