Project Syndicate

A Weak, Uneven Global Recovery

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ITHACA – A world burdened by geopolitical conflicts, protectionist policies, and persistent inflation is weighing heavily on economic growth. But while the latest update of the Brookings-Financial Times Tracking Indexes for the Global Economic Recovery (TIGER) shows that global growth has plateaued, some countries' economic rebounds offer glimmers of hope for the year ahead.

The pace of economic growth varies significantly between countries, particularly the world's major economies. While the United States and India have maintained strong performance, China's economy is slowing. Such divergences are also evident within the eurozone, with Germany teetering on the brink of recession while the Italian and Spanish economies perform better than expected.

The second divergence is between actual economic outcomes and financial markets, as stock markets rally even in countries with lackluster growth and tight monetary policies. Moreover, household and business confidence is rising around the world despite the heightened uncertainty caused by geopolitical shifts and volatile domestic politics.

Stock-market gains and rising confidence could signal a slight uptick in global growth in 2024, especially if inflation continues to fall, enabling central banks to cut interest rates. But this optimistic outlook is jeopardized by escalating geopolitical tensions, domestic political turmoil in a number of countries, and persistent inflationary pressures. Moreover, China and Germany's reliance on external demand instead of stimulative domestic policies could undermine their trading relationships and global economic growth.

The US economy has proven remarkably resilient, with a red-hot labor market and rising equity prices boosting business and consumer confidence and stimulating domestic demand. Although the Federal Reserve has maintained high interest rates, productivity gains and immigration have enabled the American economy to sustain growth without exacerbating inflation. While the Fed has the flexibility to delay monetary easing, inflation dynamics continue to make it difficult to determine the optimal timing for a policy shift.

Meanwhile, Japan has finally begun to normalize its monetary policy. With its stock market booming and confidence rebounding, the country appears set for another year of moderate growth. By contrast, the United Kingdom is on the verge of a prolonged, albeit mild, recession, owing to persistent inflation, limited fiscal flexibility, and domestic political instability.

While China's economy remains beset by challenges, the government has delivered additional macroeconomic stimulus and taken measures to prop up the struggling property and stock markets. But the effectiveness of these measures is undermined by the absence of comprehensive reforms needed to rebuild private-sector confidence. A more robust policy package, including further fiscal support, could counter weak household demand and deflationary pressures, thereby boosting confidence among domestic and international investors.

India, for its part, is poised for another year of strong growth, buoyed by a surging stock market that reflects optimism among households and businesses. But despite lower inflation and the government's fiscal discipline, the outlook is not entirely rosy, as reflected in lackluster employment and foreign direct investment. To maintain its growth momentum, Indian policymakers must implement governance and education reforms, along with infrastructure investments.

There are other bright spots in Asia. Indonesia – which, like India, is about to reap a demographic dividend thanks to its young population – is also expected to grow rapidly in 2024.

Although the Russian economy has demonstrated unexpected resilience over the past two years, the economic impact of Western sanctions should not be overlooked. The boost from the Ukraine war effort, while significant, is artificial and may not be sustainable or translate into productivity growth.

Argentina and Mexico are projected to grow by 2-3% in 2024, while Brazil's growth is expected to be slightly lower. But political divisions in these countries could curb domestic demand and discourage foreign investors. Meanwhile, the possibility of interest-rate reductions in the US and other developed economies has alleviated some of the pressure on low-income countries grappling with debt distress, resulting in improved but still weak growth outlooks.

Crucially, a slight uptick in global growth may mask significant problems, such as geopolitical rifts, political unrest, trade protectionism, climate-related disruptions, and inadequate protections for vulnerable populations and countries. The adverse effects of economic nationalism and trade protectionism are likely to hit smaller developing countries the hardest.

The challenge facing policymakers, particularly in major economies, is to develop policy frameworks that reduce uncertainty and boost business and consumer confidence. At the same time, central banks must remain focused on restoring price stability, and governments on sound fiscal policies and supply-side reforms.

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