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Study of Current World Economic Scenario and the Vulnerability of Indian Economy to Upcoming Recession

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Abstract: *The recession might be one of the most familiar and discussed terms in economics. Countries have been thrown into protracted periods of insecurity as a result of the recession. The rare convergence of governmental, economical, and intellectual factors that the world is currently facing might have long-term effects. A dangerous moment of diplomatic instability, supply interruptions, food and energy crises, and more turbulent financial markets are all brought on by the various incidents. These shocks might threaten the peace and stability of some nations while making it more difficult for the world to address its main long-term problem. Over the last seven decades, the world economy has had four worldwide recessions: in 1975, 1982, 1991, and 2009. The worldwide recessions were strongly coordinated globally, causing significant financial and fiscal disruptions in many nations. Our findings indicates that there is a very negligible effect of recession on India. India is out of few countries which are able to maintain the GDP growth rate above 5%. This Paper Focuses on understanding the phenomenon of Global Recession along with various factors that Contribute to bring it.*

Keywords: Recession, Inflation, GDP, GDP Growth Rate, Economic Growth Rate, Indian Economy, Global Recession, Covid 19, Russia-Ukraine War, China, United States

I. INTRODUCTION

After the Severe Global Financial Crisis of 2008-09, the "Global Recession" Has become the recurrent topic of debate and dispute among the peoples in last decade and now there is fear that the global economy is on the verge of another recession. As per explained by IMF "there is general recognition that the term refers to a period of decline in economic activity" (Kose, 2009). Also as explained by IMF "at least two consecutive quarters of decline in national output". After the Great Recession of 2008-09 the focus of the policy makers shifted towards the fierce and calamitous consequences of Global Recession (Kose, 2009). In 2011 the attention is diverted towards the indicators of the revival of Global Economy however the symptoms of the revival of global economy are abbreviated by the European sovereign debt crisis primarily caused by the economic fall of Greece, Ireland, Portugal, Spain and Cyprus (M. Ayhan Kose, 2020). In Aftermath of 2012 the Economic coercions of European sovereign debt crisis eased in spite of that due to the financial market turbulence of China in 2015-2016 the threat of recession emerged (M. Ayhan Kose, 2020). Concerns of a global recession has reappeared in mid-2018, as the global economy has seen a synchronized downturn, mostly due to unprecedented weakness in trade and manufacturing amid escalated trade tensions and heightened policy uncertainty between the West and China (M. Ayhan Kose, 2020).

Presently the Threat of Global Recession have returned caused due to the indirect effects of Global Covid 19 Pandemic and Ukraine-Russia War. The Covid 19 pandemic has slowed down the economic activities due to lockdown and strict government measures. Sanctions imposed by the various countries in the world on Russia because of its invasion of Ukraine is another reason of the threat as Russia produces various essential commodities like Oil (3rd largest), Gas (2nd largest), Wheat (1st), Fertilizer (1st) and host of other commodities. Due to the heavy production and low domestic consumption Russia has captured significant portion of Market. This are the two primary reasons that are contributing to the threat of Global Recession.

In this study the various direct and indirect causes of global recession is studied. The research is performed by analyzing the information disclosed by the various government bodies such as Reserve Bank of India and other concerned institutions of various countries along with International Institutions such as International Monetary Fund and World Bank.

1.1 Objectives of the Study

This study aims to understand the phenomenon of recession and economic instability.

1. To study the impact of global recession on Indian economy.
2. To assess the current economic scenario in the world.
3. To study the factors affecting on recession and Indian economy

II. LITERATURE REVIEW

1. **Mr. Wen-Jen Hsieh (2011)** in his research paper titled. "The Global Economic Recession and Industrial Structure: Evidence from Four Asian Dragons". This study finds out comprehend how the four ASEAN nations of Singapore, South Korea, Taiwan, and Hong Kong were affected by the "Great Recession of 2008". The shift away from manufacturing and toward the service sector as a key driver of economic growth merits special attention. In particular in the policymaking circles of the four Asian dragons, new service development (NSD) merits more attention.
2. **Mr. M. Ayhan Kose, Mr. Naotaka Sugawara and Mr. Marco E. Terrones (2020)** in his research paper called "Global Recession". This Research Paper found out average length of a national recession is one year, which is also the normal length of a global recession. Global recessions are highly coordinated occurrences that cause significant economic and financial disruptions in a number of different nations at the same time. Not all US recessions corresponded with worldwide recessions, despite the fact that the four global recessions were accompanied by US recessions. During the four worldwide recessions that have occurred since 1950, the output per person in the world economy shrank significantly. Of the four, the global recession of 2009 was by far the most severe and internationally coordinated. The global economy saw its slowest rates of growth during these occurrences in the previous seven decades. Business confidence decreased, financial conditions tightened, and policy uncertainty rose.
3. **Mr. Ceyda Oner (2022)** in his research paper known by "Inflation: Prices on the Rise". The author found out Inflation reduces buying power of certain customers, and this loss is the highest cost of inflation. For both those who receive and pay fixed interest rates, inflation might over time affect their ability to make purchases. Many nations have struggled with severe 5 inflation, including in some cases hyperinflation, which is defined as inflation of 1,000 percent or more per year. The majority of economists concur that an economy benefits from low, steady, and predictable inflation. One of the reasons the US Federal Reserve maintained interest rates low throughout the financial crisis was to prevent deflation. If the money supply gets too enormous relative to the size of an economy, the unit value of the currency declines. In order to reduce inflation, the appropriate set of disinflationary measures must be considered. By setting the currency rate, some central bankers have decided to impose monetary restraint. Such strategies could not be helpful when inflation is caused by international rather than domestic events. As a weapon for reducing inflation, central bankers are depending more and more on their capacity to affect inflation expectations.
4. **Research Paper (2022)** entitled "Chine Financial Crisis" the author has explained the Chinese financial market crisis. The study is focused on assessing the current volatile scenario of Chinese Financial Markets. The key is to comprehend how an economy's future performance is likely to be impacted by excessive debt levels. When excessive debt is followed by transfers that are not economically advantageous, economic performance might be hampered

III. RESEARCH METHODOLOGY

This report is based on secondary as well as on primary data, however secondary data gathered from various credible institutions was given more importance since it is overhearing factor in attitude studies. Primary data regarding the

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concerned subject has been collected through the interviews of prominent personalities on news platforms and the discussions with experts.

The secondary data has been sourced from various published Research paper, reports of international financial institutions such as world bank and IMF, annual report of the bank, online resources, banking and finance journal, books, magazines, and Ph.D. thesis etc.

IV. RESULTS AND DISCUSSIONS

The current condition of world economy has become gloomy recently moreover the threat of recession is in the front of globe in upcoming 12 months. Currently world is on the verge of another catastrophic and worst ever Global Economic Recession. The International Monetary Fund and World Bank has declared the threat of recession in their July and June 2022 report respectively. World Economic Outlook Report of International Monetary Fund the IMF has decreased the world economy growth rate to 3.3% from 5.6%. In June 2022 the world Bank

has also declared on their report that the Global Economy expansion rate to decline from 5.7% to 2.9% as well as the bank has also warned about the chances of getting into the stagflation like condition as it was in 1970s recession. Current scenario in the world in terms of recession is very poor. The expansion rate is determined to levitate throughout 2023 and 2024 at the above levels however inflation is expected to hit most of the major economies adversely. Many economies including advance economies like USA, European Union, and others have the highest chance of getting into recession. The world bank has requested the legislators to provide Assistance for Ukraine, control crude and food prices and provide the loan relief for developing nations. The global inflation is expected to hit all time high as many major countries in world is hitting all time high in last 50 years e.g., United States inflation is rose to 9.1% in June which is all time high of last 40 years. There is fear of sharp 1% increase in the interest rates by Federal Reserve in the Financial experts and shareholders. The Canadian central bank and New Zealand` s central bank has stunned the world by increasing the interest rates by 1% and 0.5% respectively. The monetary authority of Singapore and Bank of Korea has also hardened their policies to dodge the inflation. The Reserve Bank of India has also increased the Repo rate to 5.40% a steady increase of 50 points in august 2022. The European Union was anticipated to reduce its Gross Domestic Product estimation from 2.3% in 2022 to 1.4% in 2023 with reference to the leaked document by European Union Official in Belgium. The inflation is expected to rise to 7.6% from 4% next year. To protect the euro from inflation the European Central Bank is also considering to increase interest rates because the Euro has fell against US Dollar for first time in Past Two Decades ($1 = €1). As per financial experts increasing interest rates to dodge inflation in one the major risks to the global economy and also cause the reduction in national debt and international co-operation however this is very risky policy for many nations for instance the RBI`s aggressive rates hikes trigger the nationwide recession in the country. The rising hawkishness has driven dramatic swings in international markets as monetary authorities hurry to dismantle monetary assistance programs that have pushed asset prices upward for years.

Besides this it also facing the conundrum of Oil as well as gas crisis in the upcoming winter because as determined by the strategist the Russia may stop the supply of natural gas and oil due to the hostility, they are facing from the EU countries because of Russian Invasion of Ukraine. Since Moscow invaded Kiev, global stocks have experienced significant fluctuations. Various important stock markets in the world have shown the sharp deep in the market. In June 2022 India`s 30-stock S&P Sensex and Nifty showed worst weekly growth from the march 2020 and hits all time low since last year. Fed`s hostile interest rate increasing strategy would drive the US economy towards recession has risen frequently, which caused the adverse impact on stock market that enters in a bearish area in June 2022 the S&P 500 drops almost 20% from its record high. It has made a record of worst weekly decline of 6% in indexes since march 2020 time of lockdown. ICE BofAML MOVE Index which follows the volatility of treasury stock hits its all-time high in June 2022 since march 2020. Currency volatility index that determines the fluctuation in foreign exchange of Deutsche Bank is expected to remain on higher side this year. Following the worst inflation many nations have seen in decades, tighter monetary policy is being implemented. For instance, US consumer prices increased at their steepest rate since May 1981. According to a Goldman Sachs index that incorporates indicators including exchange rates, equity movements, and borrowing costs to build the most popular financial conditions indices, higher rates, surging oil prices, and market upheaval are all adding to the worst economic circumstances since 2009. Businesses and people may reduce their spending plans, savings, and investments as a result of more challenging financial conditions. According to Goldman,

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conditions tightening by 100 basis points will result in a 1% reduction in growth the following year. Recession risks are increasing, and it seems harder and harder to get the US economy to have a soft landing.

International Monetary Fund's Global Economic Outlook Report has shown the threat of world-wide recession. The United States and other developed economies are worried however there is very less chance recession in India. The IMF has reduced the India Economic growth estimation rate to 7.4%. for the 2023 they have estimated the economic growth rate would be 6.1%. The change in economic growth has performed due to the adverse outer environment and sharp change in monetary policy. However, the world growth is estimated at 3.2% in 2022, International Monetary Fund has shown anxiety about upcoming World-wide recession in his report (as per IMF`s definition of recession of consecutive negative growth in two quarters).

Table 1

REAL GDP, ANNUAL PERCENTAGE CHANGE			
	PROJECTIONS		
	2021	2022	2023
World Output	6.1	3.2	2.9
Advanced Economies	5.2	2.5	1.4
United States	5.7	2.3	1.0
Euro Area	5.4	2.6	1.2
Germany	2.9	1.2	0.8
France	6.8	2.3	1.0
Italy	6.6	3.0	0.7
Spain	5.1	4.0	2.0
Japan	1.7	1.7	1.7
United Kingdom	7.4	3.2	0.5
Canada	4.5	3.4	1.8
Other Advanced Economies	5.1	2.9	2.7
Developing Economies	6.8	3.6	3.9
Emerging & Developing Asia	7.3	4.6	5.0
China	8.1	3.3	4.6
India	8.7	7.4	6.1
ASEAN-5	3.4	5.3	5.1
Emerging & Developing Europe	6.7	-1.4	0.9
Russia	4.7	-6.0	-3.5
Latin America & Caribbean	6.9	3.0	2.0
Brazil	4.6	1.7	1.1
Mexico	4.8	2.4	1.2
Middle East & Central Asia	5.8	4.8	3.5
Saudi Arabia	3.2	7.6	3.7
Sub-Saharan Africa	4.6	3.8	4.0
Nigeria	3.6	3.4	3.2
South Africa	4.9	2.3	1.4
Memorandum			
Emerging Market & Middle-Income Economies	7.0	3.5	3.8
Low-Income Developing Countries	4.5	5.0	5.2

According to the Bloomberg survey of Financial Experts the chances of recession in India is Nil. According to a study of experts conducted by Bloomberg, India has little chance of experiencing a recession. Global shocks are mostly to blame for inflation and potential growth slowdowns. The foreign economic headwinds affecting India's economy may moderate. In order to control inflation, the US Federal Reserve hiked interest rates by 75 basis points at its most recent meeting. The Fed indicated that, rather than providing specific forward guidance, policy will be decided at each meeting. The US Dollar Index has moderated somewhat as a result of the European Central Bank's decision to increase the benchmark rate by 50 basis points. The rupee has gained after reaching 80 rupees to the dollar due to a reversal of significant foreign capital outflows and a correction in oil and commodities prices. High frequency indications point to a lower likelihood of an abrupt slowdown in the economy. For the week ending July 1, credit saw a significant increase of 14.4%. The fact that bank lending to industry is beginning to increase steadily is a notable aspect. According to information on the sectoral use of bank credit, the growth of loan to industry surged to 8.7% in May 2022. Lending to small and medium-sized businesses has grown significantly because to the government's Emergency Credit Line Guarantee Scheme, but in the past two months, credit to major businesses has also increased.

There appears to be a need for corporate borrowing as a result of rising capacity utilization, an uptick in infrastructure expenditure, and the financing of the Production Linked Incentive Schemes. Banks are better able to fulfil the demand for credit thanks to improvements in profitability, capital position, and asset quality. Indicators for the services industry as a whole have significantly improved during the last two months. According to recent research, consumers are now more upbeat about the future of the economy. The Index of Consumer Sentiment (ICS), which had only moderate increase over the previous four months, is expected to rebound in July. The expectation of falling oil prices is encouraging for India's forecast for inflation and may affect how quickly the Reserve Bank of India raises interest rates.

Despite its durability, the economy cannot be immune to a slowdown in the global economy or a potential recession in advanced nations. After seeing record growth in 2021–2022, exports may moderate in the upcoming months. A recession in the US would particularly affect India's exports of IT services. Although order flows from international clients are currently high, stagflation worries are thought to be reducing IT businesses' profitability margins. The macroeconomic stabilization, consolidation of export competitiveness advantages, and inflation targeting should be the policy's main priorities.

4.1 Findings

1. Growth Rate projections of India is very stable than any other country in the world. (8.7%, 7.4%, 6.1% for year 2021, 2022, 2023 respectively)
2. Many credible institutions have reported the chances of recession in negligible or zero such as Bloomberg, International Monetary Fund, World Bank
3. As per IMF`s definition of recession there is no drop in GDP in two consecutive quarters in fact the GDP growth rate of India has increased and highest in world 13.5%.
4. The inflation of India is very controlled and standing at 7.5% yearly and 6.9% in august 2022.
5. Indicators for the services industry as a whole have significantly improved during the last two months
6. The Index of Consumer Sentiment (ICS), which had only moderate increase over the previous four months, is expected to rebound in July.
7. The expectation of falling oil prices is encouraging for India's forecast for inflation and may affect how quickly the Reserve Bank of India raises interest rates.

4.2 Suggestions

1. Reserve Bank of India should wait or avoid increasing the interest rates similar to global trends which can trigger the recession in the country.
2. Government should take some measures to control the rupee inflation.

V. CONCLUSION

After the Through analysis of current economic situation and the estimates regarding future economic situation it is concluded that there is chance of Recession and the Developed or Advance economies and stagnant economies are expected to harmed largely including United States, United Kingdom, and Host of other economies. As per analysis Indian economy is the only economy that is expected to remain on positive or increasing trend for his economic growth rate. India is the only major economy which highly immune for the recession but there is chance of slowdown in some extent. Along with adverse impact there are some positive impacts also such as Lower Oil Prices, Chance to grab new markets in other countries and others

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