

## 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**