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Emerging Trends of Global Recession in Economic Stability

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Abstract

Global recession, as the name suggests, affects the entire globe. A recession marks a severe decline in economic activities, leading to financial turmoil in an economy.Therefore, if affected by the recession, any strong economy with trade relations and other connections with other nations will likely impact the connected economies gradually. When it extends for a longer period, it affects other countries due to the trade connections they share worldwide. In addition, the internationally-controlled financial systems also affect the global players as and when they come in contact with each other during the recession. This paper highlights the global recession, effects, impacts, transmission of the crisis to the Indian Economy,economic stability.

Keywords: Recession, global effect, economic, stability, GDP, employment

Introduction

Establishes that the world economy has experienced four global recessions over the past seven decades in 1975, 1982, 1991, and 2009 during which annual real per capita global output contracted, accompanied by weakening of other key indicators of global economic activity. The global recessions appeared highly synchronized internationally, with severe economic and financial disruptions in many countries around the world.India's financial sector is not deeply integrated with the global financial system, which spared it the first round adverse effects of the global financial crisis and left Indian banks mostly unaffected.

Though the economic recession has its cons, it can be fruitful in establishing or retaining the wealth balance between the economies. When a particular nation has an excess of wealth and resources and others lack it to a considerable level, it creates a misbalance in the global economy. Global economic recessions help neutralize the excess of things that some nations have, stabilizing and balancing the financial position of the rest of the countries worldwide.

The Indian economy looked to be relatively insulated from the global financial crisis that started in August 2007 when the sub-prime mortgage crisis first surfaced in the United States (US). In fact, the Reserve Bank of India (RBI) was raising interest rates until August 2008 with the explicit objective of cooling the economy and bringing down the gross domestic product (GDP) growth rate, which visibly had moved above the rate of potential output growth and was contributing to the build

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up of inflationary pressures in the economy.1 But when the collapse of Lehman Brothers on 23 September 2008 morphed the US financial meltdown into a global economic downturn, the impact on the Indian economy was almost immediate. External credit flows suddenly dried up and the overnight money market interest rate spiked to above 20% and remained high for the next month. It is perhaps judicious to assume that the impacts of the global economic downturn on the Indian economy are still unfolding. Against this backdrop, this paper attempts an analysis of the impact of the global financial crisis on the Indian economy and suggests some policy measures to put the economy back on track.

Definition of Recession:

Economists have varying opinions about how to define a recession. The Reserve Bank of India defines recession as a period of prolonged decline in output experienced across much of the economy. To be more concrete, commentators often consider a recession to be in progress when total output (real gross domestic product) has declined for at least two consecutive quarters.

Recessions are also defined as the period between the peak of economic activity and the economy's lowest point. They're usually relatively brief. Since World War II ended, the average recession has lasted 10 months.

Effectsof Recession

Whether an economic downtown has officially been declared a recession or not, the impacts of an impending recession can affect your daily life. Some common ways people are impacted includes:

- **Increase in Cost of living**. When inflation contributes to a recession, you may find that household essentials like groceries, gasoline and clothes are more expensive than they used to be. Higher prices make it harder to make ends meet, so individuals often turn to strict budgets and cuts in discretionary spending.
- **Job loss**. In a recession, companies often reduce their staffing levels to save money. You may risk losing your job or experiencing a reduction in hours.
- **Difficulty in finding employment**. For a while now, workers have controlled the employment market. They could secure new roles with higher salaries and more perks as employers competed for a limited pool of workers. During a recession, that's likely to change, with competition for the few opening roles tougher and the ability to find a new job taking significantly longer.

A recession is when the GDP growth rate of a country is negative for two consecutive quarters or more. But a recession can be gauged even before the quarterly gross domestic product reports are out based on key economic indicators like manufacturing data, decline in incomes, employment levels etc.,Although an economy can show signs of weakening months before a recession begins, the process of determining whether a country is in a true recession (or not) often takes time. A recession is short, but its impact can be long-lasting.

Impact of a recession

One of the consequences of recession is unemployment, which tends to increase, especially among the low-skilled workers, due to companies and even government agencies lying off staff as a way of curtailing expenses. Another result of recession is drop in output and business closures. Fall in output tends to last until weaker companies are driven out of the market, and then output picks up again among the surviving firms. With more people out of work, and families increasingly unable to make ends meet, there will be demands for increased government-funded social schemes. With drop

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in government revenues during recession, it becomes difficult to meet the increased demands on the social sector.

The most popular, or most recommended, policy for any country to dig itself out of recession is expansionary fiscal policy, or fiscal stimulus. This can be usually a two-pronged approach – tax sops and increased government spending.

Transmission of the Crisis to the Indian Economy

With India's increased linkage with the world economy, India could not be expected to remain immune to the global crisis or be decoupled from the global economy. While it is true that the Indian banking sector remained largely unaffected because of its very limited operations outside India or exposure to sub-prime lending by foreign investment banks, the global crisis has affected India through three distinct channels. These channels are financial markets, trade flows, and exchange rates. The financial sector includes the banking sector, equity markets (which are directly affected by foreign institutional investment [FII] flows), external commercial borrowings (ECBs) that drive corporate investments, FDI, and remittances. The global crisis had a differentiated impact on these various sub-sectors of the financial sector. Given prudent regulations and a proactive regulator, 7 the Indian banking sector has remained more or less unaffected, at least directly, by the global crisis. The imposition by the RBI of a higher provisioning requirement on commercial bank lending to the real estate sector helped to curb the growth of a real estate price bubble. This is one of the few global examples of a countercyclical capital provisioning requirement by any central bank. In general, Indian banks were not overly exposed to sub-prime lending. Only one of the larger private sector banks, ICICI Bank, was partly exposed but it managed to thwart a crisis because of its strong balance sheet and timely action by the government, which virtually guaranteed its deposits.

The banking sector as a whole has maintained a healthy balance sheet. In fact, during the third quarter of FY2008, which was a nightmare for many big financial institutions around the world, banks in India announced encouraging results. Against an absolute decline in the profitability of non-financial corporate enterprises, the banking sector witnessed a jump of 43% in its profitability. A ban on complex structures like synthetic securitization coupled with a close monitoring of appropriate lending norms by RBI also ensured a better quality of banking assets. The non-performing assets as a ratio to gross advances have remained well within prudential norms. Further, with an average capital risk weighted assets ratio (CRAR) of 13%, Indian banks are well capitalized and better placed to weather the economic downturn.

Recession is a certainty in 2023

A global recession is expected to occur in 2023. 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 next year. And India is not immune.The global output would have risen 23 per cent since 2016 had the pandemic not happened. Now, however, it is projected to grow only 17 per cent. The global slowdown will leave real GDP still below its pre-pandemic trend and is expected to cost the world more than $17 trillion, which is nearly 20 per cent of the world's income.Russia, Indonesia, India, the UK and Germany are among the countries that may contribute the most to this global output loss, a United Nations Conference on Trade and Development (UNCTAD) report observed.

While India may bear an output loss of 7.8 per cent in 2023, the Euro area is expected to lose 5.1 per cent, China 5.7 per cent, the U.K. 6.8 per cent, and Russia may bear 12.6 per cent output loss.

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Rising interest rates, weakening of currencies, mounting public debt — and all these factors raising food and fuel prices — have introduced uncertainty in the global markets.

Economic Stability

Central banks should persist in their efforts to control inflation for economc stabilityand it can be done without touching off a global recession, the study finds. But it will require concerted action by a variety of policymakers:

- *Central banks* must communicate policy decisions clearly while safeguarding their independence. This could help anchor inflation expectations and reduce the degree of tightening needed. In advanced economies, central banks should keep in mind the cross-border spillover effects of monetary tightening. In emerging market and developing economies, they should strengthen macroprudential regulations and build foreign-exchange reserves.
- *Fiscal authorities* will need to carefully calibrate the withdrawal of fiscal support measures while ensuring consistency with monetary-policy objectives. The fraction of countries tightening fiscal policies next year is expected to reach its highest level since the early 1990s. This could amplify the effects of monetary policy on growth. Policymakers should also put in place credible medium-term fiscal plans and provide targeted relief to vulnerable households.
- *Other economic policymakers* will need to join in the fight against inflation—particularly by taking strong steps to boost global supply. These include:
  - *Easing labor-market constraints.* Policy measures need to help increase labor-force participation and reduce price pressures. Labor-market policies can facilitate the reallocation of displaced workers.
  - *Boosting the global supply of commodities.* Global coordination can go a long way in increasing food and energy supply. For energy commodities, policymakers should accelerate the transition to low–carbon energy sources and introduce measures to reduce energy consumption.
  - *Strengthening global trade networks.* Policymakers should cooperate to alleviate global supply bottlenecks. They should support a rules-based international economic order, one that guards against the threat of protectionism and fragmentation that could further disrupt trade networks.

Global growth will slow further in the coming year but the world will likely avoid a recession thanks to Asia's biggest economies.Global GDP is projected to grow by 3.1% this year, and by just 2.2% in 2023, according to the latest forecast from the Organization for Economic Cooperation and Development (OECD).Although the OECD is not predicting a recession, its forecast is more pessimistic than that of the International Monetary Fund (IMF), which said last month that it expects the world economy to grow by 3.2% this year and 2.7% next year.The "fragile prospects" for the global economy are a direct result of Russia's war against Ukraine, which has sparked an energy crisis that has spurred inflation worldwide, the OECD said in a statement on Tuesday."Persistent inflation, high energy prices, weak real household income growth, falling confidence and tighter financial conditions are all expected to curtail growth," it added. If energy prices rise further or energy supply is disrupted, growth could be even weaker than expected.

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Growth next year is "strongly dependent" on major Asian economies, which will account for close to three quarters of the expansion in global GDP, with the United States and Europe "decelerating sharply," the OECD said. India is projected to have the world's second highest growth rates, after Saudi Arabia, at 6.6% in 2022, followed by 5.7% in 2023. China's economy is predicted to grow by 3.3% this year, followed by 4.6% in 2023.

By contrast, the United States is expected to grow by just 1.8% in 2022 and 0.5% in 2023. Growth across the 19 EU countries that use the euro is also expected to decline steeply over the next two years, from 3.3% in 2022, to 0.5% in 2023.That the European and American economies are growing at all is partly because of government spending on energy subsidies and policies to boost investment such as NextGeneration EU and the Inflation Reduction Act, OECD Secretary General Matthias Cormann told reporters on Tuesday.The OECD expects inflation to remain above 9% this year among advanced economies. It's then forecast to fall back to 6.6% in 2023, slightly above levels forecast by the IMF.

Major central banks aim for inflation near 2%, and have been hiking interest rates in a bid to limit price rises. But the campaign is also boosting risks to the economy by increasing debt servicing costs for households, businesses and governments."Higher interest rates, while necessary to moderate inflation, will increase financial challenges for both households and corporate borrowers," the OECD said."Low-income countries will remain particularly vulnerable to high food and energy prices, while tighter global financial conditions may raise the risk of further debt distress," it added.

World Bank President David Malpass told CNN recently that the organization is "worrying about a world recession in 2023," but that the United States is "a little stronger than other economies."

Real GDP growth, 2023 (% change)

The Conference Board forecasts global GDP growth of 3.3 percent for 2022 and 2.1 percent for 2023. While a global recession is not in our baseline scenario, the global economy is likely to move even closer to recessionary territory.

Global Overview

Headwinds to global growth are expected to increase around the start of 2023. Global leading indicators point to weakening momentum and global purchasing manager indices are nearing contractionary territory. Rapid tightening of monetary policy in several large economies is creating financial stress. Indeed, The Conference Board expects recessions to occur in the US and the Euro Area around the beginning of 2023. The US recession is likely to be induced by aggressive monetary policy tightening in response to persistently high inflation, and the recession in the Euro Area likely will reflect surging energy prices and corresponding reductions in production and demand. China may escape an outright recession. Nonetheless, China's economy will register weak growth in 2022 due to repeated lockdowns, a housing correction, and weakening external growth. Economic growth is likely to recover only modestly in 2023.

The 10-year economic outlook signals a prolonged period of disruptions and uncertainties for businesses, but there are also opportunities. Global growth will return to its slowing trajectory once the 2022-2023 regional recessions end, with mature markets making smaller contributions to global GDP over the next decade. Nonetheless, there are still opportunities for firms to invest in both mature markets—given their wealth and need for innovation to compensate for shrinking labor forces—and emerging markets—given their need for both physical and digital infrastructure to support their

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sizable and young labor forces. Keys to ensuring growth over the longer term include developing new lines of business; strengthening corporate culture; embracing digital transformation and automation; recruiting for talent with new skills not currently represented in the company; and maximizing the hybrid work model where it makes sense.

Since october 2022 The Conference Board uses official Chinese GDP data in our global aggregation which led to an upward revision of the global aggregate growth rate. The alternative figures for China that we used before were lower, and hence our global aggregate was also lower. The change from using official GDP data as our main series for China is made for several reasons including: lack of up-to-date data that constrain the tracking of our alternative GDP measure on a timelier basis; lack of detailed data to perform the necessary calculations as described in the original methodology; and biases in official GDP data appearing smaller than in earlier years. We continue to track alternative GDP data for China but will do so on a less frequent basis.

Conclusion

Global recession refers to the economic retardation observed in different nations worldwide. While recession affects one country at a time, its elongation severely affects other economies related to the affected one. Such events lead to a rise in the unemployment rate and an increase in the price and consumption of commodities, like oil, per capita investment, etc. As countries recover from the recession, they become more efficient than ever.Though the global recession is detected with respect to an economy's real income and other related factors, the process of identifying economic recession is not always the same. For example, global recession 2022, as it is often referred to, does not show any signs of such decline but is said to be indicating the upcoming recession. In addition, investors hold back on investments and redeem existing investments leading to the collapse of prices of risky assets. Chief economic advisor V Anantha Nageswaran does not foresee a recession in India this financial year, the global economy could indeed be caught in its throes or suffer a significant slowing down, depending on how long the Russia-Ukraine war lasts. If that happens, India cannot avoid the repercussions, though it might not enter into a recession again.

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Table-1 Global GDP in Percentage

	2000-2008	2011-2019	2020	2021	2022	2023	2024-2029	2030-35
United States	2.4	2.2	−2.8	5.9	1.8	0.0	1.7	1.6
Europe	2.3	1.6	−6.5	5.5	3.6	0.1	0.9	0.8
Euro Area	2.1	1.2	−6.6	5.1	3.2	0.3	0.8	0.7
Germany	1.5	1.7	−3.7	2.6	1.7	−0.3	1.0	1.0
Italy	1.2	0.1	−9.0	6.7	3.8	0.5	0.0	−0.2
France	1.9	1.4	−7.8	6.8	2.5	0.4	1.1	1.0
United Kingdom	2.3	2.0	−11.0	7.5	4.5	−0.6	1.0	0.9
Japan	1.1	0.9	−4.6	1.7	1.6	1.4	0.6	0.5
Other Mature Economies	4.0	2.8	−2.0	5.3	3.0	1.9	2.6	2.2
Mature Economies	2.4	1.9	−4.4	5.3	2.7	0.5	1.4	1.3
China	10.4	7.3	2.2	8.1	3.3	5.1	4.4	4.1
India	7.0	6.8	−6.9	8.5	7.9	4.4	4.7	4.3
Other Developing Asian Economies	5.2	5.0	−2.7	3.8	5.7	4.1	3.6	3.4
Latin America	3.4	1.1	−7.4	6.8	3.4	0.6	1.7	1.6
Brazil	3.8	0.7	−4.2	4.9	2.6	−0.1	1.5	1.3
Mexico	2.2	2.4	−8.2	5.0	2.6	1.0	1.9	1.5
Middle East & North Africa	4.9	3.0	−2.4	4.6	4.5	3.6	2.4	2.5
Gulf region	5.1	3.4	−4.6	2.9	7.9	5.4	2.4	2.6
Sub-Saharan Africa	5.9	3.6	−1.6	4.6	3.2	2.9	3.5	3.5
Russia, Central Asia and SE Europe	6.5	2.8	−1.2	6.8	−1.6	−0.5	1.8	1.7
Russia	7.0	1.7	−2.5	4.7	−3.2	−2.6	0.4	0.3
Turkey	4.9	5.5	1.8	11.6	5.5	1.1	3.1	2.9
Emerging Markets and Developing Economies	6.3	4.8	−1.9	6.8	3.8	3.5	3.6	3.4
World	4.0	3.3	−3.1	6.1	3.3	2.1	2.6	2.6
Addenda								
United States (Adjusted)	6.1	5.5	−2.6	6.2	2.0	0.2	NA	NA
China (Alternative)	8.1	6.7	2.2	8.1	2.0	3.0	3.0	2.8
India (Fiscal Year)	8.9	5.6	−6.6	8.7	8.0	4.1	NA	NA

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