Slowdown in Global Growth

Why in news?

The global growth in the current year will slip to its slowest since the financial crisis (of 2008) as per the OECD's new forecast.

What are the current strained economic indicators?

- **Easing** - Very recently, the Federal Open Market Committee (FOMC) of the US Federal Reserve reduced policy interest rates by 25 basis points to support the US economy.
- This was after the European Central Bank pushed interest rate on its deposit facility further into negative territory.
- It also announced a plan to restart asset purchase without an end date.
- There are mixed reactions to this quantitative easing among the experts.
- **Dissent** - Aside from the decision to reduce policy rates, the other commonality in both the above central banks was the division among officials.
- In a way, this reflects the state of the global economy and difficulties in policymaking.
- E.g. the Fed saw three dissent votes in the FOMC meeting
- Similarly, several member countries in the EU were not in favour of restarting quantitative easing.
- **ECB** - Asset purchase by the ECB, among other things, could lead to dislocation in financial markets and escalate trade tensions.
- It will increase the supply of euros in the system and put downward pressure on the exchange rate (which would help exporters in the region).
- The market condition would encourage global money managers to shift from Europe to other countries, particularly the US, which will strengthen the dollar.
- US President Trump accused the ECB of manipulating the euro in the past.
- Clearly, ECB's latest move will not please Mr Trump, who firmly believes that the US is being treated unfairly by its trading partners.
- **Currency** - Also, the above would encourage other countries, both in the developed and emerging markets, to manage their currencies more aggressively.
- This would potentially lead to further escalation in trade tensions.

- **Trade war** - The OECD forecast is largely because of the ongoing US-China trade war which is affecting the global economy significantly.
- E.g. a recent Fed note showed that trade policy uncertainty in the first half of 2018 accounts for a decline in global GDP by about 0.8% by the first half of 2019

What are the challenges ahead?

- Trade uncertainty is likely to slowdown global growth in the foreseeable future.
- While the central banks are doing their bit to contain the damage, there are limits to what they can achieve in an unsupportive policy environment.
- Monetary policy is a powerful tool that works to support consumer spending, business investment, and public confidence.
- However, it cannot provide a settled rulebook for international trade.
- Also, besides slower economic growth and trade and currency issues, the global economy also has to deal with higher oil prices and geopolitical tension in West Asia.

How will this affect India?

- The ongoing uncertainty in the global economy will only add to India's problems and could prolong the economic slowdown.
- Emerging market countries like India tend to benefit from monetary accommodation in the advanced economies because of higher capital flows.
- However, an increase in risk aversion in the global financial system could reverse flows.
- In the given global economic situation, policymakers in India should redouble efforts to build investor confidence.
- This could happen through reforms that would increase the ease of doing business and protect macroeconomic stability.

Source: Business Standards

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