October 2022

SPECIAL EDITION

MBAEx Business Review

Vol.4

INDIA @ 75

Joka Wild

Cover Story

India's economic Journey

Business Conclave

Lattice 22

CLASS OF 2023

RECESSION IN INDIA

A MYTH OR A NEAR-FUTURE REALITY

"An investor who loves to read about technology & economics"

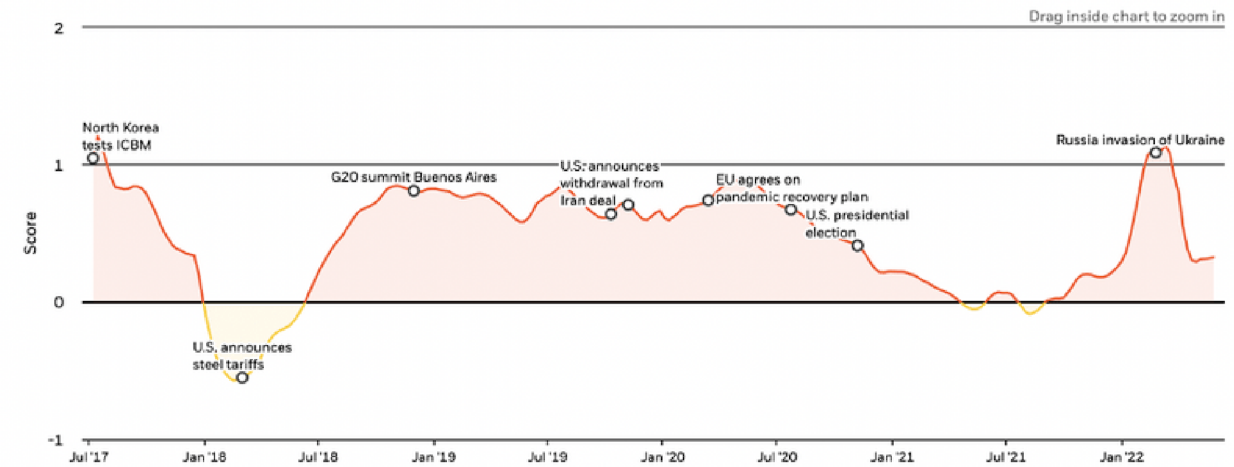
Prateek Arora
MBAEx Class of 2023

If one were to ask, “Are we in a recession?” There is zero chance that all experts and economists will agree or disagree. Although there is no official definition of what a recession is, a fairly common definition adopted by most economists is :-

Since March 2020, the pandemic, trade war, and now the escalating geopolitical tension due to the Ukraine war have all sent global markets into a spiral. In the current economic climate, there is a persistent concern about a recession.

"Two consecutive quarters of fall in a country's real gross domestic output."

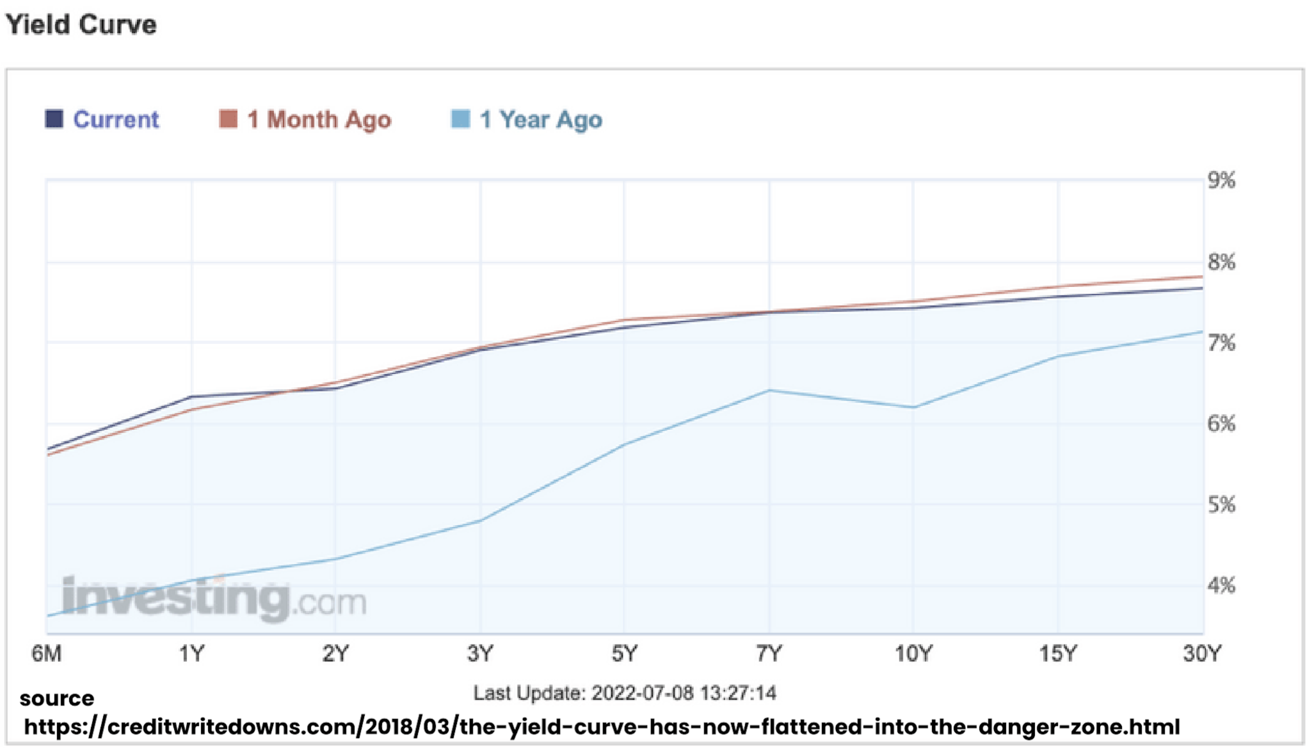
Global indicator



Forward-looking estimates may not come to pass. Source: BlackRock Investment Institute. May 2022. The BlackRock Geopolitical Risk Indicator (BGRI) tracks the relative frequency of brokerage reports (via Refinitiv) and financial news stories (Dow Jones News) associated with specific geopolitical risks. We adjust for whether the sentiment in the text of articles is positive or negative, and then assign a score. This score reflects the level of market attention to each risk versus a 5-year history. We use a shorter historical window for our COVID risk due to its limited age. We assign a heavier weight to brokerage reports than other media sources since we want to measure the market's attention to any particular risk, not the public's.

India, however, is in a better economic position to weather this storm than other growing nations (and even some developed economies). Though FPIs have withdrawn 33 billion dollars in the last 12 months, which has caused the rupee to collapse to low levels (1$ = 79.35INR), its impact on commodities prices is the most intriguing.

The fact that India is a net importer suggests that falling commodity prices may be advantageous. The Consumer Price Index (CPI) inflation rate decreased to 7.9% in April 2022 from 7% in May 2022. By the fourth quarter of 2022–2023, inflation is predicted to return to the tolerance range of 2–6%, according to RBI Deputy Governor Michael Patra.

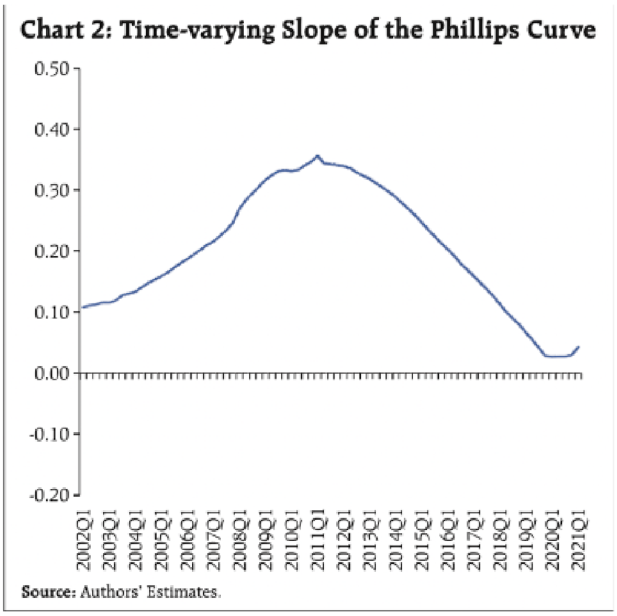


source
https://creditwritedowns.com/2018/03/the-yield-curve-has-now-flattened-into-the-danger-zone.html

Reduced commodity prices assist Indian importers by reducing India's current account deficit (CAD), which reduced to 1.5% of GDP in Q4 2021 from 2.6% of GDP in Q3 2021, and high import costs. The significant drop in commodity prices is easing concerns about chronically high inflation.

Food security has been strengthened despite severe worldwide shortages. The stocks of rice and wheat were, respectively, 3.7 and 4.2 times the standards for a quarterly buffer. What has to be seen now is whether the RBI can carry out its task of balancing growth and price stability.

If they do, the GDP growth is predicted to remain over 6%. A leading indicator, the bond yield curve for India exhibits a positive slope (see graph below), indicating expansion and rising inflation. The economy is often dour when the bond yield curve is flat (indicating uncertainty) or inverted (indicating a possible recession).



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https://www.bqprime.com/business/is-the-philips-curve-dead-or-alive-in-india-the-rbi-attempts-an-answer

The Phillips curve, which depicts the trade-off between unemployment and inflation is another reliable indication of a country's macroeconomic fundamentals, has a positive slope (a normal graph) after remaining mostly flat for more than six years starting in 2014. The financial stability report from the RBI identifies several further signs of confidence. In March 2022, the GNPAs, or gross non-performing assets, were at a six-year low of 5.9% of loans. The annual credit growth rate, last recorded in March 2019, was 13.1% in June 2022.

In conclusion, the Indian economy is well-positioned to control inflation and completely avoid recession, barring the Fed from taking unheard-of severe steps or a further deterioration in the geopolitical environment. And if that occurs, that would be a success in and of itself, demonstrating how well India manages its macroeconomic situation. There is no question that the economy is slowing down, but a recession in India does not appear to be imminent.