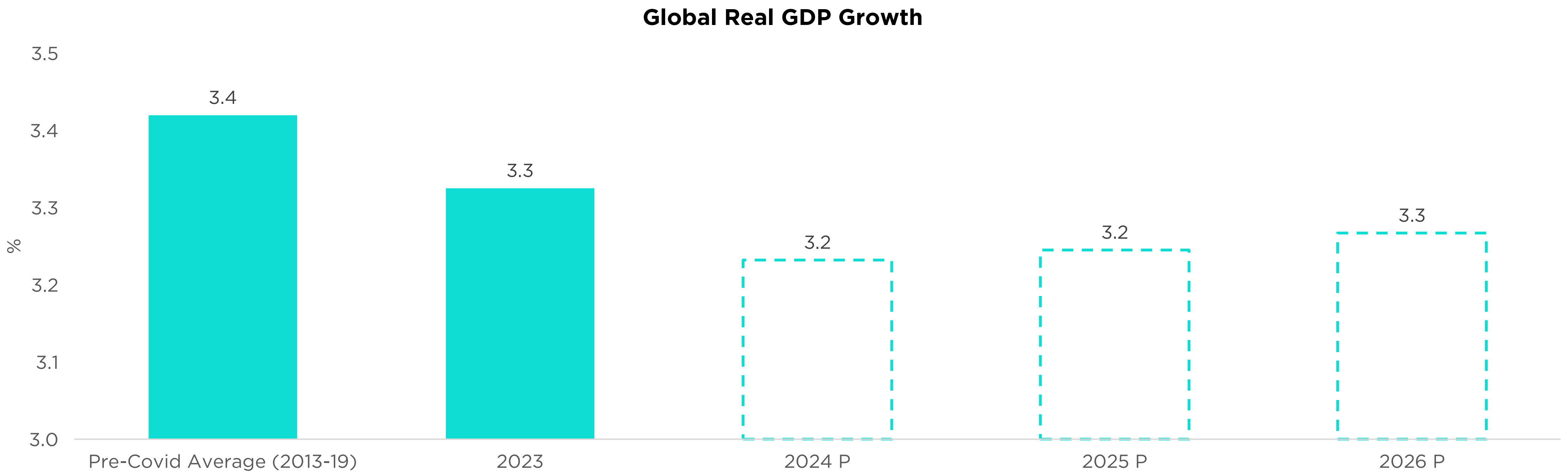
CareEdge

Global Economy Update

December 2024

Global GDP Growth to Stay Largely Stable

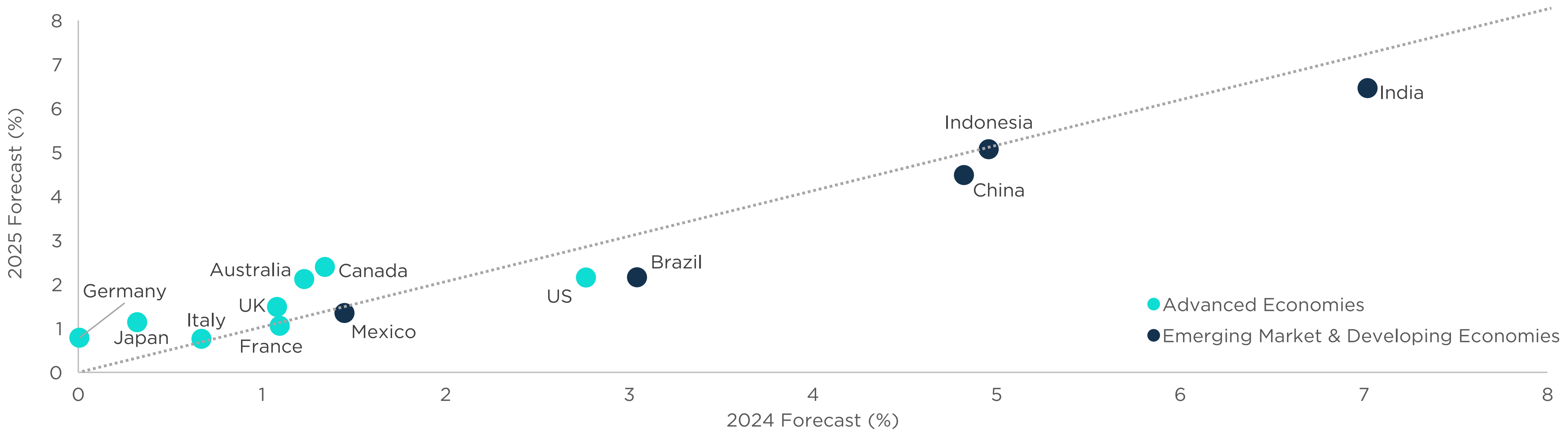


Source: IMF World Economic Outlook (WEO- October 2024)
Note: P- Projections

- Moderating inflation and global monetary easing are expected to support growth, though rising geopolitical and trade uncertainties may pose challenges
- Global growth is projected to remain slightly below pre-pandemic levels
- Advanced economies are expected to grow at 1.8% over the next two years, while emerging market and developing economies are expected to grow at 4.2%

Growth Trends Diverge Across Economies

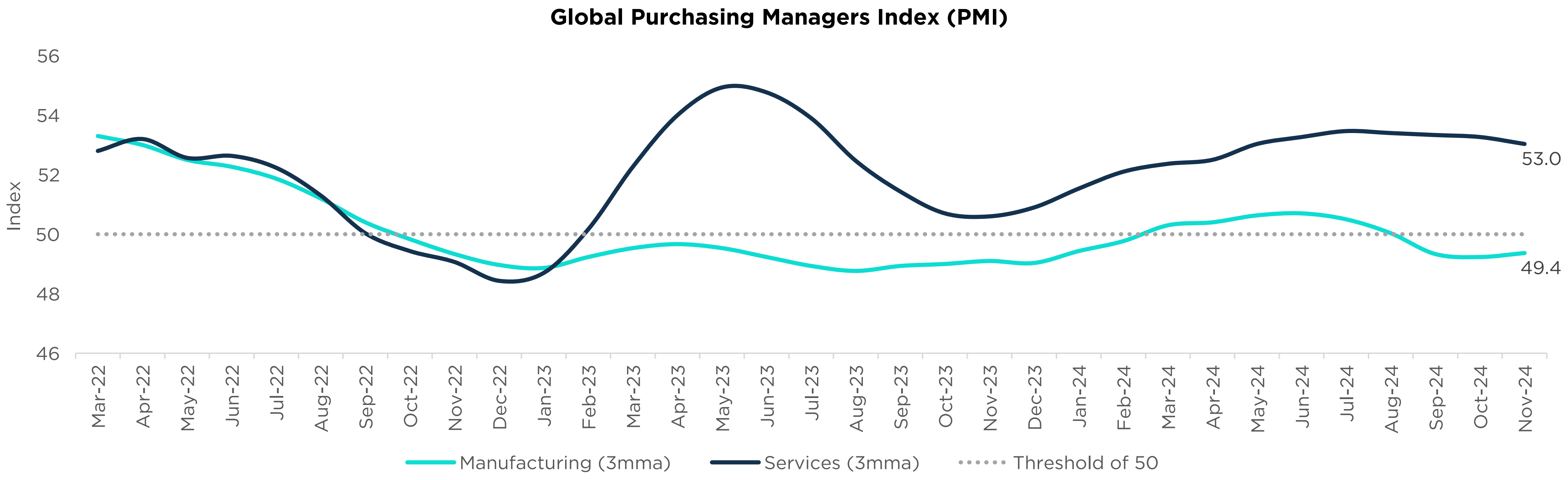
Real GDP Growth



Source: IMF WEO

- France, Mexico and Indonesia are expected to grow at a similar rate in 2025 as in 2024
- US, Brazil and China are projected to experience slower growth in 2025
- Growth is forecasted to pick up in Japan, the UK, Australia, and Canada in 2025
- India is expected to remain the fastest growing economy

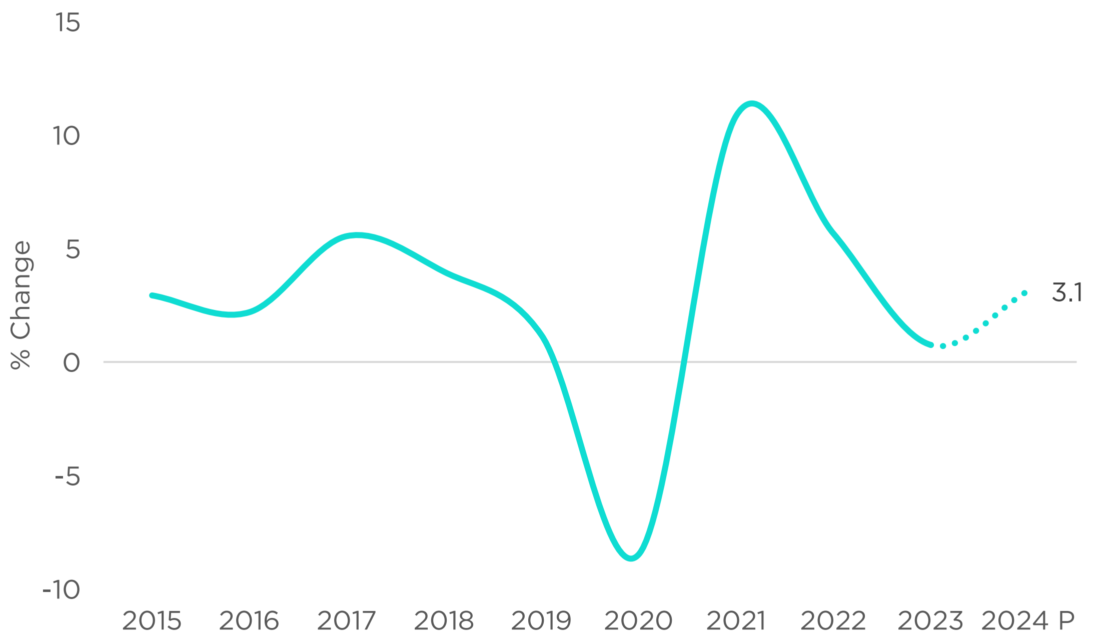
Services Sector Outpaces Manufacturing Globally



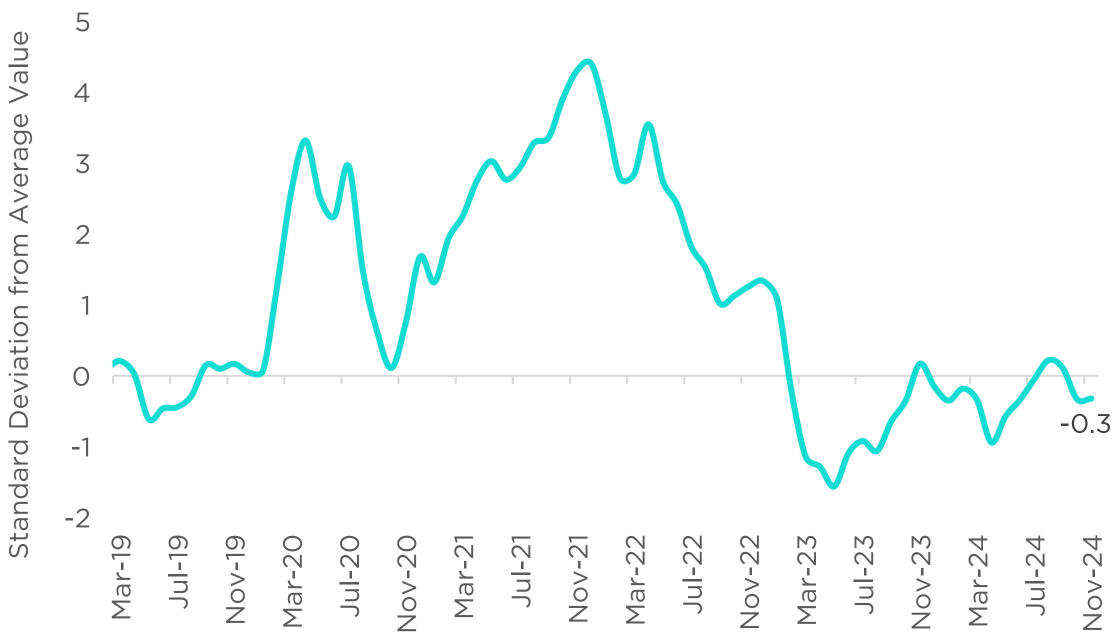
Source: CEIC
Note: 3mma refers to three month moving average

- Strong demand for services continues, with global PMI Services in the expansionary zone for the 22nd consecutive month
- In contrast, global PMI Manufacturing (3mma) remains in the contractionary zone, staying below the threshold for 18 of the past 24 months

Trade Volume Rose in 2024; Supply Chains Pressures Increased Slightly



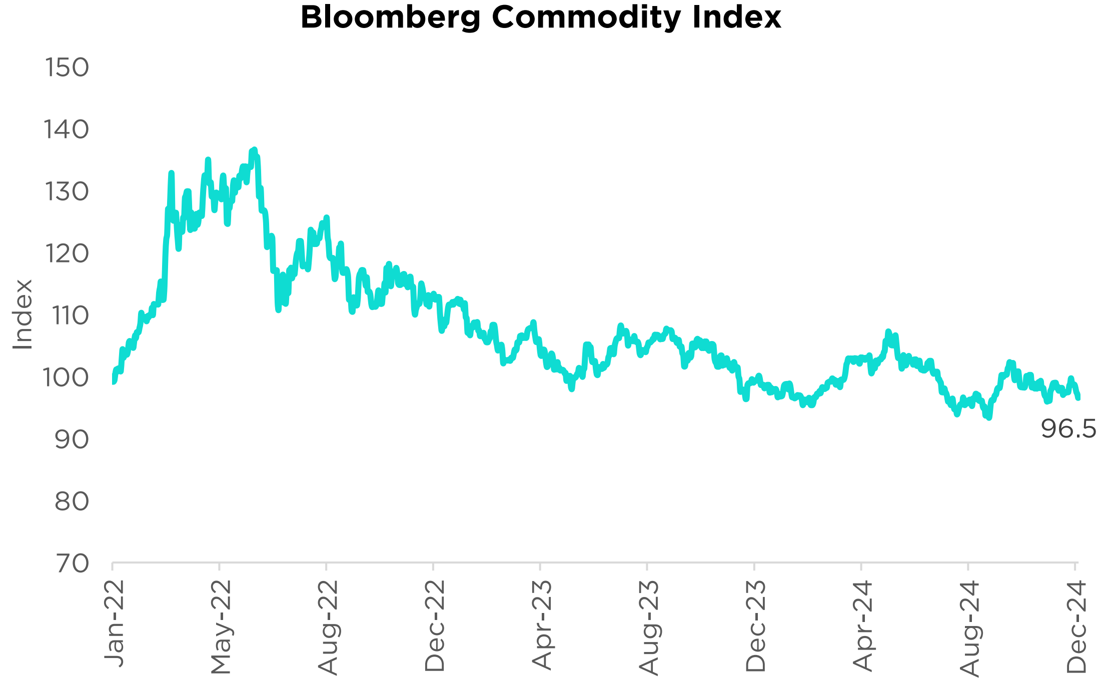
Source: IMF WEO



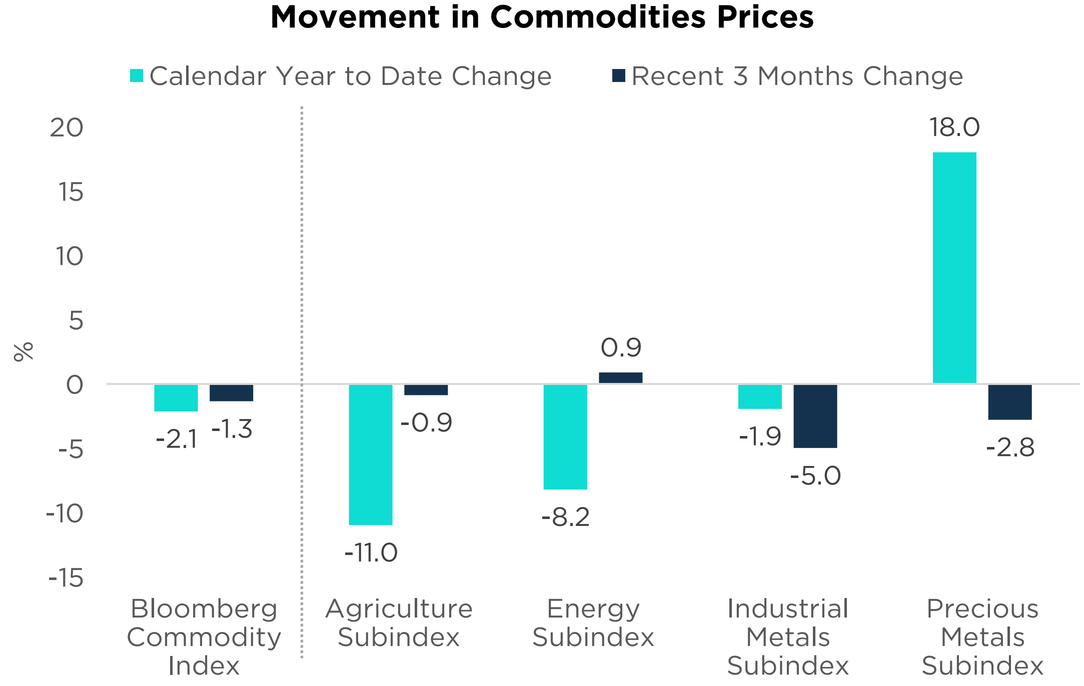
Source: Federal Reserve Bank of New York

- Stronger exports of tech-related products and increased trade in business services and tourism drove higher trade
- Supply chain pressures have increased slightly since April 2024 but remain largely below the historical average
- Disruptions on major shipping routes have caused delays, such as longer shipping distances for container ships avoiding the Red Sea
- While shipping costs remain 66% below the pandemic peak, they have risen by 113% year-to-date, as per the Drewry WCI composite index

Commodity Prices Ease in 2024



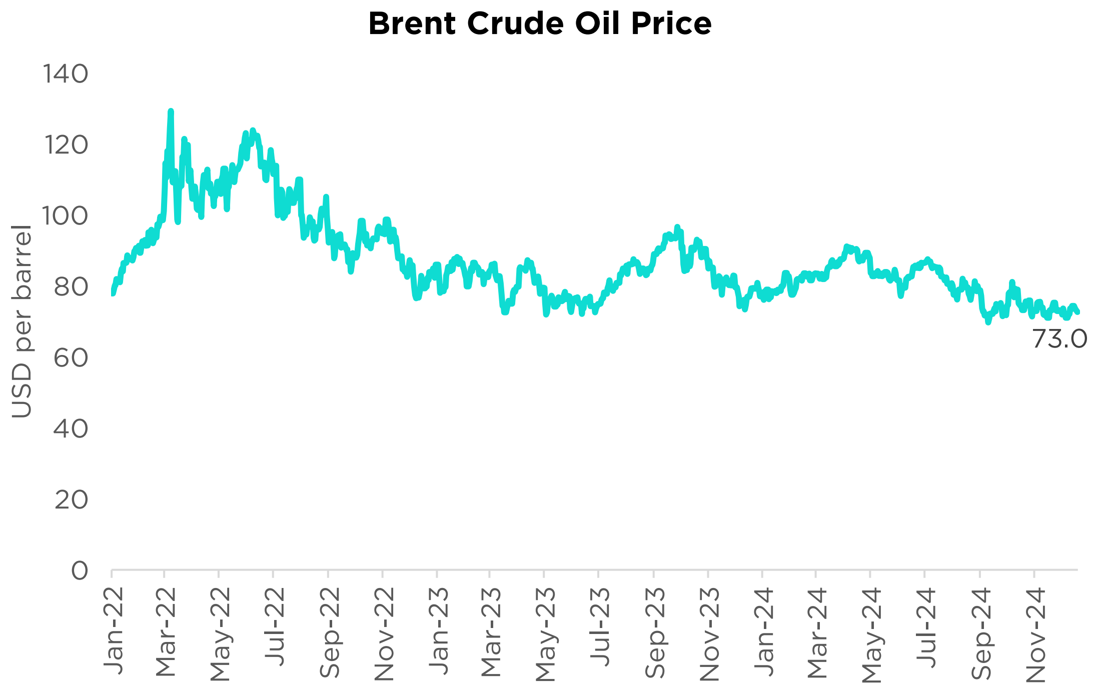
Source: Refinitiv
Note: Data as on December 19



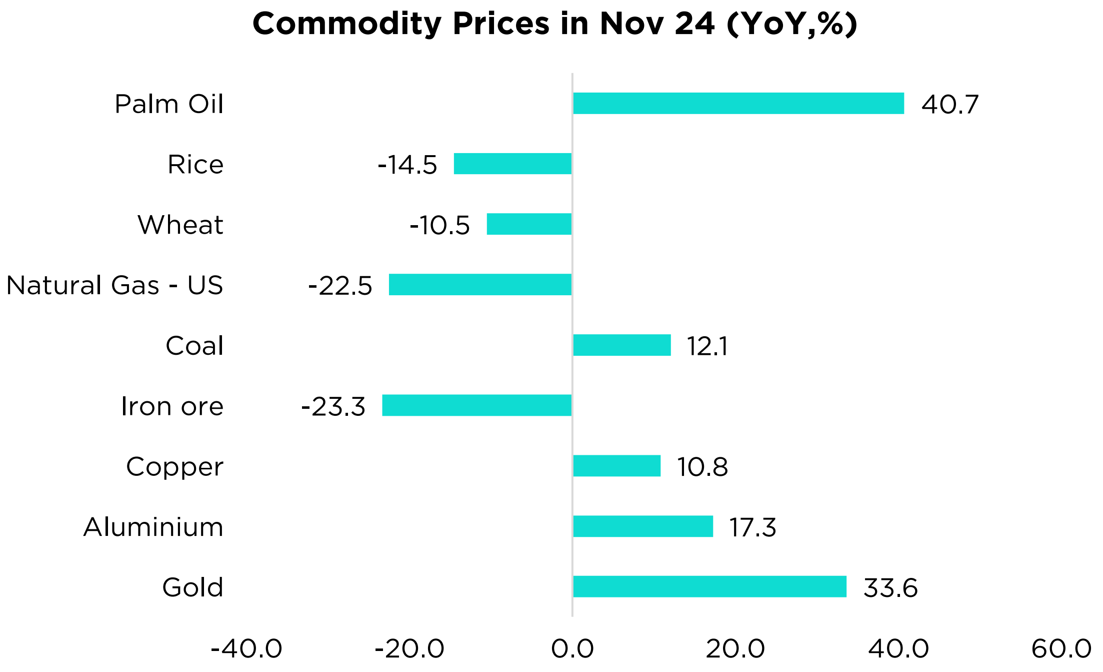
Source: Refinitiv
Note: Data as on December 19

- The Bloomberg commodity index is down 2.1% year to date, mainly driven by declines in agricultural and energy subindex. However, precious metals subindex has increased sharply

Prices of Select Commodities



Source: Refinitiv



Source: Refinitiv

- Wheat and rice prices have fallen year on year (YoY), while palm oil has risen
- Brent crude oil price is down 6% YoY due to weak Chinese demand and higher non-OPEC supply
- China's slowdown has also put pressure on iron ore prices
- Gold prices have risen supported by safe-haven demand and central bank purchases

Global Inflation Continues to Decline

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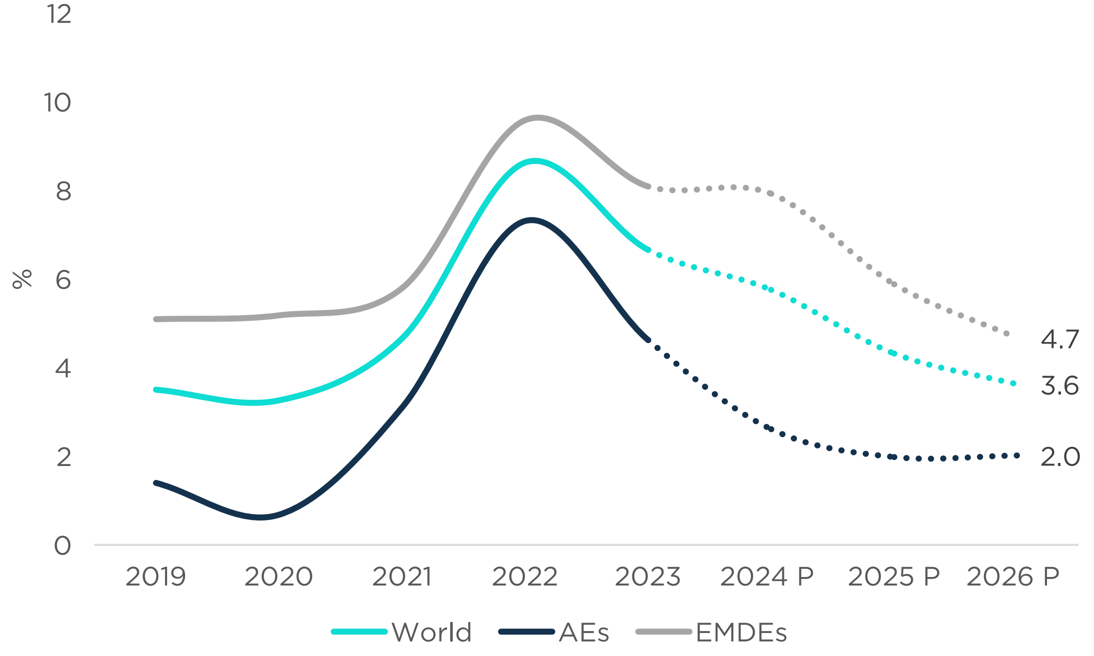
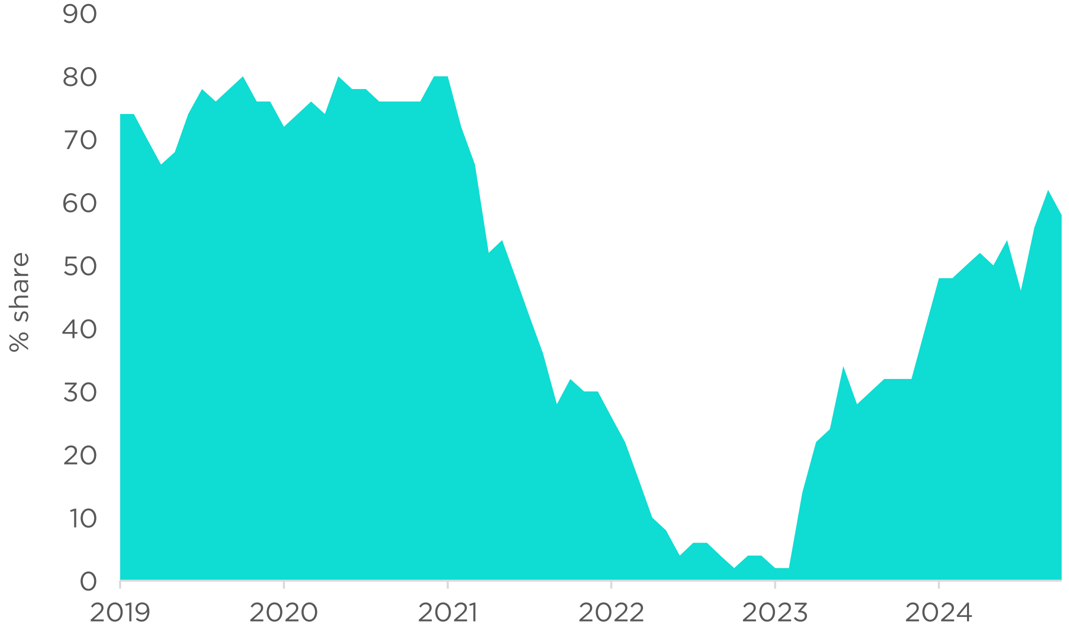
CPI Inflation



Source: IMF WEO
Note: AEs = Advanced Economies; EMDEs = Emerging Market & Developing Economies

Central Banks with Inflation At or Below Target Levels



Source: OECD

- Inflation continues to ease, driven by declines in food, energy and goods prices, and has returned to central bank target levels in several countries
- However, services inflation remains persistent, due to strong demand, labour shortages and elevated housing costs
- Notably, inflation in advanced economies is projected to remain higher than pre-pandemic levels

Monetary Easing Underway Globally, with a Few Exceptions

Advanced Economies

Rate Hike	No Change	Rate Cut
Japan	Norway	Switzerland
	Australia	US
		UK
		Sweden
		S. Korea
		New Zealand
		Euro Area
		Canada

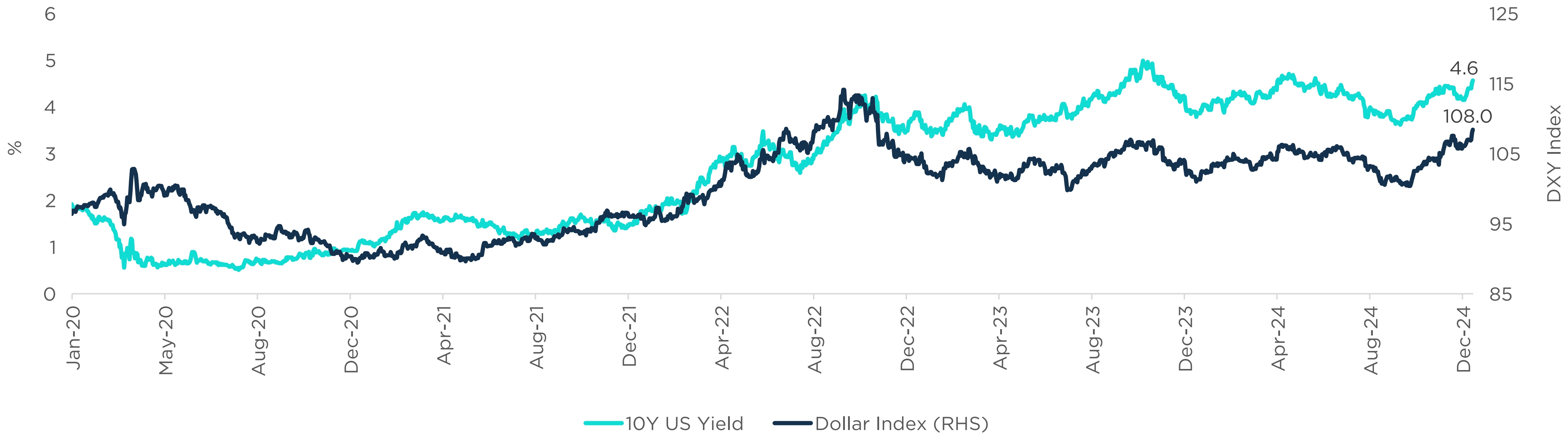
Emerging Market Economies

Rate Hike	No Change	Rate Cut
Brazil	Malaysia	Peru
	India	Mexico
		Colombia
		Chile
		Thailand
		S. Africa
		Philippines
		Indonesia
		China

Note: Information represents central bank policy actions in 2024 (as of November)

However, Fewer Fed Rate Cuts Expected

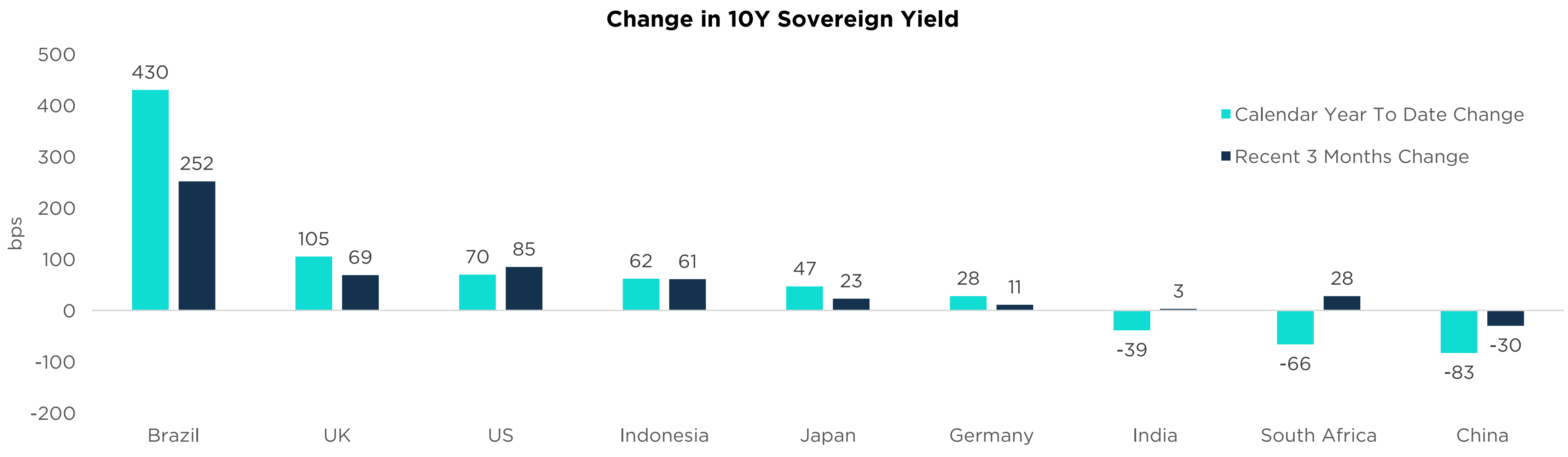
US Yield & Dollar Index



Source: Refinitiv
Note: Data as of December 19

- 10Y US yield has risen by 85 bps over the past three months, primarily due to expectations of inflationary policies under Trump's administration
- The FOMC has also signalled fewer rate cuts. The December dot plot indicates a likelihood of 50 bps rate cut in 2025, down from 100 bps earlier. Additionally, the longer run rate projection has been revised higher to 3% from 2.9% earlier, suggesting that rates may stay higher for longer
- This has led to strengthening of the US dollar to a two-year high

Sovereign Yield Movements Vary Across Regions



Source: Refinitiv
Note: Data as of December 19

- Yields in Brazil and Japan have risen due to rate hikes by their central banks
- China yields have hit record lows amidst expectations of further rate cuts to boost the economy
- India's benchmark yields have eased year to date, supported by fiscal consolidation, inclusion in global bond indices and expectations of RBI rate cuts

Strong Dollar Driving Outflows from EMs & Putting Pressure on Their Currencies

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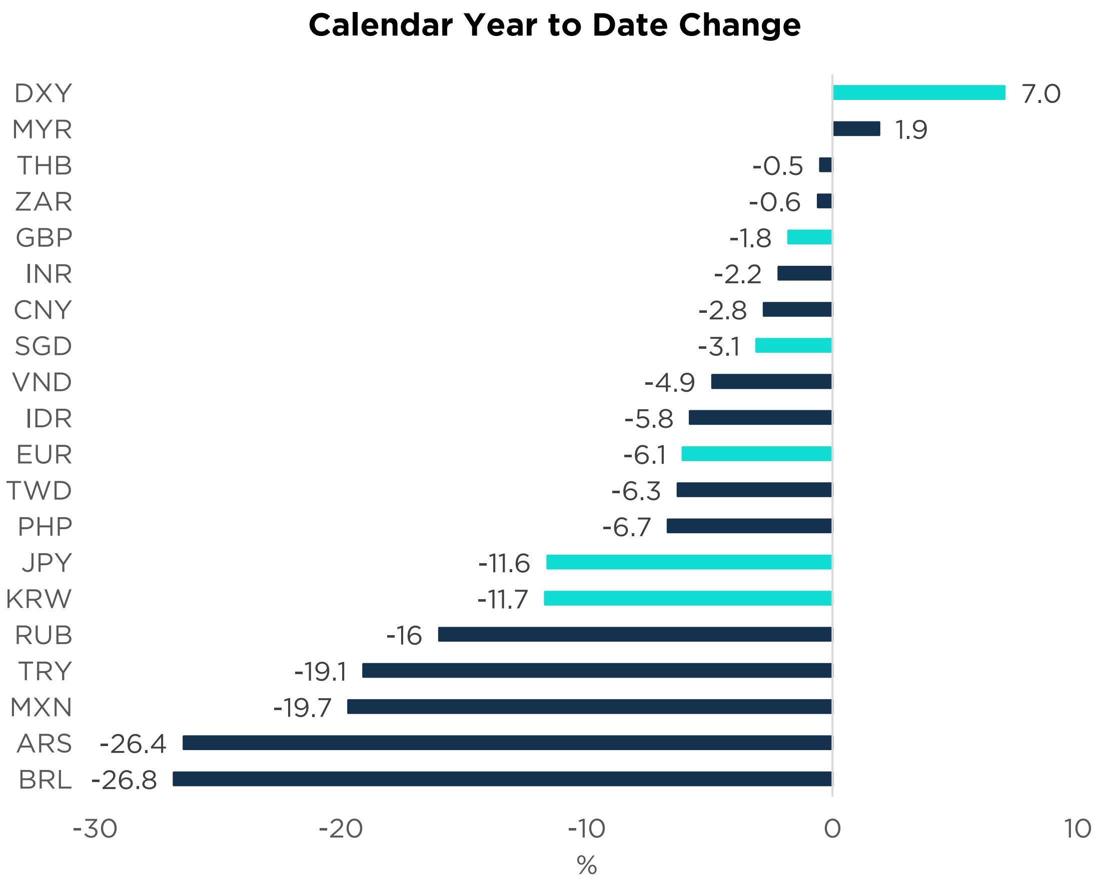
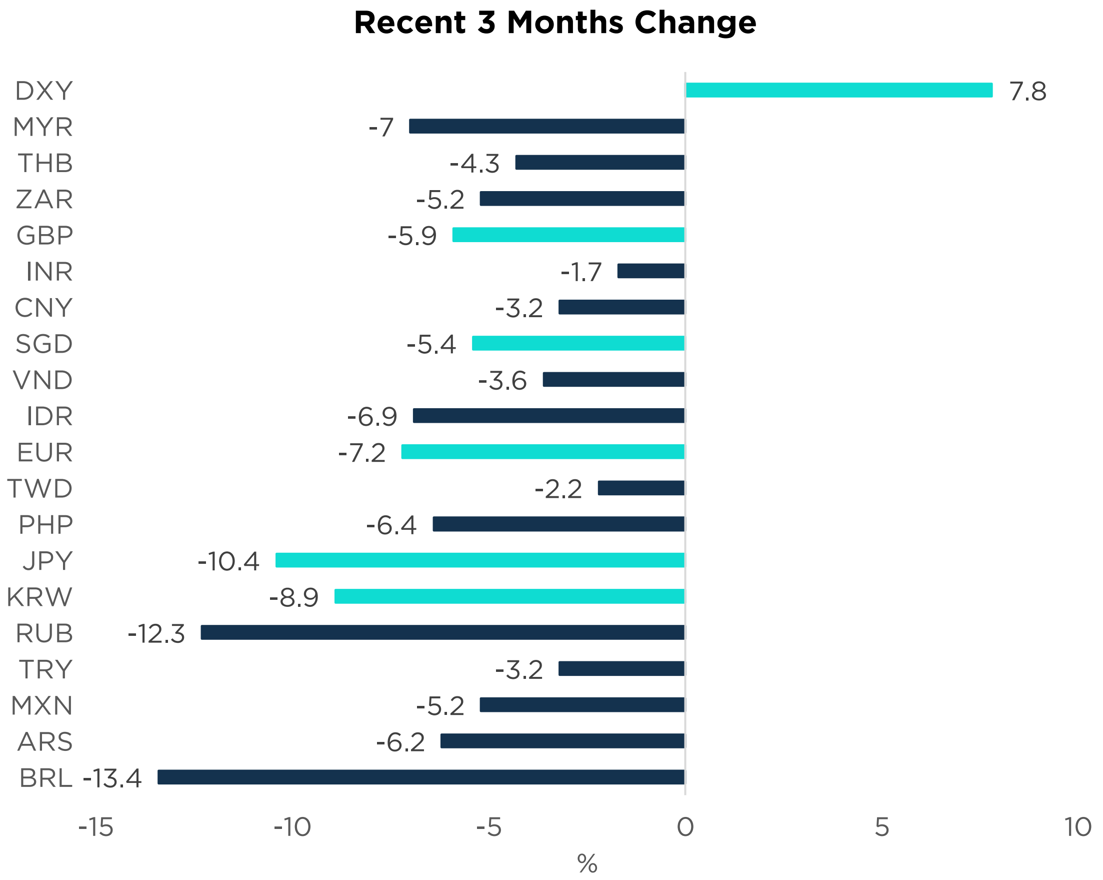


Source: Refinitiv

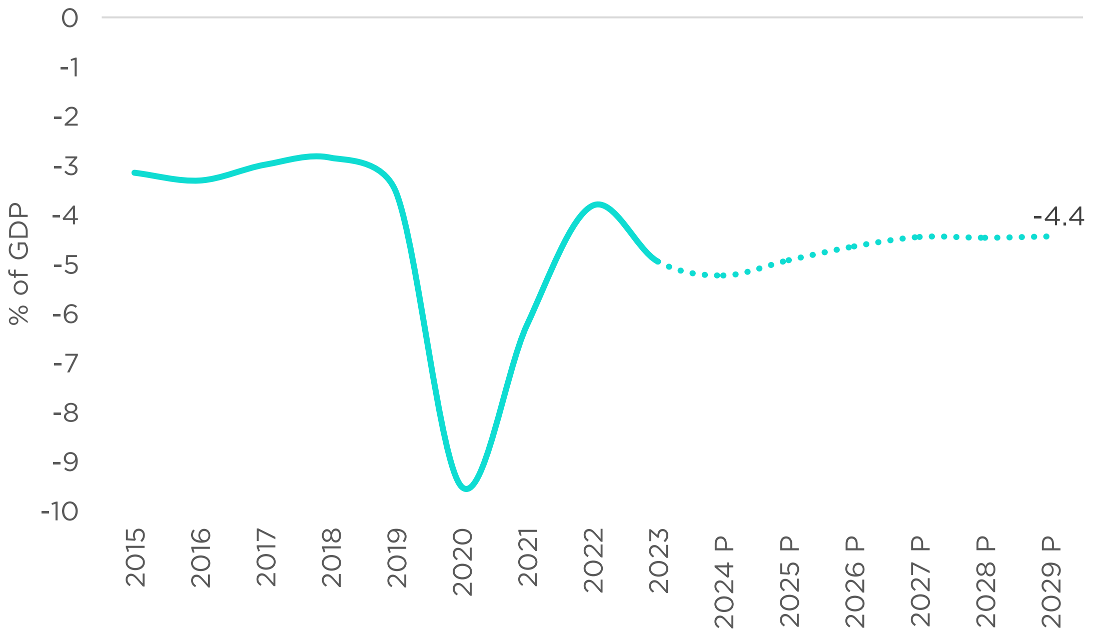


Source: Refinitiv

Note: Data as of December 19; Dark blue bars are emerging markets; Negative values imply currency has weakened against USD; DXY measures the dollar's performance against a basket of currencies

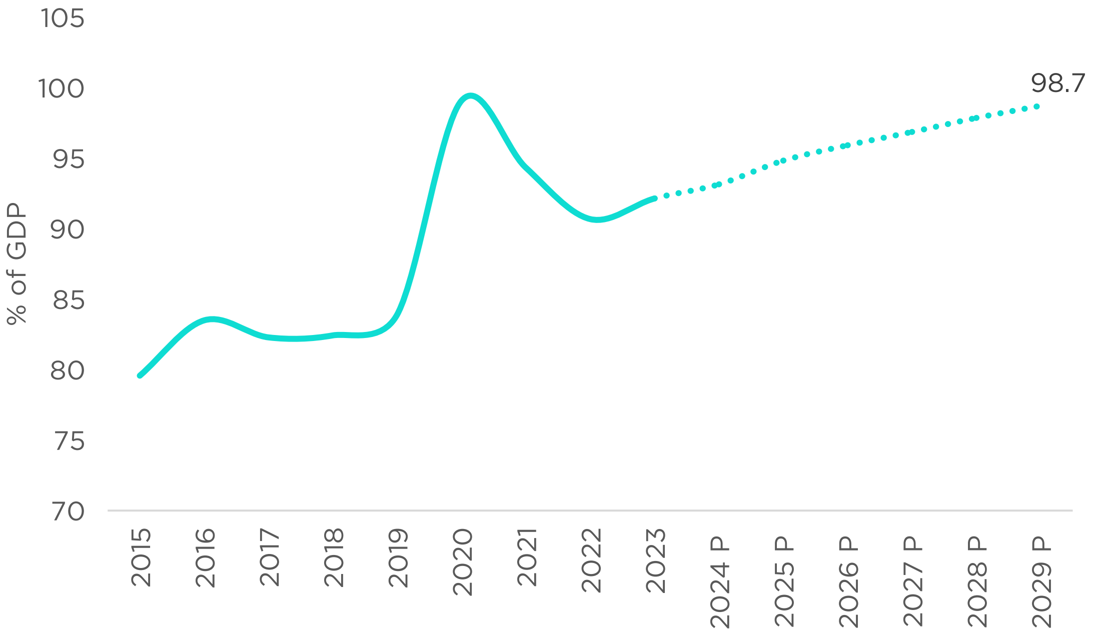
Fiscal Consolidation on the Horizon, But Public Debt to Rise

Global Fiscal Balance



Source: IMF Fiscal Monitor (October 2024)

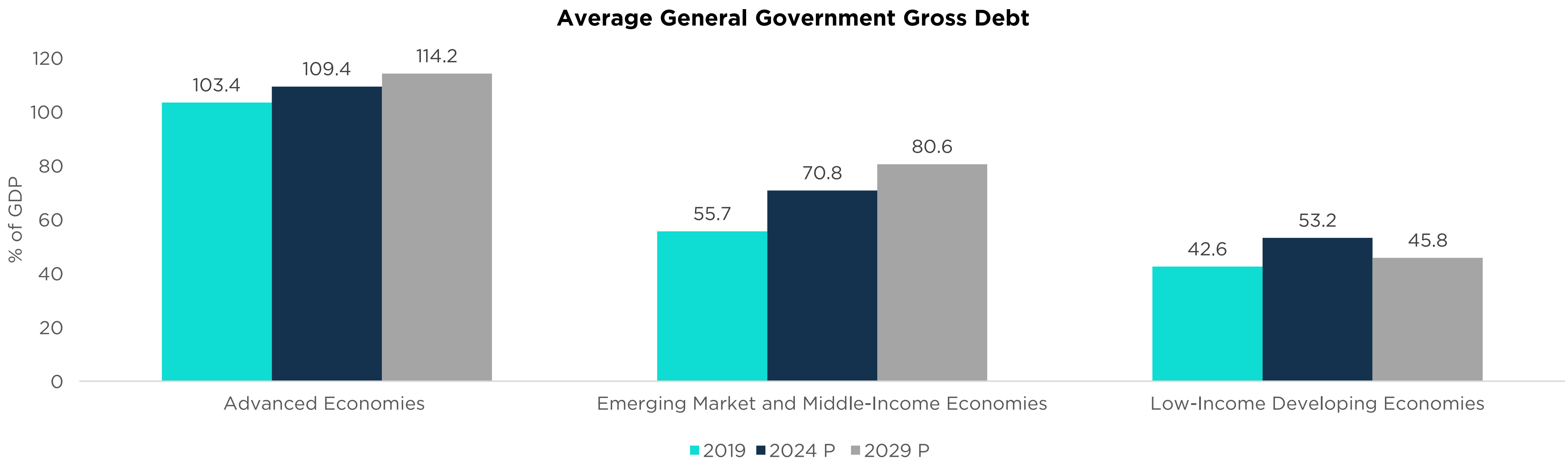
Global General Government Gross Debt



Source: IMF Fiscal Monitor (October 2024)

- Global fiscal deficit is projected to narrow to 4.4% of GDP by 2029 from 5.2% in 2024, but will remain above the pre-pandemic average of 3.2%
- Despite fiscal consolidation, global public debt is expected to rise to around 99% of GDP by 2029 from 93% in 2024, mainly due to higher interest rates
- Rising global populism is a key factor to monitor in relation to future global debt levels

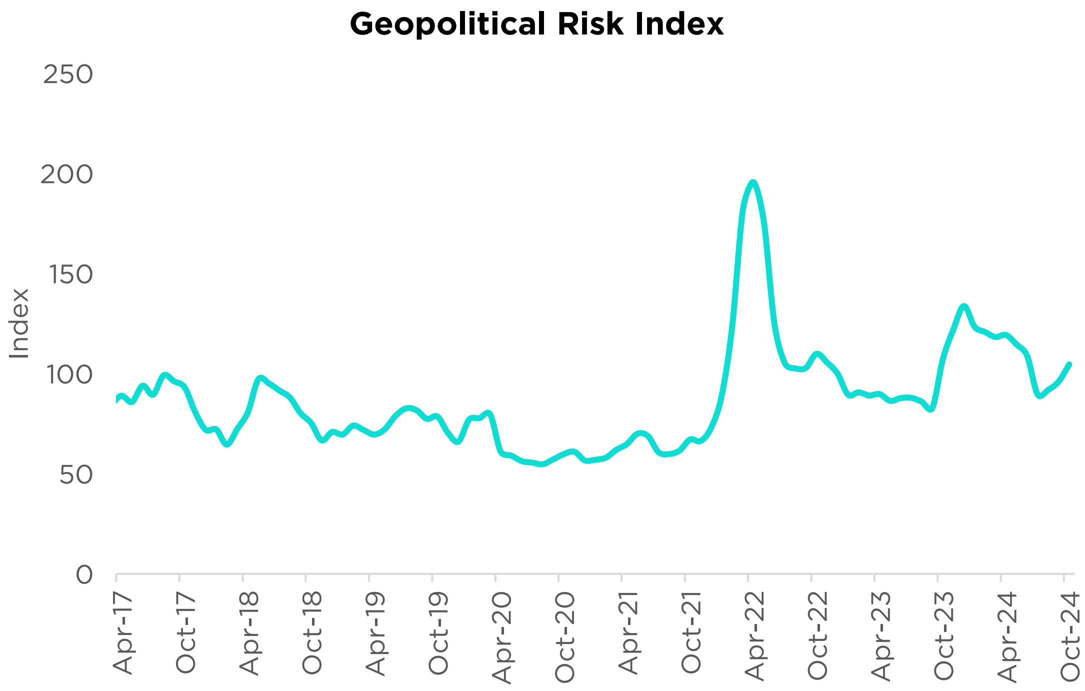
Emerging Market Debt to Grow the Most, Driven by China



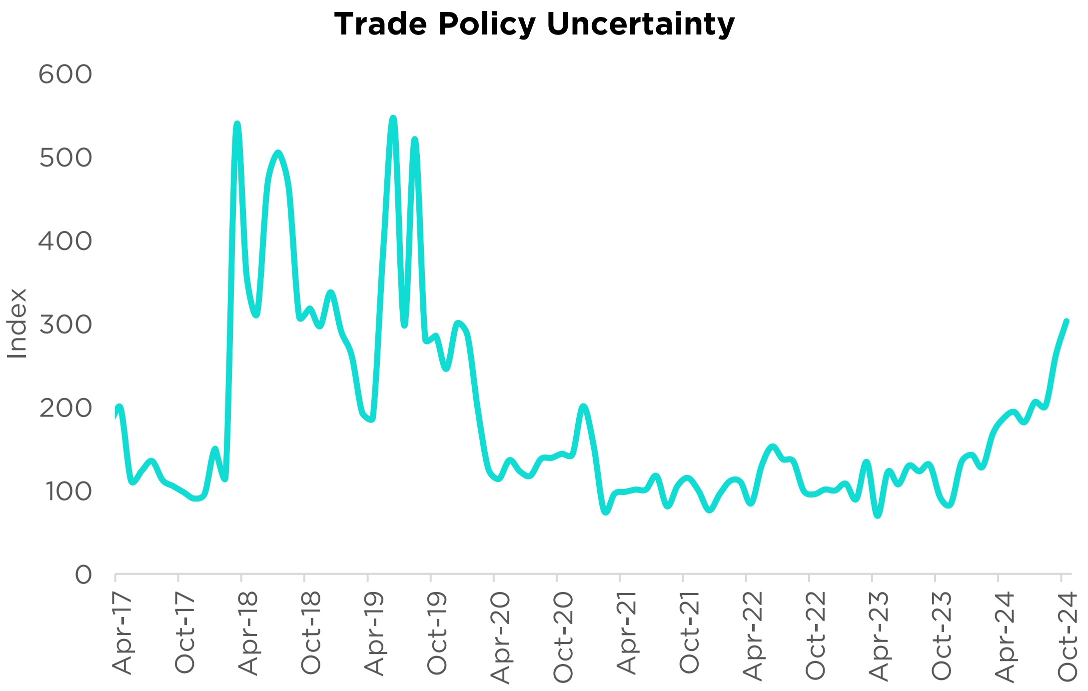
Source: IMF Fiscal Monitor (October 2024)

- Debt of advanced economies is projected to rise by 5pp over the next 5 years, while emerging markets will see an increase of about 10pp
- Among advanced economies, US and France's debt is expected to rise by 11-12pp
- In emerging markets, China's debt is projected to rise by 21pp
- In contrast, the debt to GDP ratio of low-income countries is expected to decline by 7pp over the next five years, as many face difficulty accessing markets or have reduced deficits due to high interest rates

Global Risks Rise



Source: OECD

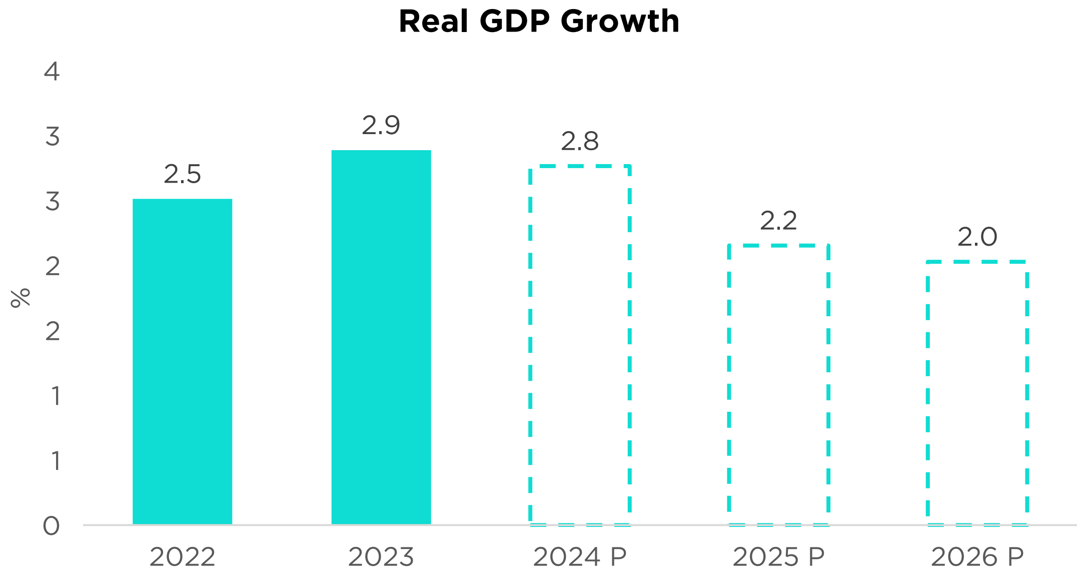


Source: OECD

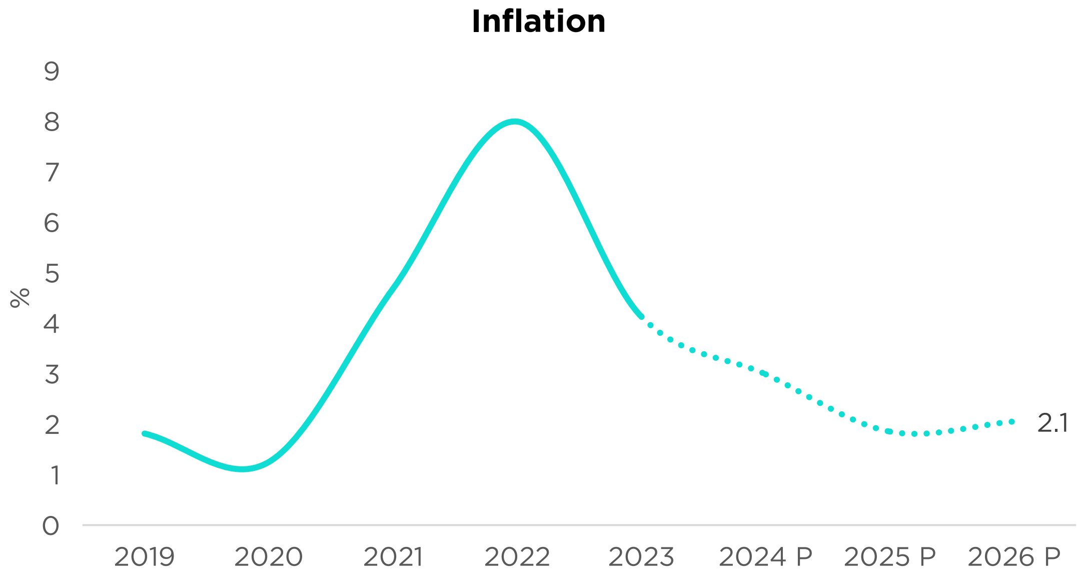
- Intensification of **geopolitical conflicts** such as Russia-Ukraine and Middle East tensions could lead to disruptions to global supply chains, energy markets and inflationary pressures
- Rising **trade protectionism**, exacerbated by US-China tensions, poses threat to global trade
- **Financial market volatility** expected, which may have implications for emerging markets

United States of America

US Economy Defies Recession Fears with Strong Growth



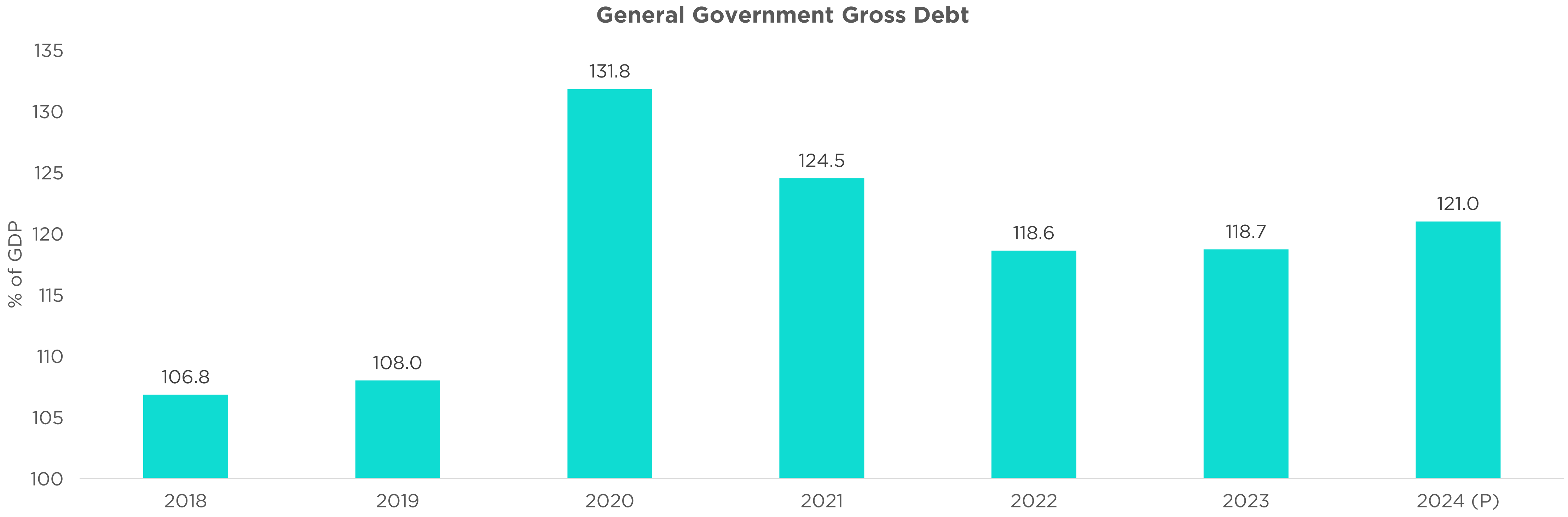
Source: IMF WEO



Source: IMF WEO

- GDP growth has remained strong despite unprecedented Fed rate hikes in 2022-23
- However, growth is projected to slow as pandemic savings fall and the economy feels the pinch of higher for longer interest rates
- Headline inflation has significantly decreased from its peak but is expected to remain elevated compared to pre-Covid levels
- The impact of Trump 2.0 policies will be key to monitor. His key proposal is a 60% tariff on imports from China and 10-20% tariffs on rest of the world. Other proposed policies include additional tax breaks, lower corporate taxes, anti-immigration measures, deregulation, and increased fossil fuel production. While some of these policies may support growth, they could also increase inflation. However, the actual impact of Trump's policies on US economy will depend on several factors, such as the extent of implementation and its effect on consumer and business confidence

Rising Debt and Interest Costs Key Challenges for the US Economy



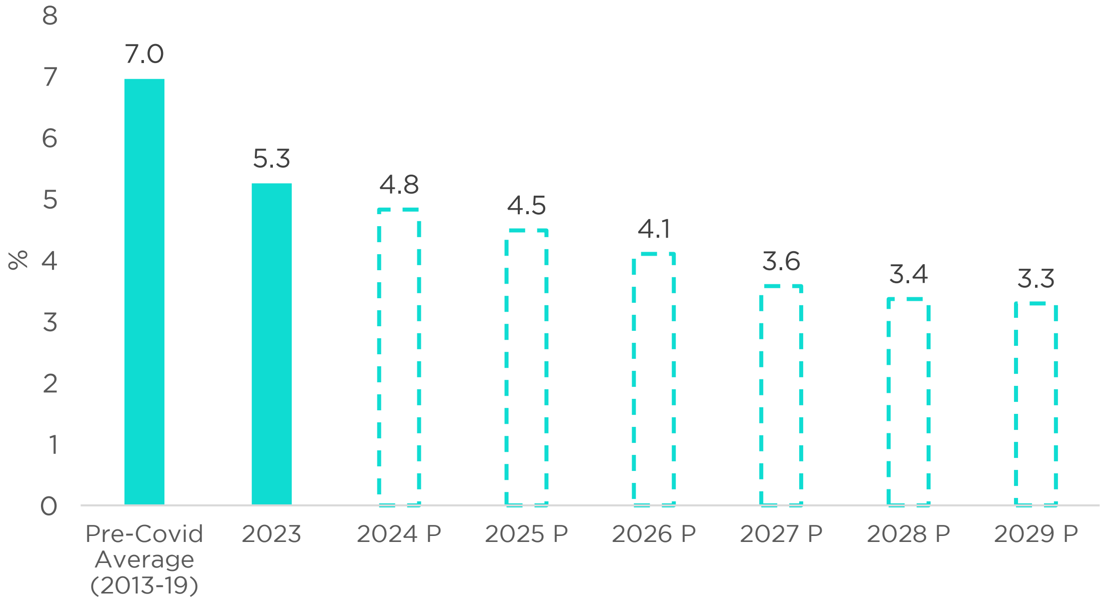
Source: IMF WEO

- US government debt has risen over the last two years and is projected to reach 121% of GDP in 2024 i.e. 13pp above the pre-Covid level
- Interest expenses have surged and are expected to stay elevated

China

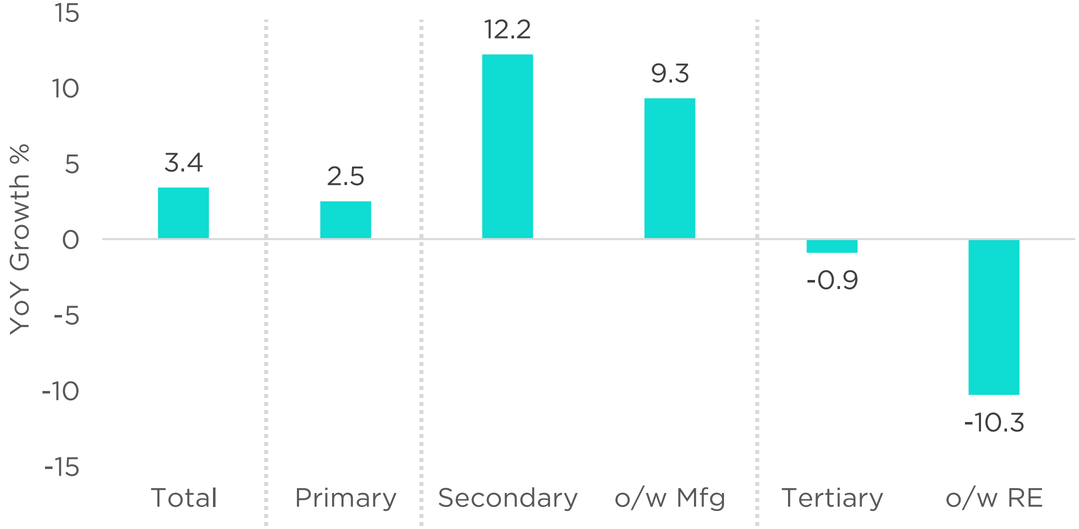
China Faces a Structural Slowdown

China Real GDP Growth



Source: IMF WEO

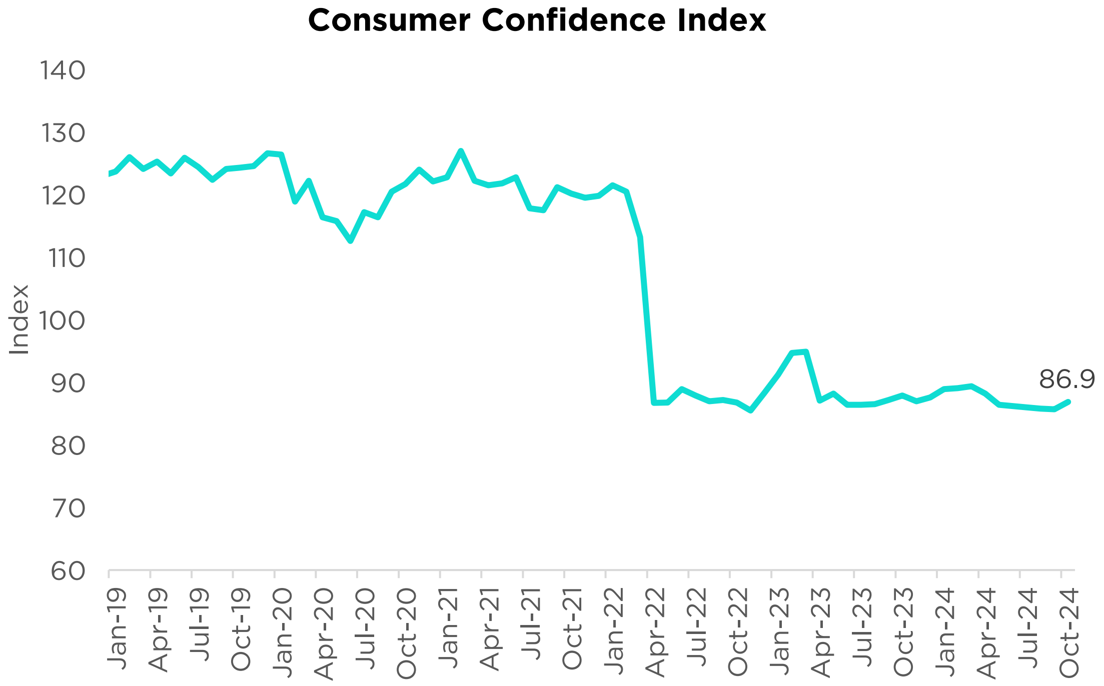
Fixed Asset Investment by Industry



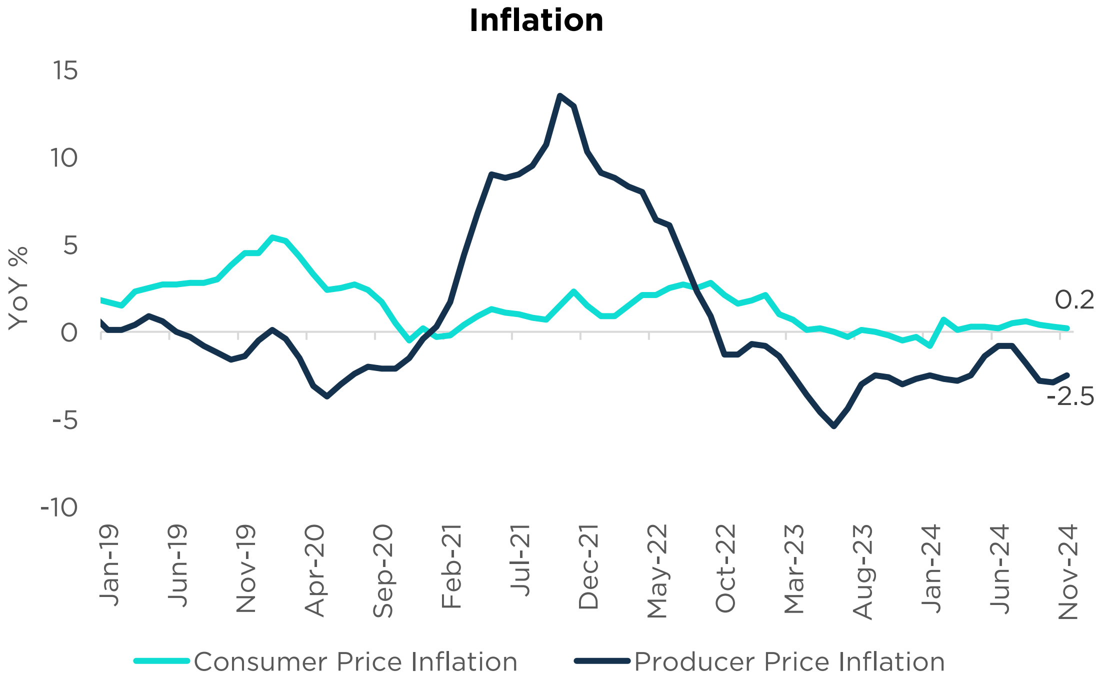
Source: CEIC
Note: YoY for Jan-Oct of 2024-2023

- China's annual growth rate is projected to be half of pre-Covid levels by 2029
- The property sector slowdown is a key obstacle to growth, with declining housing sales and real estate (RE) investment
- Structural issues, such as overinvestment and an ageing population, also pose headwinds
- However, manufacturing investment has been robust, supported by export demand
- Recently, policymakers have increased fiscal and monetary stimulus. However, broader economic data still points to underlying challenges

Disinflationary Pressures Weigh on Economic Momentum



Source: CEIC

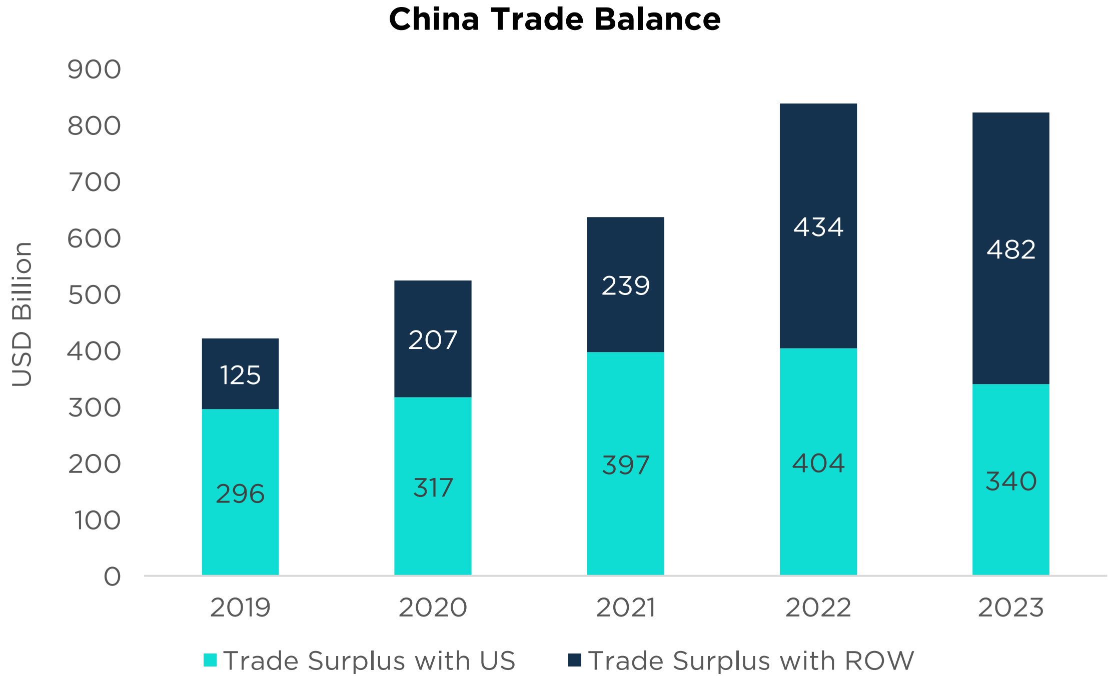


Source: Refinitiv

- Low consumer confidence and high urban youth unemployment rate continue to weigh on consumption
- As a result, consumer price inflation remains subdued, and producer prices have contracted for the 26th consecutive month

China’s Policy Response Will Shape the Impact of Tariff Hikes Under Trump 2.0

US Tariff Actions on China under Trump 1.0		
W.e.f.	**Amount (USD bn)**	**Tariff Rate**
Jun-18	34	25%
Aug-18	16	25%
Sep-18/Jun-19	200	Initially 10% then raised to 25%
Sep-19	112	Initially 15% then reduced to 7.5% following the Phase 1 Trade Agreement

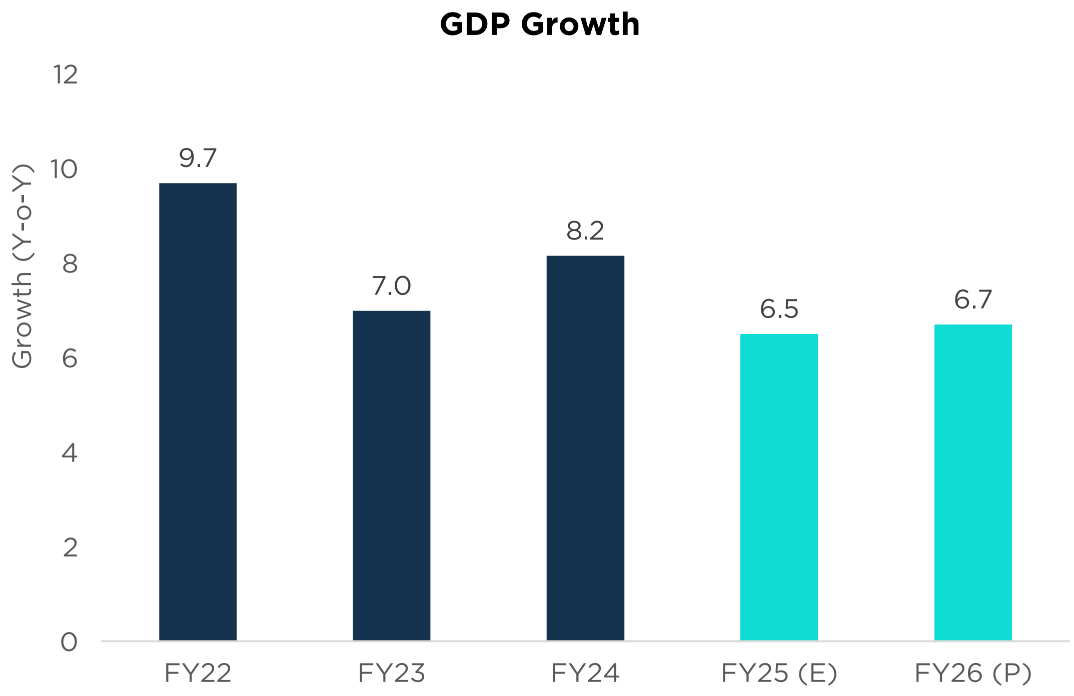


Source: CEIC

- Under Trump 1.0, the US trade-weighted tariff rate on Chinese goods increased from around 3% in 2018 to 21% by 2019. However, a 13% depreciation of CNY during this period helped offset some of the impact. China also began rerouting exports to the US and explored new markets. As a result, while China’s trade surplus with the US has remained largely flat in the past five years, its surplus with the rest of the world (ROW) has increased fourfold
- Given the multiple challenges China’s economy is facing currently, such as the housing downturn and deflation, policymakers in China may respond more strongly to counter tariff risks under Trump 2.0. Potential actions could include a mix of ramping up stimulus, allowing further CNY depreciation, imposing retaliatory tariffs and restricting critical exports to the US

India

India's GDP Growth to Moderate in FY25, Yet it Remains the World's Fastest Growing Economy

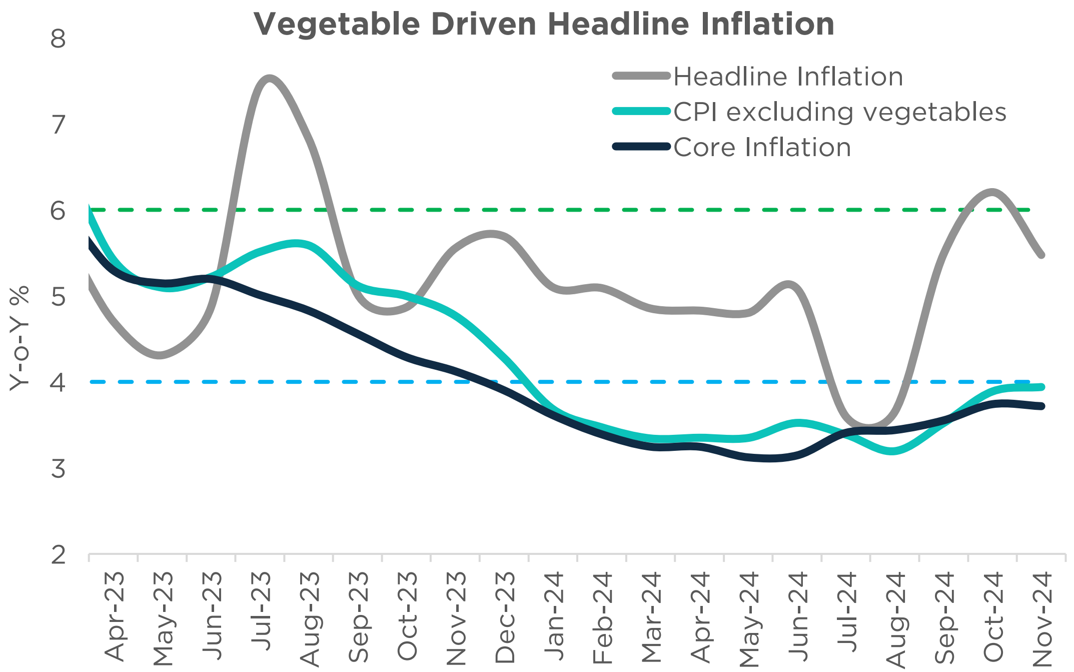


Source: CMIE, CareEdge Projections

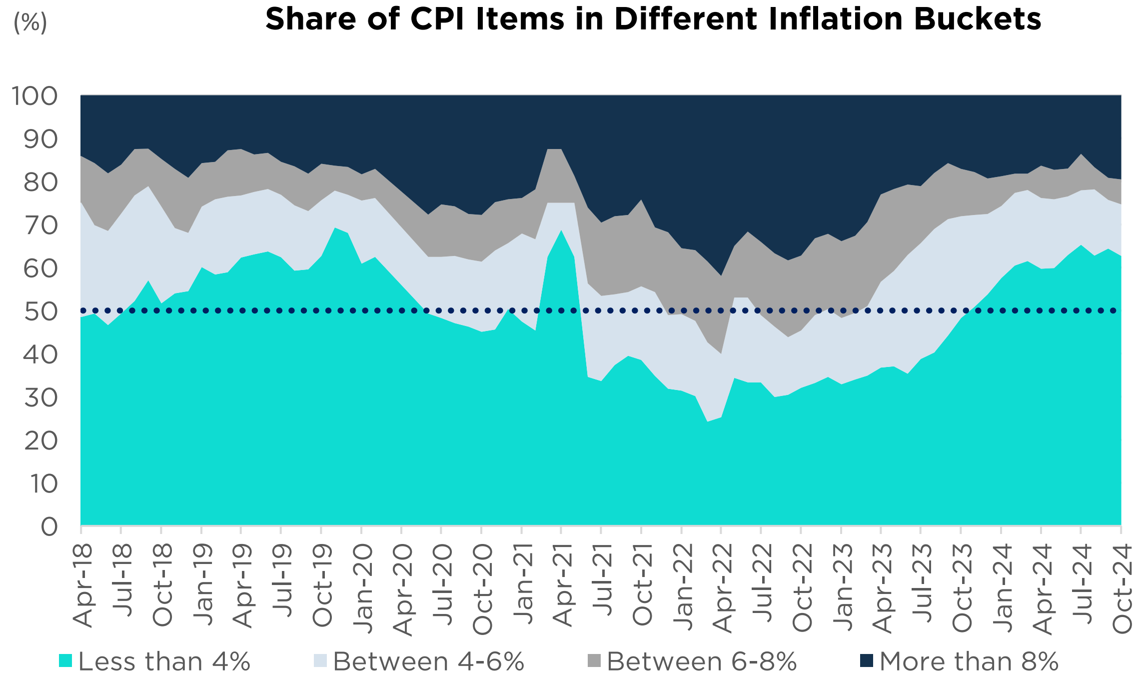
	FY25 (E)	FY26 (P)
By Sectors		
Agriculture	3.9	3.3
Industries	5.9	7.1
Services	7.3	7.4
GVA	**6.4**	**6.7**
By Expenditure		
PFCE	6.8	6.9
GFCF	7.8	8.1
GDP	**6.5**	**6.7**

- Growth momentum in H1 FY25 was impacted by contraction in public capex, prolonged monsoon and weakening urban demand
- However, economic growth in H2 FY25 is projected to rebound, driven by pick-up in government capex
- Private investment is expected to improve, supported by anticipated monetary policy easing, though global uncertainties remain a concern
- Growth is expected to moderate to 6.5% in FY25 and 6.7% in FY26 from 7-8% in previous two years

Food Inflation Remains a Key Monitorable



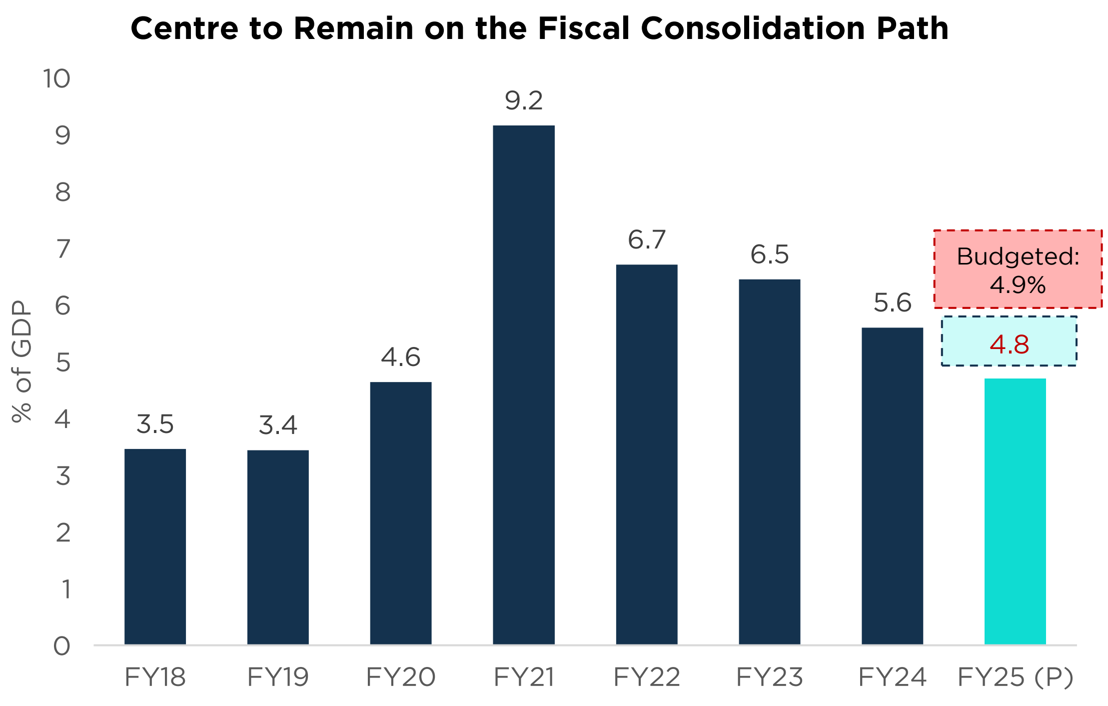
Source: CMIE, CareEdge



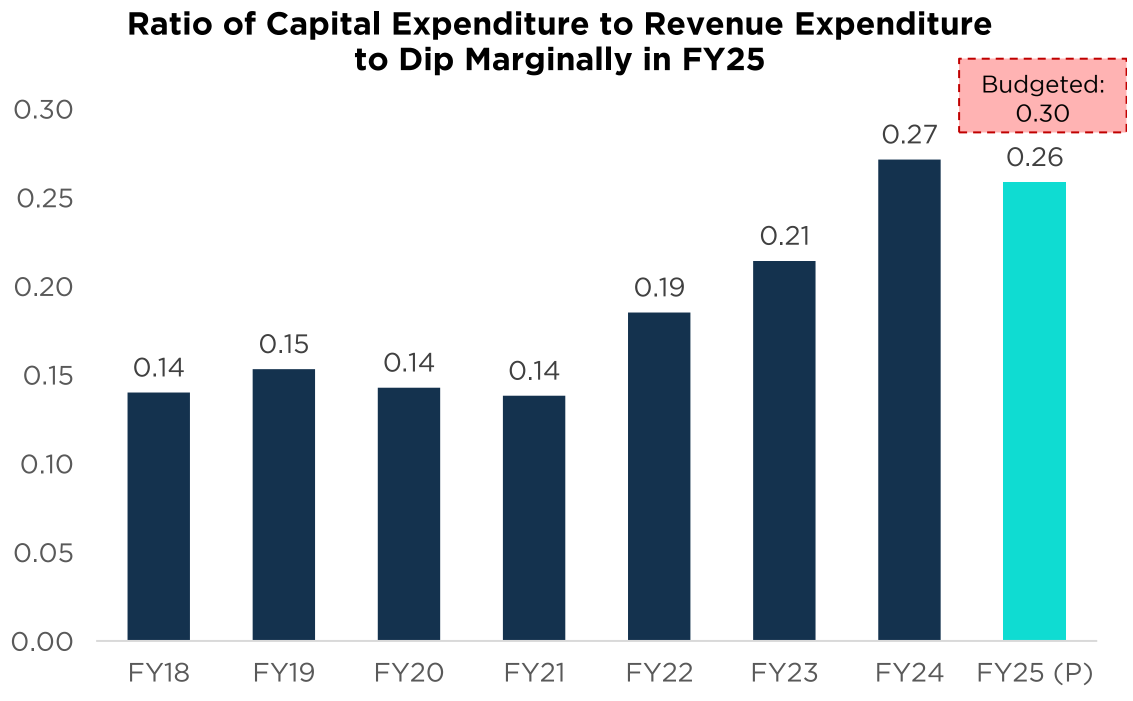
Source: CMIE, CareEdge

- High CPI inflation is primarily driven by key food items, specifically high vegetable price inflation
- However, food inflation outlook has improved due to a strong kharif harvest and favorable rabi sowing conditions
- Inflation is no longer broad based. The share of items experiencing more than 6% inflation has reduced to around 24% in H1 FY25, down from 32% in FY24
- Average CPI inflation is projected at 4.8% in FY25 and 4.5% in FY26. Core inflation is expected to remain benign, averaging ~3.5% in FY25 and 4.3% in FY26

Centre Likely to Marginally Undershoot Fiscal Deficit Target in FY25



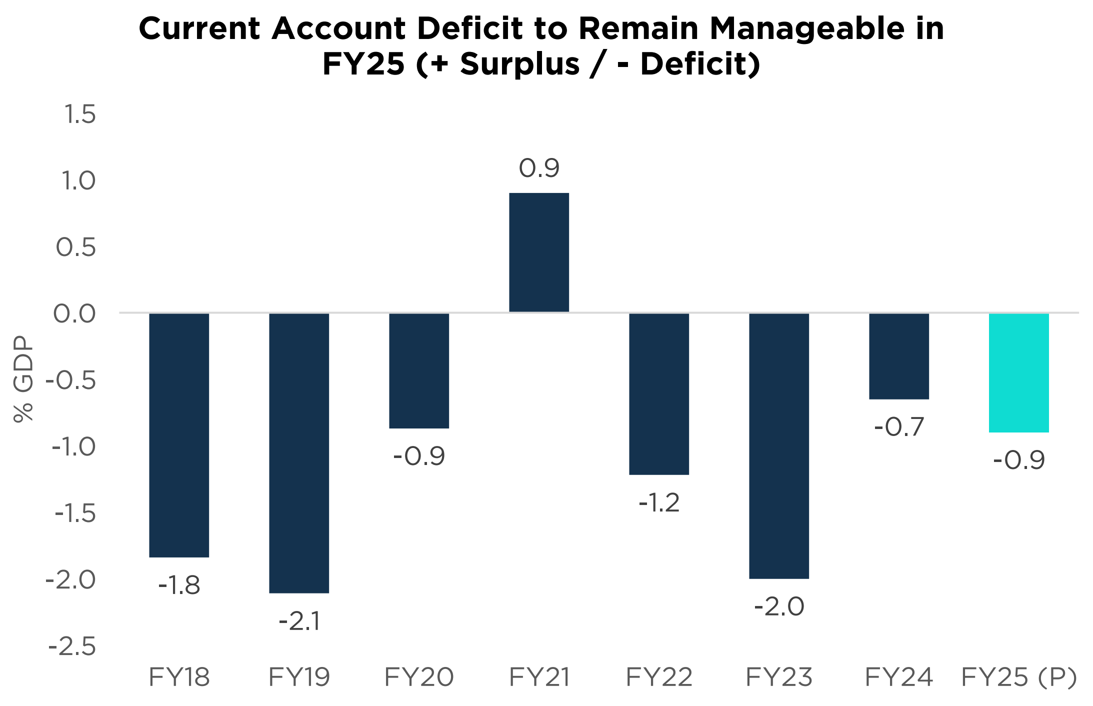
Source: CMIE & CareEdge Projection



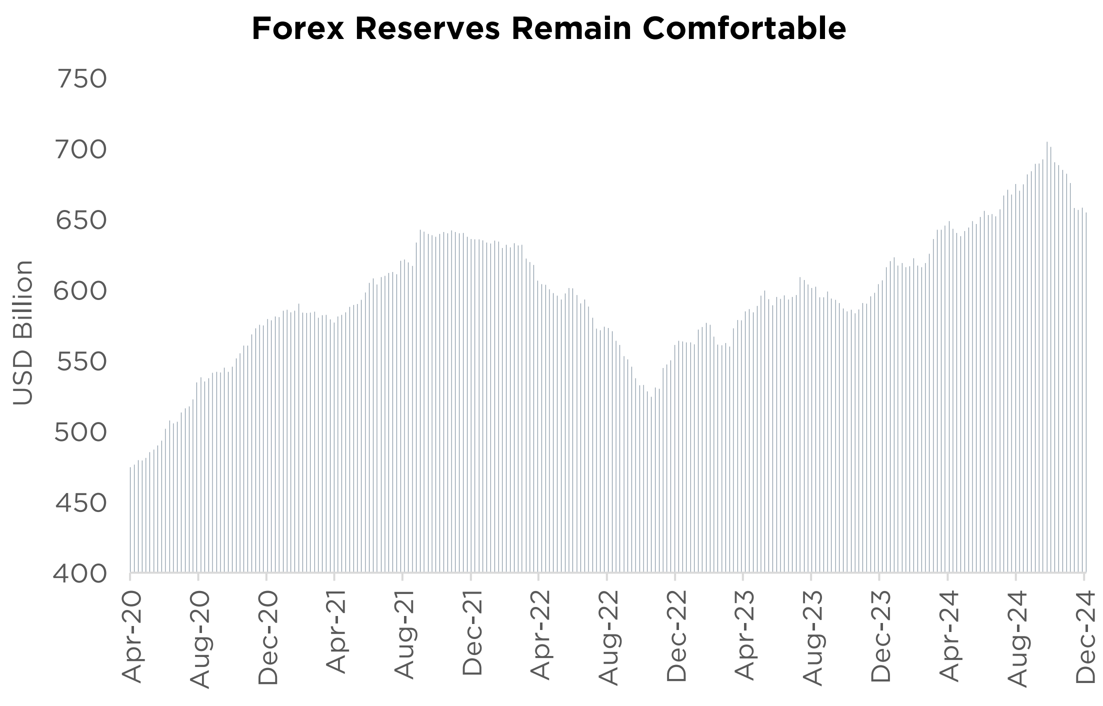
Source: CMIE & CareEdge Projection

- Healthy GST and income tax collections have helped partially offset the weakness in corporate tax and union excise duty collections
- Centre's capex is expected to fall short of target by Rs 1.5 trillion. However, it could utilise the additional space for increasing the revenue expenditure compared to the budget estimates
- Overall, we project the fiscal deficit at 4.8% of GDP, lower than the budgeted 4.9%

India's External Position Remains Comfortable



Source: CMIE & CareEdge Projection



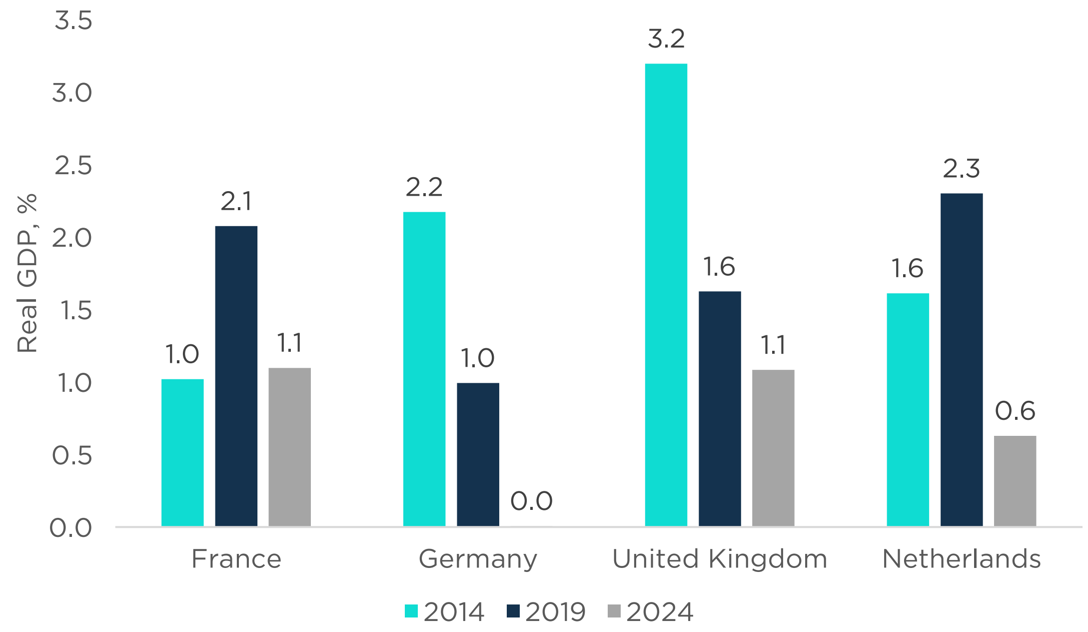
Source: CMIE

- Merchandise exports are projected to rise by 2.5% in FY25
- Services exports are projected to remain healthy recording a growth of 13% in FY25. Further, encouraging performances in remittances is expected to continue
- Overall, India's current account deficit is projected to remain manageable at 0.9% of GDP in FY25
- While forex reserves have fallen sharply by around USD 50 billion since September, they remain comfortable around USD 655 billion (as on December 06)

Eurozone

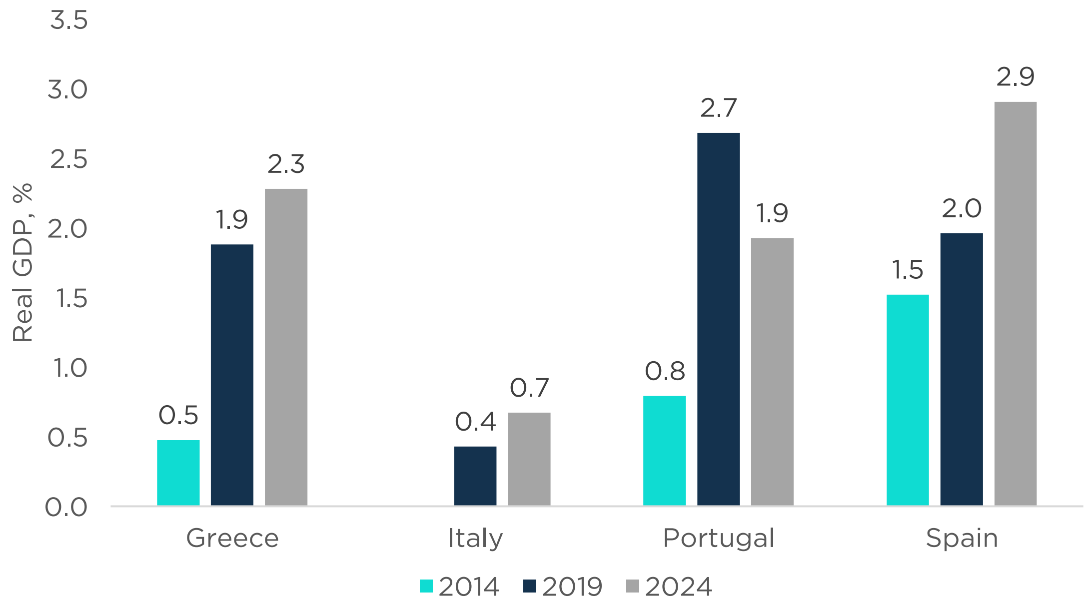
Growth Slows in Western Europe, While PIGS See a Resurgence

Western Economies Witnessing Slowdown in Growth



Source: IMF WEO

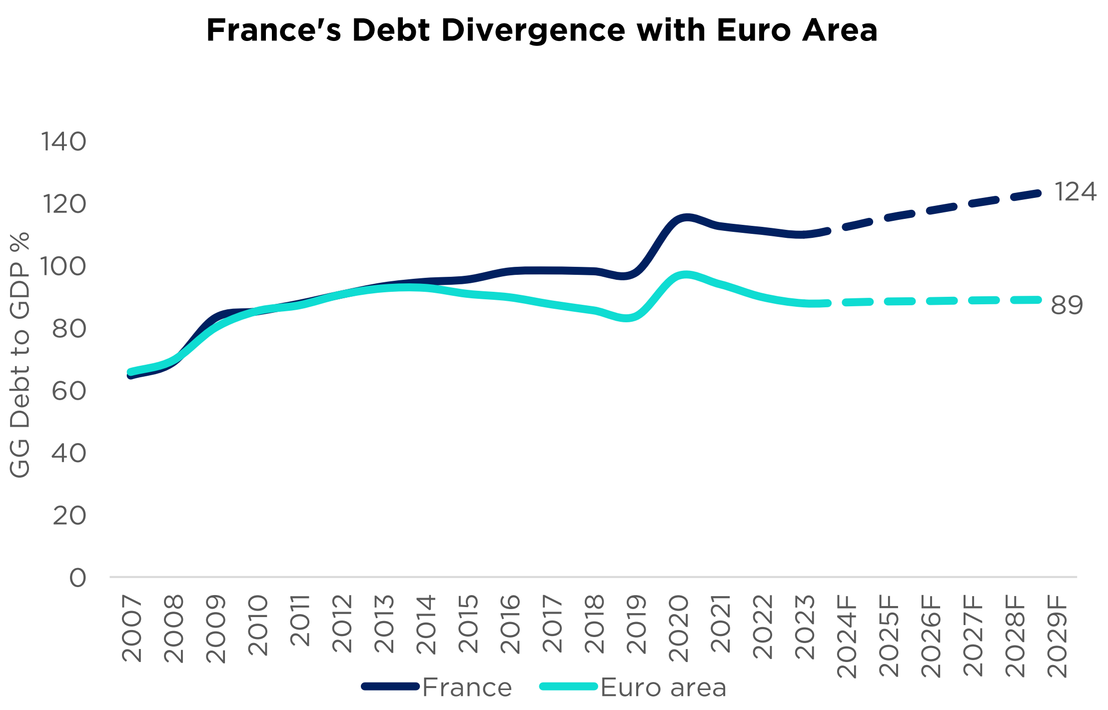
Meanwhile Southern Economies Growing Steadily



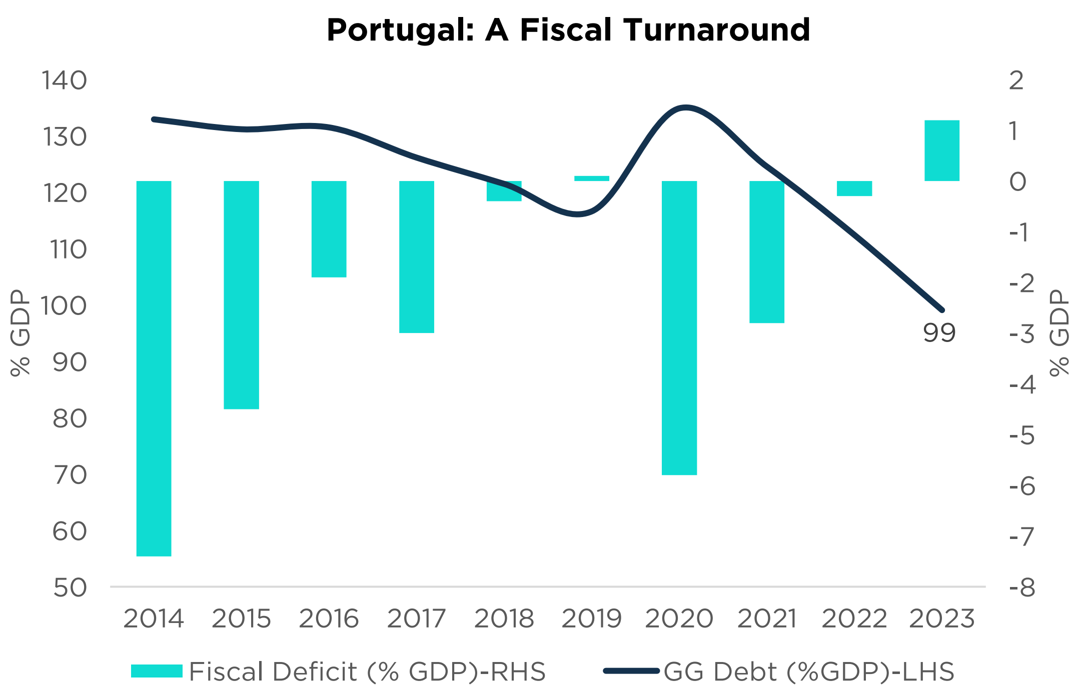
Source: IMF WEO

- Western European economies are witnessing slowdown in growth post-pandemic, primarily because of slowdown in manufacturing exports
- Economies which were severely impacted in the Euro debt crisis have seen steady rise in growth, driven by rising tourism revenues

A Tale of Two Countries: Diverging Trends in Government Debt



Source: IMF WEO October 2024 Database

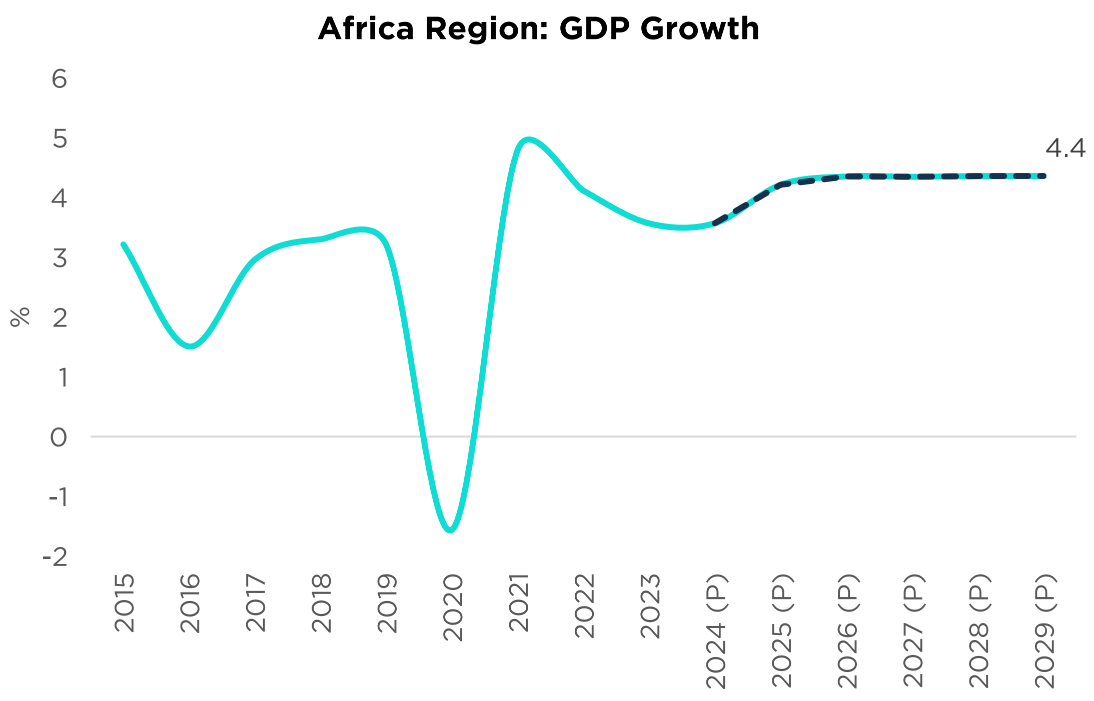


Source: Eurostat

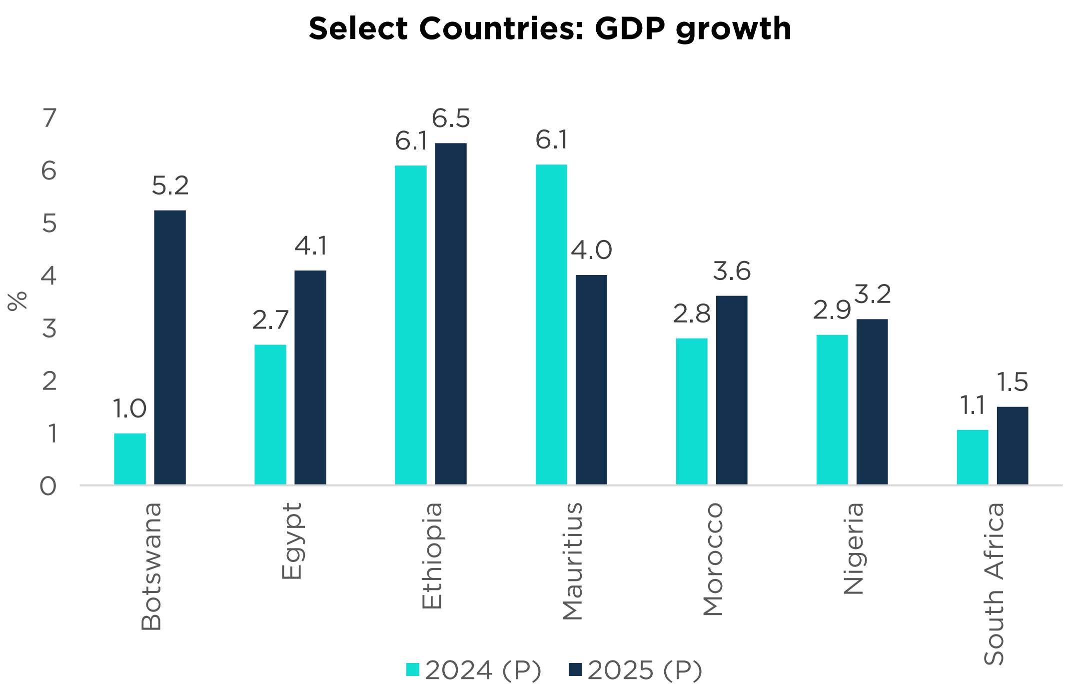
- France’s economy is challenged by very high general government (GG) debt levels on account of high social spending and slow fiscal reforms. This has led to divergence in the debt path post 2014 vis-a-vis EU peers and is expected to widen further in the next five years
- Meanwhile, Portugal adopted fiscal austerity in the last decade, resulting in a sharp reduction in debt levels and a positive general government balance

Africa

Subdued but Improving Growth



Source: IMF WEO

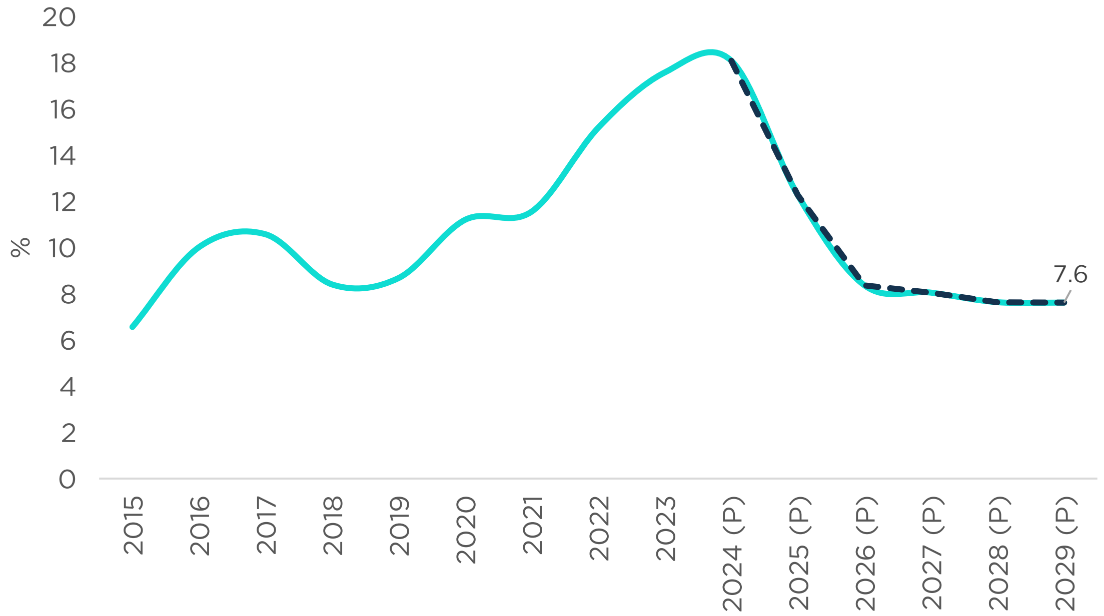


Source: IMF WEO

- Africa region growth is projected to pick up modestly to 4.2% in 2025, though it remains uneven
- Risks include social unrest, climate change, Mpox, volatility in global financial markets, and subdued global growth

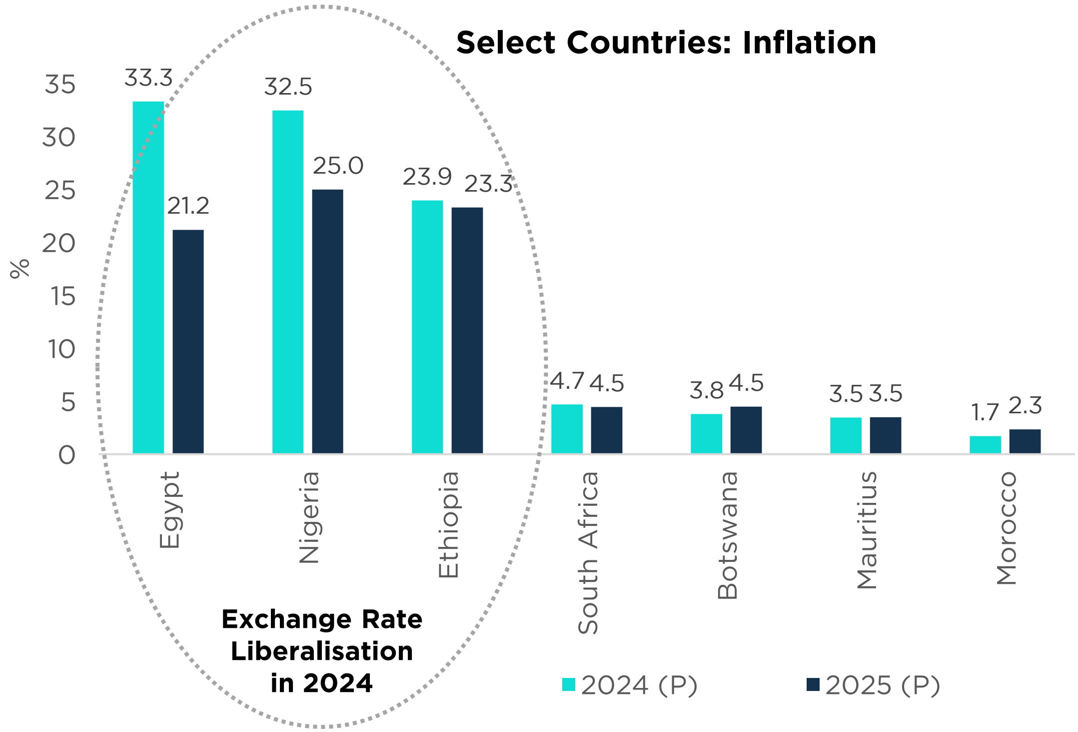
Macroeconomic Imbalances: Price Stability

Africa Region: Inflation



Source: IMF WEO

Select Countries: Inflation

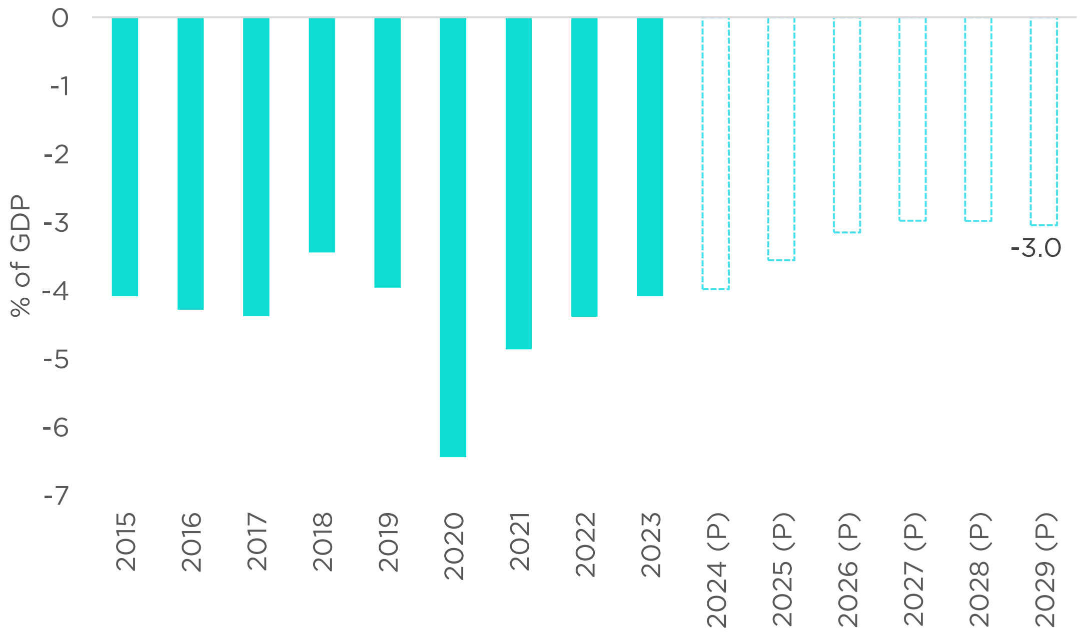


Source: IMF WEO

- External shocks, such as the COVID-19 pandemic and spillovers from Russia's war in Ukraine, have presented internal and external imbalances across most countries in the region
- 33% of countries in African region are still seeing double digit inflation
- Nonetheless, inflation is expected to continue a downward trajectory

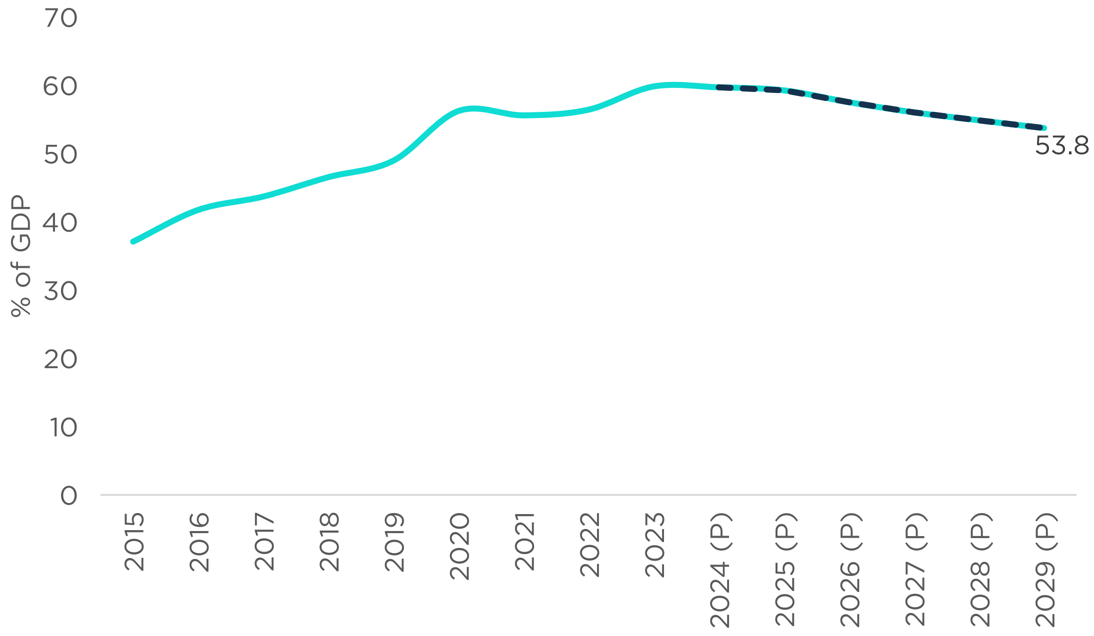
Macroeconomic Imbalances: Fiscal Consolidation

Africa Region: Fiscal Deficit



Source: IMF WEO

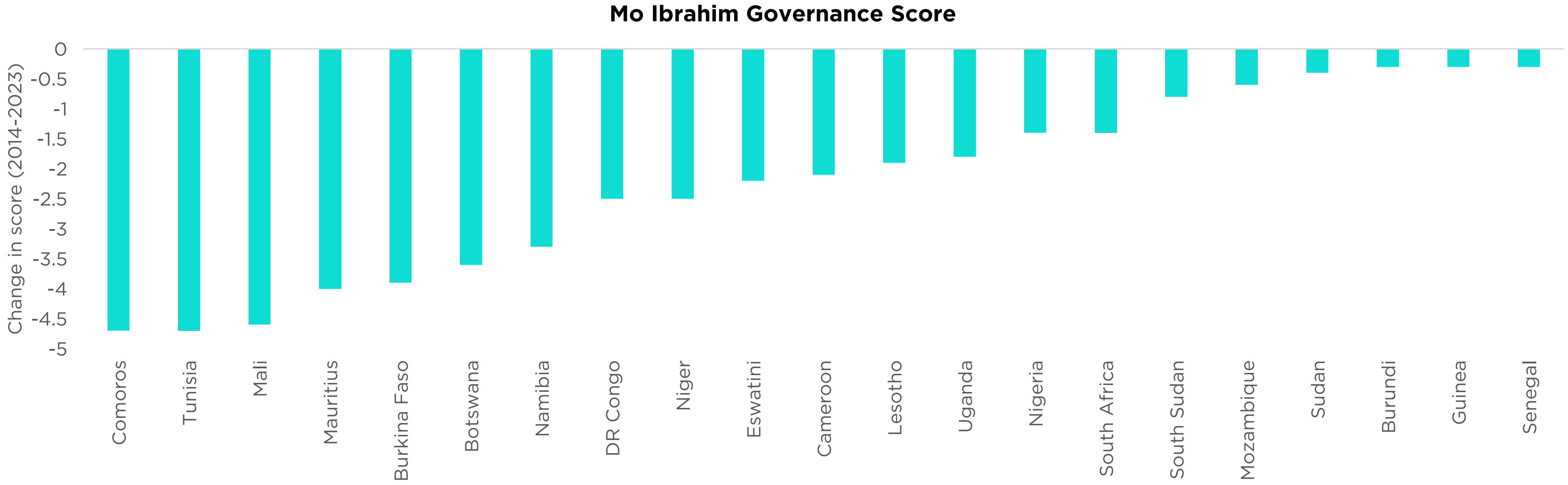
Africa Region: General Government Gross Debt



Source: IMF WEO

- Large number of countries have shown fiscal consolidation, and the debt-to-GDP ratio is no longer rising
- Fiscal adjustment efforts will continue in 2025, given the need to rebuild buffers and reduce debt
- A major risk to fiscal consolidation lies on the expenditure side, where around 25% of countries have interest payments which exceed 20% of revenues

Election Outcomes Present Opportunities



Source: Mo Ibrahim Index 2014-2023

- Many elections have taken place in 2024, and a deterioration in overall governance has led to many long-standing ruling parties losing their majorities in elections held across the region
- This trend is evident in Mauritius, Botswana and South Africa, where long-ruling parties recently lost their majorities
- Post-election periods may present opportunities to implement key policies, such as fiscal consolidation

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