

A STUDY ON THE IMPACT OF GLOBAL RECESSION ON INDIAN FINANCIAL SECTOR

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ABSTRACT

A global recession is a decline in economic activity that can reduce investment, employment, trade, consumer demand, and financial-market stability. Because India is increasingly integrated with international markets, global downturns influence banks, capital markets, NBFCs, insurance companies, mutual funds, foreign investment, exchange rates, liquidity, and investor confidence. This study examines the impact of global recession on the Indian financial sector and evaluates institutional and policy responses. Primary and secondary data are used, with responses from 100 respondents analysed through percentage analysis. The study finds significant financial pressures but also highlights resilience supported by regulation, technology, risk management, and timely policy intervention.

Keywords: Global Recession; Indian Financial Sector; Financial Stability; Foreign Investment; Risk Management

1. INTRODUCTION

Globalisation has increased the interdependence of national economies through international trade, investment, financial markets, banking systems, and technology. As a result, an economic slowdown in major economies can transmit financial and economic pressures to India. A global recession involves declining economic activity, investment, production, consumption, employment, trade, and financial-market confidence across countries. Such conditions can originate from financial crises, geopolitical disruptions, inflationary pressures, pandemics, supply-chain problems, or major reductions in global demand. India became more connected with the international economy after the economic reforms of 1991. Liberalisation, privatisation, globalisation, foreign investment, international trade, and financial integration increased the exposure of Indian institutions to external developments. The Indian financial sector comprises commercial and cooperative banks, NBFCs, insurance companies, mutual funds, stock exchanges, financial intermediaries, and capital-market institutions. During a global recession, these institutions may experience changes in lending, credit quality, profitability, liquidity, investment activity, and risk. The banking sector can face weaker credit demand, rising defaults, increasing NPAs, and pressure on profitability. NBFCs may experience liquidity constraints because of their dependence on institutional financing and market borrowings. Capital markets can become more volatile as investors become risk-averse and move toward safer assets. Foreign direct investment and foreign portfolio investment may decline when multinational companies postpone expansion and investors reduce exposure to emerging markets. Currency movements can also become unstable, affecting import costs, inflation, liquidity, and investment decisions. Insurance companies may experience slower premium growth and lower investment income, while mutual funds can face shifts from equity products toward debt funds and other relatively safer instruments. In response, the Reserve Bank of India can use monetary measures, liquidity support, interest-rate adjustments, and market operations, while the government can employ fiscal measures to support investment, credit, infrastructure, and economic activity. Technology has become an important source of resilience. Digital banking, fintech, cloud

computing, blockchain, artificial intelligence, and digital payments can maintain service continuity and improve efficiency during economic disruptions. Therefore, this study examines the recession's effects across components of India's financial sector and considers policy measures, risk management, technology, and institutional resilience. Effective coordination among regulators, institutions, investors, and policymakers is therefore essential.

2. REVIEW OF LITERATURE

Sharma and Gupta (2019) examined global downturns in emerging economies and associated recessions with lower investment, weaker financial markets, and greater investor uncertainty, emphasising regulation and monetary policy. Kumar and Verma (2020) studied Indian banking and reported slower credit growth, higher NPAs, lower profitability, and more cautious lending. Reddy and Rao (2020) examined capital markets and identified greater volatility, lower investor confidence, reduced market capitalisation, and changes in foreign portfolio investment. Singh and Mehta (2021) considered foreign direct investment and found that multinational firms may postpone expansion during global recessions. Patel and Shah (2021) highlighted liquidity and borrowing constraints affecting NBFCs. Nair and Joseph (2022) emphasised RBI liquidity support, open-market operations, and interest-rate measures. Chandra and Arora (2023) reported pressure on insurance demand and investment returns. Gupta and Ramesh (2023) found that investors tend to prefer debt funds, government securities, and fixed deposits during uncertainty. Prasad and Kiran (2024) highlighted digital finance as a means of improving continuity and inclusion, while Malhotra and Jain (2024) associated Indian financial-sector resilience with reforms, regulation, stronger institutions, and technological advancement. The literature indicates broad recession effects but identifies a need for integrated assessment across financial institutions and modern digital financial resilience and stability.

3. OBJECTIVES OF THE STUDY

1. To study the impact of global recession on the Indian financial sector.
2. To examine the impact of global recession on financial institutions, capital markets, and banking operations.
3. To analyse the effects of global recession on foreign investment, exchange rates, and financial stability.
4. To assess the role of government and regulatory authorities in managing recession-related financial difficulties.
5. To suggest measures for strengthening the stability and resilience of the Indian financial sector during global economic downturns.

4. RESEARCH METHODOLOGY

The study adopts a descriptive research design using primary and secondary data. Primary information was collected through a structured questionnaire from 100 respondents selected through convenience sampling. Secondary information was obtained from RBI, Ministry of Finance, World Bank, IMF, journals, books, reports, and reliable financial sources. Percentage analysis was used.

4.1 STATISTICAL TOOL

Percentage Analysis-Percentage analysis is selected as the appropriate statistical tool because the study analyses responses obtained from **100 respondents** and presents them through frequency and percentage distributions. It enables straightforward comparison of respondents' perceptions regarding recession awareness, banking-sector impact, and stock-market performance.

Formula: Percentage = (Frequency / Total Number of Respondents) × 100

The original report specifically states that the **basic percentage approach** was used to analyse responses and compare respondent perspectives through tables.

5. DATA ANALYSIS AND INTERPRETATION

Table 1: Global Recession Awareness

Description: Knowledge of the global recession and its effects.

Response	Frequency	Percentage (%)
Strongly Agree	35	35
Agree	41	41
Neutral	12	12
Disagree	8	8
Strongly Disagree	4	4
Total	100	100

Interpretation:

The table shows that **41%** of respondents agree and **35%** strongly agree that they are aware of the global recession and its effects. Thus, **76%** of respondents have a positive level of awareness. Only 12% remained neutral, while 12% expressed disagreement. Therefore, most respondents are well informed about global recession.

Table 2: Impact on Indian Banking Sector

Description: Impact of global recession on banking operations.

Response	Frequency	Percentage (%)
Strongly Agree	34	34
Agree	42	42
Neutral	12	12
Disagree	8	8
Strongly Disagree	4	4
Total	100	100

Interpretation:

The highest proportion, **42%**, agreed that global recession affects the Indian banking sector, while another **34%** strongly agreed. Therefore, **76%** of respondents recognised a substantial impact on banking. This supports the study's observation that recession can affect lending activity, credit demand, NPAs, and banking performance.

Table 3: Impact on Stock Market Performance

Description: Effect of global recession on Indian stock markets.

Response	Frequency	Percentage (%)
Strongly Agree	36	36
Agree	39	39
Neutral	13	13
Disagree	8	8
Strongly Disagree	4	4
Total	100	100

Interpretation:

The table indicates that **39%** of respondents agree and **36%** strongly agree that global recession affects Indian stock-market performance. Hence, **75%** of respondents expressed agreement. The finding indicates that recessionary conditions can increase market volatility and reduce investor confidence, consistent with the study's findings.

6. RESULTS

1. The majority of respondents have adequate awareness of global recession and its financial consequences.
2. **76%** of respondents either strongly agree or agree that they are aware of global recession and its effects.
3. The Indian banking sector is significantly affected during global economic downturns.
4. **76%** of respondents either strongly agree or agree that recession affects the Indian banking sector.
5. Global recession increases volatility and uncertainty in Indian stock markets.
6. **75%** of respondents either strongly agree or agree that recession affects stock-market performance.
7. Foreign direct investment and foreign portfolio investment may decline during global economic downturns.
8. Liquidity shortages and exchange-rate fluctuations are important financial challenges during recessionary periods.
9. NBFCs, insurance companies, and mutual funds can experience financial and operational pressures during global downturns.
10. RBI monetary measures and government fiscal measures contribute to financial-system stabilisation.
11. Digital banking and financial technology improve operational continuity and financial-sector resilience.
12. Despite external economic pressures, the Indian financial sector demonstrates resilience through regulation, technology, risk management, and policy support.

7. SUGGESTIONS

1. Financial institutions should strengthen their **credit, liquidity, market, and operational risk-management systems**.
2. Commercial banks and NBFCs should maintain adequate capital reserves to withstand economic downturns.
3. Financial institutions should continuously strengthen internal financial controls and stress-testing mechanisms.
4. The Reserve Bank of India should continue proactive monetary and liquidity-management measures whenever required.
5. The government should support sectors affected by global recessions through appropriate fiscal policies and infrastructure investment.
6. Banks and other financial institutions should increase investment in **digital banking, fintech, cybersecurity, and data analytics**.
7. Investors should diversify their portfolios to reduce exposure to recession-related market risks.
8. Financial-literacy programmes should educate investors and households about risk management, long-term investment planning, and financial decision-making.
9. Regulators, financial institutions, and policymakers should strengthen coordination and continuously monitor global economic developments.
10. Financial institutions should improve their technological and institutional preparedness to respond quickly to future global economic shocks.

8. CONCLUSION

Global recession creates substantial challenges for the Indian financial sector because of India's increasing integration with international financial and economic systems. The study demonstrates that global economic downturns can reduce investment activity, weaken investor confidence, increase financial-market volatility, affect banking operations, reduce foreign investment, create exchange-rate pressures, and place additional stress on NBFCs, insurance companies, mutual funds, and other financial institutions. At the same time, the Indian financial sector has demonstrated considerable resilience through effective regulation, monetary and fiscal measures, technological advancement, institutional strengthening, and improved financial-risk management. RBI

intervention and government support can help reduce the adverse consequences of external economic shocks. Digital financial services also provide greater operational continuity during periods of uncertainty. Therefore, continuous strengthening of financial regulation, risk-management systems, digital infrastructure, institutional governance, and financial literacy is essential for maintaining long-term financial stability and sustainable economic growth in India.

9. REFERENCES

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