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EMERGING CONTOURS OF GLOBAL GROWTH

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PERSPECTIVE

The present era is an era of change and transformation, an era in which all elements are critically in ferment. This world is characterized by widespread turbulence and rapidity and volatility of events. This reminds us of an old Chinese proverb: "may you live in interesting times"!

There has been a confluence of Innovation, Big Data, Artificial Intelligence (AI), Machine Learning (ML), Deep Learning (DL), Robotics, Analytics, Internet and Entrepreneurship. The issues of volatility, uncertainty, complexity and ambiguity (VUCA), disruptive innovations and regulatory compliances have increasingly come to the fore. But in this cacophony of sound and fury, we sometimes wonder-as T.S. Eliot did about a century ago-

"Where is the wisdom we have lost in knowledge?

Where is the knowledge we have lost in information?"

Global Growth

The International Monetary Fund (IMF) on October 11, 2022 forecasted global growth to slow from 6 per cent in 2021 to 3.2 per cent in 2022 and 2.7 per cent in 2023. This globally synchronized deceleration stems from a contraction of GDP in the USA in the first half of 2022, a Euro zone contraction in the second half of 2022, rising interest rates, persistent real income squeeze on households and demand together with higher mortgage rates and the pandemic's shadow.

The IMF's purchasing manager indices, which reflect the momentum of manufacturing and services activity for a slew of G20 economies, unmistakably bring out a steady worsening in recent months with the index moving from expansionary territory earlier this year to a contractionary level for both advanced and emerging market economies. This aspect clearly reveals that this slowdown goes beyond individual countries and geographies and has acquired a global character and ramification. Given the overarching global and domestic contexts, well-conceived policies, meticulous implementation and coordinated and concerted action across the development spectrum with a sense of immediacy is needed for accelerated development, structural transformation and more inclusive growth.

Latest World Economic Outlook Growth Projections

(real GDP, annual percent change)	2021	PROJECTIONS 2022	PROJECTIONS 2023
World Output	6.0	3.2	2.7
Advanced Economies	5.2	2.4	1.1
United States	5.7	1.6	1.0
Euro Area	5.2	3.1	0.5
Germany	2.6	1.5	-0.3
France	6.8	2.5	0.7
Italy	6.6	3.2	-0.2
Spain	5.1	4.3	1.2
Japan	1.7	1.7	1.6
United Kingdom	7.4	3.6	0.3
Canada	4.5	3.3	1.5
Other Advanced Economies	5.3	2.8	2.3
Emerging Market and Developing Economies	6.6	3.7	3.7
Emerging and Developing Asia	7.2	4.4	4.9
China	8.1	3.2	4.4
India	8.7	6.8	6.1
ASEAN-5	3.4	5.3	4.9
Emerging and Developing Europe	6.8	0.0	0.6
Russia	4.7	-3.4	-2.3
Latin America and the Caribbean	6.9	3.5	1.7
Brazil	4.6	2.8	1.0
Mexico	4.8	2.1	1.2
Middle East and Central Asia	4.5	5.0	3.6
Saudi Arabia	3.2	7.6	3.7
Sub-Saharan Africa	4.7	3.6	3.7
Nigeria	3.6	3.2	3.0
South Africa	4.9	2.1	1.1
Memorandum			
Emerging Market and Middle-Income Economies	6.8	3.6	3.6
Low-Income Developing Countries	4.1	4.8	4.9

Source: IMF, *World Economic Outlook*, October 2022

Note: For India, data and forecasts are presented on a fiscal year basis, with FY 2021/2022 starting in April 2021. For the October 2022 WEO, India's growth projections are 6.9 percent in 2022 and 5.4 percent in 2023 based on calendar year.

INTERNATIONAL MONETARY FUND IMF.org

The Chinese economy has been debilitated by the double whammy of rolling lockdowns post COVID-19 outbreaks and a rising property sector crisis. What makes matters worse is "the lingering effect of three powerful forces: the Russian invasion of Ukraine, a cost-of-living crisis caused by persistent and broadening inflation pressures, and the slowdown in China", thereby raising the dreaded specter of a recession. The toxic mix of spiraling inflation, surging interest rates and the unfolding energy crisis substantiates the recessionary thesis. The magnitude and scale of recession would be a function of imminent changes to taxes, government spending, energy prices and global cues.

The real and worrisome concerns triggered by the triad of Russia's invasion of Ukraine, the cost-of-living crisis and China's economic slowdown make for an economically, geopolitically and ecologically "volatile" period. The grim situation in Europe is reminiscent of "the sick man of Europe".

Ms. Gita Gopinath, the IMF's first Deputy Managing Director stressed that geo-economic fragmentation and protectionism was undermining economic growth, with about 30 countries restricting trade in food, energy, and other commodities since Russia's invasion of Ukraine. All these factors, which deplete resilience of the real economy, strongly suggest that things could get worse before they get any better.

Unsustainably High Inflation across the Development Spectrum

In an Address on November 10, 2022, Ms. Kristalina Georgieva, MD, IMF, succinctly summed up the greatly disconcerting situation as follows: "inflation is at multi-decade highs with rising food and energy prices, persistent supply chain disruptions and mounting debt vulnerabilities".

With Russia now delivering less than 20 per cent of 2021 levels, the price of natural gas rose over four-folds and food prices marked by an inflationary spiral. Hence, global inflation could peak in late 2022, increasing from 4.7 per cent in 2021 to 8.8 per cent; remaining "elevated for longer than previously expected."

Eurozone's inflation rose inter-alia because of higher energy and food prices to 10.7 per cent year-on-year in October 2022 from 9.9 per cent in September exacerbating pressure on the ECB to persist with rate hikes despite a diminishing global outlook.

The IMF maintains that global inflation is likely to decrease to 6.5 per cent in 2023 and to 4.1 per cent by 2024 because of tightening monetary policy by almost all central banks to check inflation and the "powerful appreciation" of the U.S. dollar against other currencies.

Evidently growth is sliding because of a constellation of factors. Further policy tightening is, however, on because the containment of the inflationary spiral remains the overriding concern in the emerging landscape and must occupy center-stage in development policy formulations and options.

The IMF's Global Financial Stability Report also stressed a deteriorating economic outlook. "The global environment is fragile with storm clouds on the horizon" because of the cumulative effects of China's debilitating "zero-Covid policy" and the disarray in the property market. For emerging markets and developing economies, the shocks of 2022 will "re-open economic wounds that were only partially healed following the pandemic".

Pathway to the Future

Cognizable policy dilemmas involved in the testing financial stability environment bring to the fore the distinct possibility of further shocks triggering "market illiquidity, disorderly sell-offs, or distress". This unenviable situation would exacerbate poverty and deprivation and accentuate inequalities in distribution of income and wealth.

The IMF also highlighted that the risk of monetary, fiscal or financial policy "miscalibration" had "risen sharply," while the world economy "remains historically fragile" and financial markets are "showing signs of stress".

"The cumulative tightening of monetary policy" suggests a continued higher upward bias on interest rates though at a slower rate. While "front-loaded and aggressive monetary tightening" is needed, a "large" downturn is not "inevitable" because of tight labor markets in the U.S. and U.K. In the ultimate analysis, fiscal policy should work in tandem with monetary policy to contain inflation within manageable proportion in the overarching context of rising interest rates, sliding growth and volatile environment.

Heightened geopolitical tensions-Russia-Ukraine war, volatile prices of oil and gold; overleveraged non-financial sectors, viz., exchange rate volatility; elevated debt levels among governments, businesses and households; losses of jobs and incomes hamper global rebound and raise worrisome concerns of mounting global debt, risks to financial stability and resilient financial system.

Going forward, the pursuit of reduced inflation and a prudent fiscal policy requires successfully straddling conflicting policy choices and adroitly manage trade-offs. The lurking fear of stagflation necessitates robust growth, stronger macroeconomic frameworks, reduced financial vulnerabilities, and provision of safety nets to vulnerable groups to alleviate the impact of rising food and fuel prices without aggravating inflationary pressures and swerving away from the well-defined course of monetary policy.

Indian Landscape

In the evolving global order, which is certain to be characterized by a clear re-set, India is likely to steadily surge ahead because of its rising size and scale making it the third-largest economy by 2027. India's GDP could more than double from the current $3.4 trillion now to $8.5 trillion over the next decade with an accent on investment, exports and employment, GST, corporate tax cuts, production-linked incentives (PLIs) and progressively rising formal economy.

India's market capitalization will surge from $3.4 trillion to $11trillion by 2032 because of compelling domestic and global factors, viz., a paradigm shift from redistribution to investment and job creation. Tailwinds include the rolling out of the goods and services tax (GST), corporate tax cuts, ascendant middle class and production-linked schemes (PLIs) to incentivize investment, catalyzing employment into the formal sector and enhancing productivity growth, thereby creating a virtuous cycle of sustained growth.