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Understanding the Shape of Recovery

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Abstract

As the market continues to develop, grow, and become international, there is increasing confusion among companies about the direction of operations. Every day, it is more difficult for them to capture new shares in the market, acquire and receive new customers, maintain a customer base, constantly increase customer satisfaction, position themselves correctly in the market and resist competition, and a reaction to the spontaneity of market development. This shows how important marketing is becoming to how businesses run their operations and, naturally, to how successful they are. This need is also discussed by the top management and other departments, but especially by financial departments, often discussing the role and impact of marketing on the overall performance of the company, because marketing is very oriented and knows performance indicators, not economic results and profit it. Recently, there are views that emphasize that marketing is also financing because it completes the value chain and indirectly realizes all the goals of the company. According to this logic, it became necessary to measure its performance not only with marketing KPI (Key Performance Indicator), but also with financial metrics. Why marketing and finance are closely related and the purpose of the study is to show that different recovery curves help the economy. This article attempts to provide some notable examples from the Indian economy.

Keywords: recovery, Indian economy, India's recovery, post-pandemic economy, recovery curves

INTRODUCTION

We have heard about different types of recovery curves, but recently we come across another type of recovery curve, the K-shaped recovery curve, which gives a more realistic but unpleasant picture. Their analysis indicates that the path to recovery is divided into two: some sectors of the economy are recovering swiftly thanks to large corporations and public sector organizations' direct access to government and central bank stimulus packages, while others are being left behind. The typical scapegoats—workers, the declining middle-class, and small- and medium-sized firms (SMEs)—are left out.

WHAT IS RECOVERY RATE?

In credit risk management, the term "recovery" frequently refers to the sum that was made back as a result of a loan default. In other words, the recovery rate is the amount, expressed as a percentage, that will be collected from the loan if the borrower fails to repay the entire loan amount. A higher interest rate is always desirable. While interest is usually used to default on debts, it can also be used to delay accounts receivable [1].

Formula for Recovery Rate

Recovery Rate = Amount Recovered / Amount Loaned

Where;

The amount refunded consists of the rupees the issuer has earned throughout the loan duration.

The amount borrowed by the issuer is known as the borrowed amount.

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Factors that Affect the Recovery Rate

Looking at the factors that can affect the speed of recovery, the most important factors are poor macroeconomic conditions and business problems [2].

Macroeconomic Conditions

A bad macroeconomic situation seriously affects the recovery of loans. When there is a severe economic downturn, interest rates are typically lower. In bad macroeconomic conditions, the profitability of companies weakens and the risk of non-payment of debts is higher. For example, consider the following scenario: Company.

ABC has problems with profitability and defaults on its loan next year. There are $100,000 left over. The business can produce $900,000 to pay off its debt in a robust economy. With a weak economy, the company can earn only $300,000 [3].

As discussed above, poor macroeconomic conditions reduce the collection rate for a firm that is expected to default on its debt because the firm earns less profit to service its debt. The worst macroeconomic conditions and company problems stand out when examining the factors that can influence the rate of recovery (Figure 1).

Business Issues

Failure due to unexpected business problems affects the recovery. For instance, a devastating fire that renders a corporation incapable may cause it to default on its debts. In short, the company's problems that affect the company's business operations and profitability are key to the recovery [4].

THE CONUNDRUM OF ECONOMIC POLLUTION

The *Cantillon effect* in economics is the term used to describe the shift in relative prices brought on by a change in the money supply. Distributional effects result from using the price system when liquidity is introduced to the market. Because relative price changes are caused by changes in the money supply, which have a fixed injection point and flow path through the economy, prices serve as useful signals.

When increased liquidity or subsidies go to certain industries or market participants, this leads to greater inequality, lower demand curves, and higher unemployment and private sector debt. Neglect increases when unemployment and private sector debt rise. And when debt institutions are "too big to fail," their defaults trigger government bailouts that effectively turn private debt into public debt. Adair Turner gave to this phenomenon the term "economic pollution" [5].

Technology: A Proxy Antidote to Economic Pollution

Given the seriousness of the situation, pace must be emphasized. Waiting for government policies to ensure the proper allocation of capital or to make better supply-side economic policy changes—such as reducing the exemption or tax burden of starting a business—is a luxury that most businesses and workers simply do not have. The working capital of companies must be supported by sales,

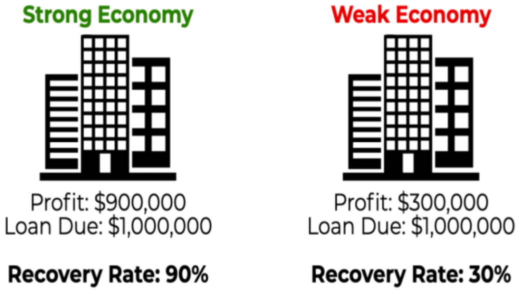

Figure 1. Strong and weak economy and their recovery rate.

Table 1. Growth rate of GDP for the year 2019-2024.

Year	Likely growth rate of GDP (in %)	Likely absolute GDP in Rs Trillion*	Absolute GDP at 6% growth (Rs Trillion)	Absolute GDP at 8% growth (Rs Trillion)
2019–20 (pre-COVID)	5	207		
2019–20 (post-COVID)	3	203		
2020–21	–12	178	219	224
2021–22	–9	163	233	261
2022–23	6	172	547	261
2023–24	6	183	261	282

because security comes from income streams. Here is where technology is crucial since, when used wisely, it serves as a major enabler of productivity development and new revenue streams [6].

For example, as more and more office workers began working online, the virtual conferencing platform Zoom experienced an unprecedented increase in traffic, a challenge for which their data centers were ill-suited. Fortunately, as their entire business moved to the cloud, a partnership with Amazon Web Services allowed them to meet this challenge [7].

Zoom has not only been able to meet the growing need but its flexible cloud-based business model has also led to a rapid acquisition of paying customers. The smart use of technology can only be advantageous to clean technology firms and partners that comprehend their needs. Not only were they able to meet new needs, but they were able to create new supply chains that benefit the local economy by partnering with local businesses. A win–win scenario of data analysis.

Table 1 gives an overview of the likely trend level of GDP if India grew at 6% and 8% over the same period. In Table 1, India's economy will not only shrink in FY 2020–2021 but also in 2021–2022, according to an analysis by former Chief Statistician of India, Pronab Sen:

- The first time in India's history as an independent nation, a full-blown economic recession may result from this.
- According to the table, India's absolute gross domestic product (GDP) will probably struggle to recover for the years 2019–2020 and 2023–2024.
- India is likely to enter a "long-term U-shaped" recovery as economic weakness transitions to the corona crisis and inadequate government fiscal stimulus measures.
- Other economists believe that the shape of India's economic recovery is difficult to predict at this stage because there are too many unknowns.
- If the second wave of COVID-19 comes, India can expect a rapid recovery from negative growth to pre-coronavirus levels (5%) and a gradual recovery to 7% in the second half of the next fiscal year (2021–2022).
- However, data conducted by former Indian Chief Statistician, Pronab Sen, predicts that India's economy will decrease in both the 2020–2021 and 2021–2022 fiscal years.
- As a result, India may go through a full-blown depression for the first time in its history as an independent country.
- According to the Table, India's absolute GDP will probably have a hard time even reaching the 2019–2020 level by 2023–2024.
- India's economy was poor before the COVID crisis, and the government's inadequate fiscal stimulus measures are likely to result in a "elongated U-shape" recovery.
- According to other experts, there are now too many unknowns to accurately estimate how India's economy will rebound [8].
- In the event of a second wave of COVID-19, India can anticipate a rapid return to pre-COVID growth levels of 5% and a steady recovery to 7% by the second part of the next fiscal year (2021–2022).

WHAT IS THE SHAPE OF A RECESSION?

"A major fall in economic activity throughout the economy that lasts longer than a few months and is often reflected in GDP, real income, employment, industrial production, and wholesale and retail sales," according to the NBER, is what is meant by a recession [8].

Fortunately, recessions doesn't last forever, and neither do the coronaviruses. Recession at some point, the economy will reopen and start growing again, although what the recovery might look like is unclear. Let's see how V, U, W L K Z shaped recessions compare with each other and how they might play out in a crisis.

We discuss the shape of the economic recovery curve and look at different possibilities. The most positive scenario is the Z-shaped recovery. Due to slack demand, the economy is quickly emerging from a recession. This occurs when the slowdown has little impact on people's income levels and only delays the demand for products and services until the pandemic passes. Absolute GDP briefly deviates from the trend line before eventually settling in. This pattern indicates that the pandemic's impacts won't last very long (Figure 2).

V-shaped Recovery

Cursive V

We call it "Cursive V". It is also known as the "swoosh". This is the second-best scenario. After a steep collapse, the economy soon returns to the pre-pandemic trend line, but there is no brief recovery (as in the Z curve). This is due to the fact that demand for goods and services is really declining. When the effect on profits is transient, this occurs. In china's case, the Wuhan virus originally made its appearance in China. By placing money directly in the hands of consumers, it was able to stop the virus's spread and gave the economy enough financial support. Because of this, China's GDP decreased by 6.8% between January and March 2020 but increased by 3.2% between April and June 2020. It denotes a sudden drop followed by a sudden rise (Figure 3).

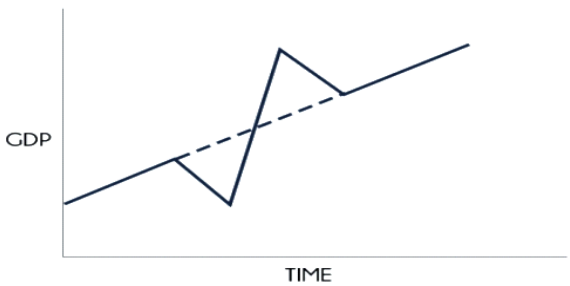

Figure 2. Shape of recovery-Z.

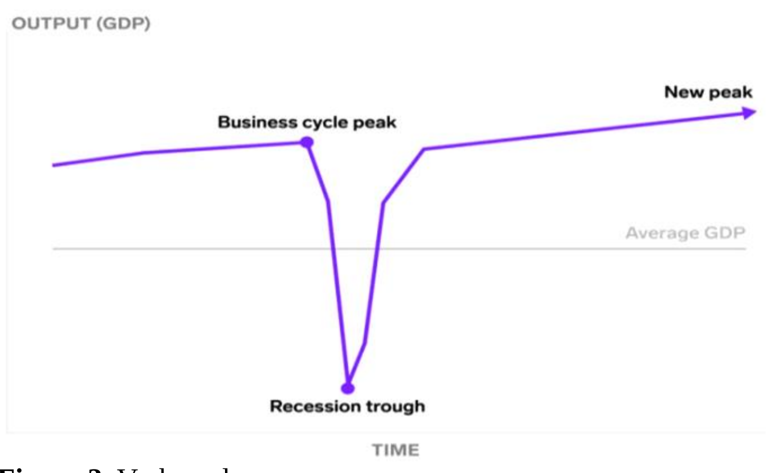

Figure 3. V-shaped recovery.

Italicized V

We are talking about Italicized V. Another name for it is the “swoosh”.

U-shaped Recovery

Even when the GDP curve returns to the pre-pandemic trend line, the recovery in this instance is gradual, in contrast to a V-shaped recovery. This is because income is affected by job losses. The 18-month-long, U-shaped US financial crisis of 2008 was followed by a gradual recovery (Figure 4).

Swoosh Shaped Back

It is shaped like the Nike logo. It exhibits a sharp decline and a protracted, gradual rebound (Figure 5).

W-shaped Recovery

In this country, the economy emerges from a recession swiftly. This may occur if a second wave of infection strikes nations that have managed to suppress the virus (Figure 6).

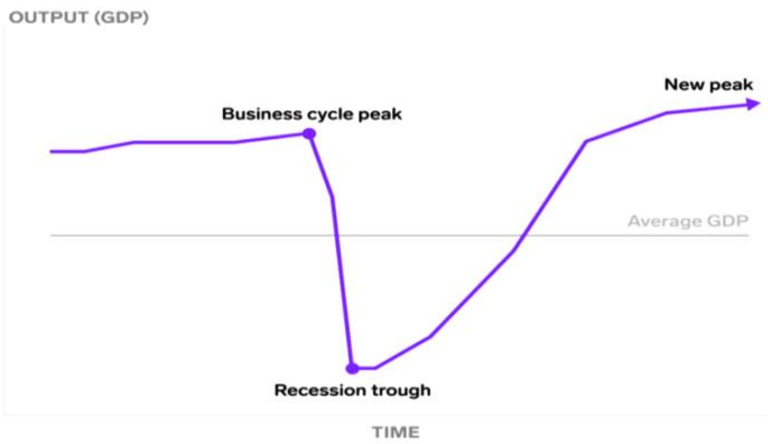

Figure 4. U-shaped recovery.

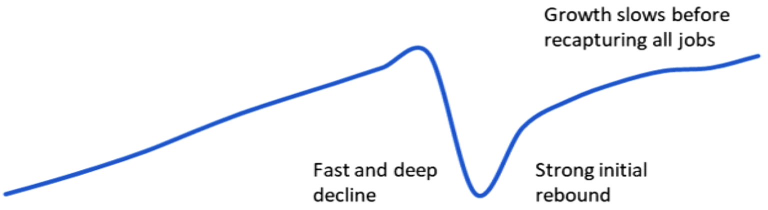

Figure 5. Swoosh-shaped recovery.

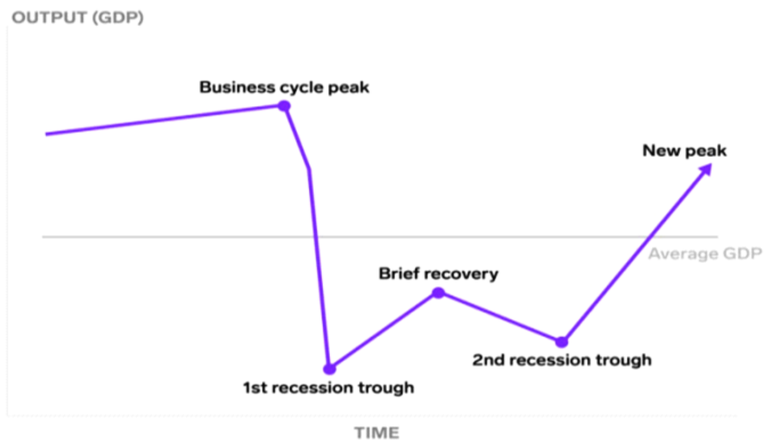

Figure 6. W-shaped recovery.

L-shaped Recovery

This is the worst-case scenario. The economy won't recover for years. The period of low GDP is long. The Great Depression of the 1930s, which lasted 3 months and four consecutive years of negative GDP growth, was L-shaped (Figure 7).

K-shaped Recovery

Although the post-COVID environment is predicted to be K-shaped, several factors will affect the actual shape of the recovery, especially the future of the virus and the actions of executive and legislative agencies of fiscal support. This recovery is indeed unique in that it does not follow any path seen before, such as after an asset bubble or credit crisis (Figure 8).

While India was beginning to show indications of improvement, the epidemic struck, worsening the situation. In the fourth quarter of 2019–2020, GDP was only 3.1% (the shutdown was only imposed in the third week of March). And the SBI survey report predicts that GDP will decline in 2020–2021 more than 0% in the first quarter of the year.

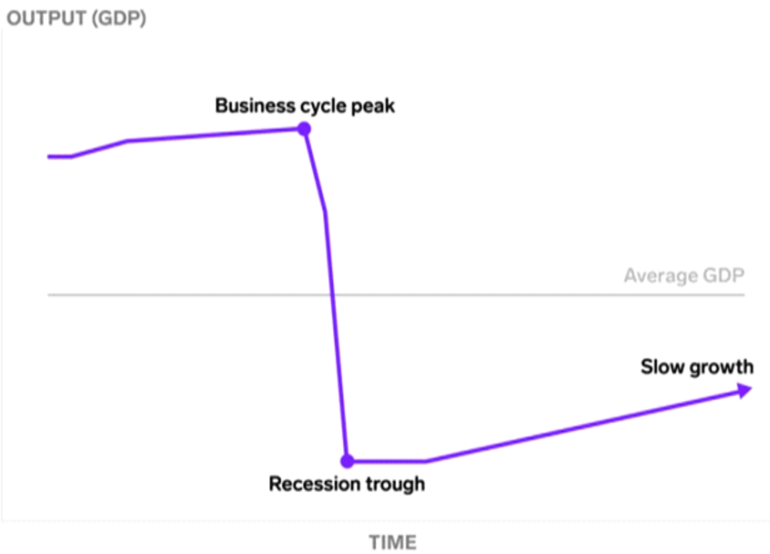

Figure 7. L-shape recovery.

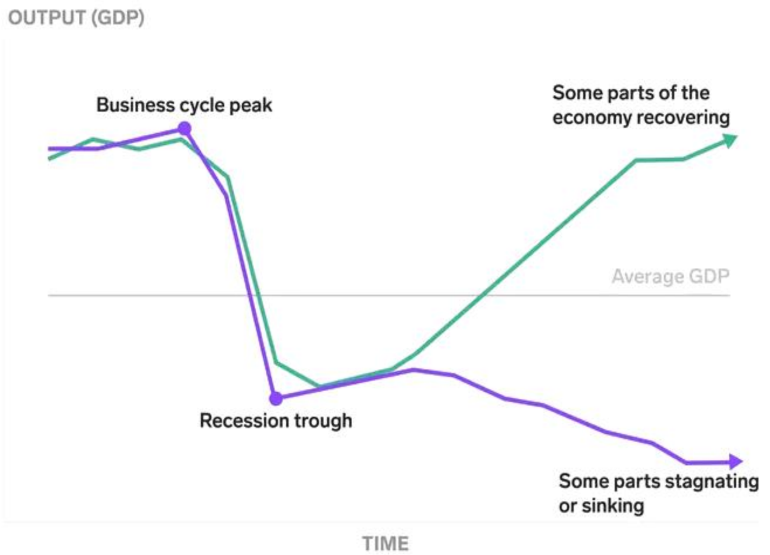

Figure 8. K-shaped recovery.

CONCLUSION

There is no doubt that the economy is recovering after the pandemic subsides, but the awkwardness of the process is equally clear. The issue is as convoluted as the Roman star it is symbolized by since some industries are returning steadily more quickly than others.

One of the most affected is the labor sector, where there is still no certainty that workers, regardless of their skills or qualifications, will be protected from future layoffs if the economic downturn continues. Nonetheless, this would be a cyclical problem that would probably go away as the economy started to recover. As for low-wage and less-educated workers, they were already recruited before COVID-19, and automation is already reducing job opportunities and wages. It will carry on even after the pandemic, just more quickly.

So, can we hope for anything better than the K-tee that is safer for all workers and economic areas? It proposed expanding income support and basic income, as well as expanding incentives to help small businesses and restoring unions.

This means that focusing on the higher range of K while rejecting the lower can preserve financial sanity, but only for a while. Ultimately, this can bring even more financial challenges and stress to society as a whole. Since large trends could not be reversed, all these measures should be studied over time.

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