

Does the credit cycle play a role in forecasting recessions? Evidence from India

Abstract

The paper investigates the role of the credit cycle in forecasting recessions in India, a developing economy characterized by underdeveloped bond market and a bank-based financial system that may limit the predictive power of the most reliable indicator in literature, the slope of yield curve. This study employs machine learning technique Support Vector Machines (SVM) with different kernels, along with standard Probit and Logit models for analysis. The findings reveal that credit cycle outperform the slope of the yield curve in-and-out-of-sample recession forecasting. These results provide valuable insights for policymakers, particularly those in developing countries, to enhance their recession forecasting.

JEL classifications: C33, E37, E44

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