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GATHERING GLOBAL CLOUDS- HOW OMINOUS IN 2025?

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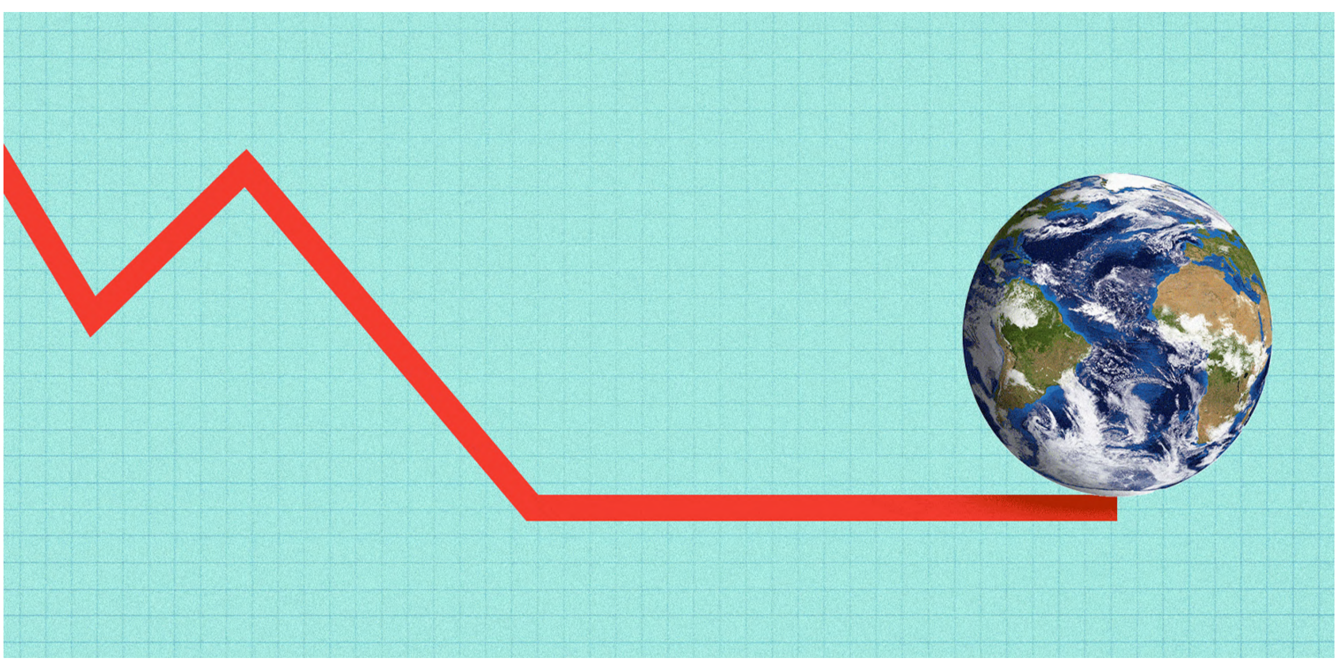
"The preservation of the republic is no less than governing- what a thankless task it is!"
Cicero, Speech, 9 November 63 BC

As 2024 draws to a close, it is that time of year again—a time to introspect, examine the performance of the year gone by and formulate a road map for the future. This is important because 2024 was eventful and this introspection and reflection on the likely shape of the global economy transcends routine cataloging of the year; it's also a meaningful time capsule, a reminder of the events, ideas, and trends that define life, work, and connection.

Before we welcome 2025, let us briefly hit the high spots of the overall economic performance in 2024, the resonating events and developments, providing a quick rundown of inspirations, challenges, and the collective experience for a comprehensive assessment and perspective in the pursuit of strategizing global prosperity.



GLOBAL ECONOMY

The IMF's *World Economic Outlook* (October 22, 2024) reported stable still, underwhelming global growth, with the balance of risks tilted to the downside due to geopolitics, the potential for disruptive policy changes, financial market vulnerabilities, and a widening chasm between geographies and economies. Such cognizable transforming world-order dilemmas make us wonder whether it's time for cautious optimism or rekindling animal spirits. There could be greater dispersion in central bank policy as economies attempt to balance risks to growth from the rising protectionism against the inflationary impact of a strong dollar and retaliatory tariffs.

While the global economy's growth at 3.2 % during 2023 and 2024 and 3.3 % in 2025, broadly in line with 2024has defied fears of stagflation or recession, there are reasons for concern in the disruptive scenario of today's VUCA (volatility, uncertainty, complexity, and ambiguity) world characterized by the growth of technology, increasing globalization with rising protectionism, the Russia-Ukraine war, the Middle Eastern situation, and President-elect Donald Trump's tariff threats, the global outlook remains subdued by historical standards. In 2024-25, growth is set to underperform its 2010s average in nearly 60 % of economies, comprising over 80 % of the global population.

The global economy is characterized by imminent uncertainty reminiscent of the centuries-old Chinese curse "*may you live in interesting times*"! The global economy has been rocked by geopolitical tension in Russia, Ukraine, the Middle East, and Myanmar starkly reflected in a staggering surge in conflicts over the past year with at least 233,000 people estimated to have been killed in conflicts in 2024 as per data of Armed Conflict Location and Event Data (ACLED). There are also issues of economic fragmentation, financial turbulence, significant central bank interest rate hikes to restore price stability, a withdrawal of fiscal support amidst higher debt-to-GDP ratios, unsustainable debt dynamics and China's decelerating path. While emerging markets like India ($4.3T) and Southeast Asia hold latent potential because of demographic dividends and supply chain diversification, such markets are hampered by unemployment and inequality in income and wealth in their pursuit of equitable broad-based development.

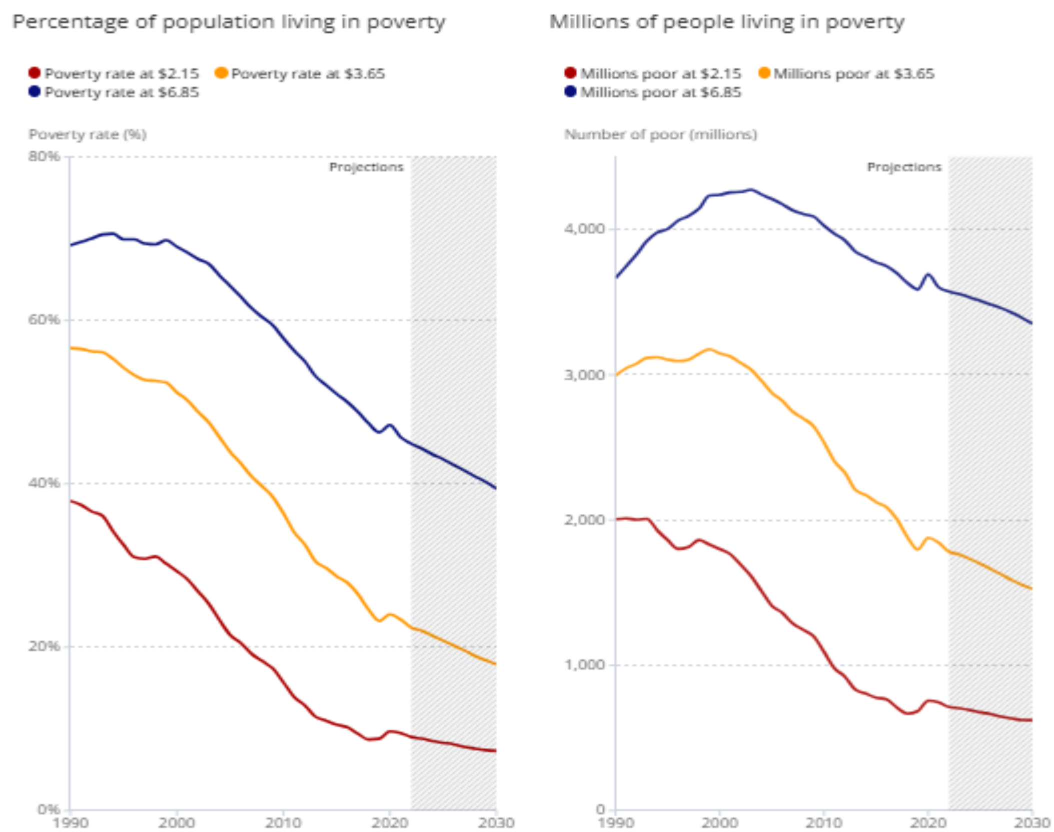
PRONOUNCED SKEW IN THE GLOBAL ECONOMY

There is a pronounced skew in the $115 trillion global economy for 2025 with advanced economies like USA ($30.3T) and China ($19.5T) leading the pack. What makes it galling is about 3.5 billion people (nearly half the world) subsist on less than $6.85 a day. Multidimensional poverty includes insufficient access to education, health, electricity, or basic services such as safe drinking water or sanitation. As of 2024, over one-third of people in countries eligible for support from the World Bank's IDA and more than half of those in Sub-Saharan Africa experienced multidimensional poverty, highlighting persistent development challenges. This poly-crisis reminds us of Muin Ahsan Jajbi's famous Urdu couplet

“जब कश्ती साबित-ओ-सालिम थी साहिल की तमन्ना किस को थी
अब ऐसी शिकस्ता कश्ती पर साहिल की तमन्ना कौन करे”

This means when the boat was intact (i.e., when the going was good), there was no wish to reach the shore; now when the boat is dilapidated (i.e., when things are in a mess), it's futile to expect to reach the shore.

Global extreme poverty reduction has slowed to a near standstill, with 2020-30 set to be a lost decade



Source: "World Bank. 2024. Poverty, Prosperity, and Planet Report 2024: Pathways Out of the Polycrisis. © Washington, DC: World Bank. http://hdl.handle.net/10986/42211 License: CC BY 3.0 IGO." • All $ values are expressed in per person per day in 2017 purchasing power parity dollars. 2022–30 are projections and are shown in dots at the ends of lines. In panel a, the black horizontal dotted line is drawn at 3 percent and indicates the World Bank's target of ending extreme poverty by 2030. In panel b, it is drawn at 256 million, which represents 3 percent of the global population projected for 2030.

US ECONOMY

The US economy's performance has been strong, with real GDP rising by 2.8 % in Q3 of 2024 compared to 3 % increase in Q2 of 2024. The increase in the Q 3 largely stemmed from increases in consumer spending, exports, federal government spending, and business investment but the tail risks also rose. Imports also rose.

Interest rates in the United States at 20-year highs fell steadily from their peak in 2022, inducing the Fed to reduce its key rate by 50 bps in September, 25 bps in November, and again 25 bps in December 2024. Thus the benchmark federal funds rate ranges from 4.25% to 4.5%. Yet inflation continues to breach the Fed's target level, making things uneasy.

The Federal Open Market Committee (FOMC), said "*Labor market conditions have generally eased, and the unemployment rate has moved up but remains low*" and while inflation has progressed toward the 2% objective, it "*remains somewhat elevated*". The Federal Reserve's rate cut affects home equity lines of credit (HELOCs) and home equity loans differently.

The FOMC added "*The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. The Committee judges that the risks to achieving its employment and inflation goals are roughly in balance. The economic outlook is uncertain, and the Committee is attentive to the risks to both sides of its dual mandate*".

It also projected that the personal consumption expenditures (PCE) index, which is the Fed's favored inflation measure, will end 2024 at 2.4% and will be 2.5% in 2025 — up from 2.1% in the previous projection released in September. PCE would then decline to 2.1% in 2026 before reaching 2% in 2027 and over the longer run. The dollar has appreciated sharply against other world currencies.

EUROZONE

Europe is led by Germany ($4.9 trillion) and France ($3.3 trillion) as major geographies. Eurozone is grappling with the seemingly intractable problems of decelerating growth because of energy transition, geopolitical disruptions, and an aging population. The Eurozone quarter-on-quarter GDP growth rate rose 0.4% in Q3 2024 because of increased government and household spending, and higher inventories. Among the biggest European economies, Germany grew by 0.1%, the Netherlands' economy decreased by 0.8%, Spain's economy rose by 0.8% and the French economy grew by 0.4%. The ECB cut interest rates by 0.25% and turned more dovish. The disinflation process in the Eurozone is on course and inflation could move to about the 2% medium-term target on a sustained basis. ECB's updated forecast sees headline inflation averaging 2.1% in 2025, and a slower economic recovery than in the September projections.

UK ECONOMY

The UK's $3.7 trillion economy (stagnated between July and September 2024) is marked by a "*stagnation trap*" characterized by low growth and chronic internal imbalances. The UK economy contracted 0.1% month-to-month in October, reducing the 3-month average to the lowest level since January with sectors like retail and hospitality reported taking the greatest hit. In a gloomy broader environment marked by a cooling labor market because of stiff Budget tax hikes, reducing vacancies, anemic consumer spending, and global tariff fears. What is prognostically alarming is that the growth indicator survey from the Confederation of British Industry (CBI) said its latest company survey suggested: "*the economy is headed for the worst of all worlds*".

LOW AND MIDDLE-INCOME COUNTRIES

There is no imminent threat of a systemic debt crisis but the low and middle-income countries are susceptible to high debt servicing costs. Despite these and other contextually significant concerns, the global economy has been resilient. President-elect Trump's aggressive tariff and other threats stem from the transactional basis of international relations, where strategic alliances are affected by perceived national interests, economic number crunching and adroitly straddling diplomatic balance in a world of constant churn. This makes it difficult to evaluate the precise impact of such changes, which defy the letter and spirit of *laissez-faire*. But it is perhaps fair to say that despite their imprecise sequencing and ramifications, slower disinflation and a shallower interest rate easing cycle are on the cards. In contrast to the Euro area and China, hampered by trade tensions and structural obstacles, the US is still likely to grow robustly but this growth could slacken sequentially.

AFRICA AND LATIN AMERICA

Investment in infrastructure, trade integration, and governance reforms can help Africa and Latin America to extricate them out of a low-level equilibrium trap and accelerate economic development.

Concentration Commodity Risk in Brazil, Saudi Arabia and South Africa

Resource-dependent economies like Brazil ($2.3T), Saudi Arabia ($1.1T), and South Africa ($418B) are confronted with the issue of concentration of commodity risk and the compelling need for a paradigm shift to broad-based development. This issue assumes greater significance because of a renewed thrust on decarbonization and renewable energy transition.

GLOBAL CPI INFLATION

In this overarching global scenario, global CPI inflation could decline slowly from 5.1% in 2024 to an average of 3.3% in 2025 and 3.0% in 2026. Accordingly, while the US Fed could make two interest rate cuts in 2025, central banks in the Euro area and China are likely to ease policy faster because of overriding growth concerns in the growth-inflation conundrum. In a contradictory move on Dec. 18, 2024, the Fed cut its benchmark rate 25 basis points into the 4.25% to 4.5% range, while acknowledging that inflation isn't falling and raising their outlook for a key inflation metric — core PCE — from 2.2% to 2.5%, and halving their estimate for 2025 rate cuts from four to two.

EXACERBATING FISCAL RISKS

However, fiscal risks may exacerbate pressure on long-dated West bond yields. Over the long haul, the "*five D*" structural themes of deglobalization, decarbonization, demographics, digitalization, and debt will have a determining influence on the global economy. An adverse alternative economic scenario, e.g., worsening geopolitical tension, disruptive trade war, or financial market risks could lead to "*renewed supply shocks*" or a "*global recessio*n".

With easing monetary policy amidst continued disinflation, there is a compelling need for a sustained fiscal policy and rebuilding fiscal buffers to ensure that during difficult periods, fiscal policy could "*lean against the wind*". Promoting stable and robust growth without in any way being oblivious to the concerns of broad-based inclusive growth requires an examination of the role of monetary policy in recent global disinflation, and the factors affecting the social acceptability of structural reforms.

TECTONIC CHANGES

Considered in a proper historical and comparative perspective, data analytics, digitalization, and disruption have altered the rules of the game and brought about a "*new normal*". The World Economic Forum (WEF) stressed that the fourth industrial revolution is striking because of the velocity of change, the scope of change, and systems impact, e.g., telecom companies took 20 years to reach 20 billion messages a day, Whatsapp reached 34 billion messages a day in less than 7 years-changes in the competitive landscape and customer segments.

The issues of disruptive innovations, regulatory compliances, and domain knowledge together with big-picture issues facing industries and organizations have become commonplace. These competitive realities have blurred industry boundaries, transformed standard practice, and rendered conventional blueprint of development obsolete making it necessary to leverage the power of the digital by extrapolating the unknown.

There have been game-changing changes in data analytics, digitalization, and disruption because of the confluence of innovation, big data, artificial intelligence (AI), machine learning (ML), deep learning (DL), robotics, analytics, internet, and entrepreneurship. Such transformative changes harness the potential of technology and drive global economic growth.

Cataclysmic changes in AI and technology, demography, geopolitics, and sustainability are influencing the world in multifarious ways**.** But in this VUCA world of disruptive innovations and regulatory compliances, we sometimes wonder

"*Where is the wisdom we have lost in knowledge?*

Where is the knowledge we have lost in information?"

T.S. Eliot

A sequential progression from information to knowledge to wisdom is sorely missing today in the information explosion.

ROADMAP AHEAD

The writing on the wall is clear, the message of history unmistakable: the world needs new ways of thinking about finance and the risks it entails. Financial institutions can no longer exist in a cocoon or adopt an ostrich-like attitude in the wake of the inexorable process of globalization without being oblivious of safeguards in moving ahead with financial reforms and adopting best practices in mapping the future. These are difficult times, turbulent times, a time perhaps like no other in the century necessitating recalibrated strategies and changed focus to promote economic growth, global cooperation, digital transformation, climate action, and gender parity.

There is a compelling need for actionable strategies to address the challenges of the rapidly evolving economic scenario influenced by geopolitical shifts, transformative technologies, non-linear climate change, and fiscal imbalances in shaping a better future for the global economy.

Dostoevsky wrote, "*The darker the night, the brighter the stars*". Similarly, Shelley held "*If winter comes, can spring be far behind*"? We shall overcome. This too shall pass. We shall overcome. We have now to move to a new and higher orbit; together we can redefine and transform the course of history.

Indermit Gill, Senior Vice President and Chief Economist, the World Bank Group has correctly stressed "*Policymakers have cause to celebrate today: a global recession has been avoided despite the steepest rise in global interest rates since the 1980s. But they would be wise to keep their eye on the ball: growth rates remain too slow for progress. Without stronger international cooperation and a concerted push for policies that advance shared prosperity, the world could become stuck in the slow lane*." This is the way to go. Let us, therefore, all join hands in this common endeavor of scaling greater heights.

Note: An earlier and much briefer version of this article appeared in *The Economic Times* on December 25, 2024.