

Year Of Soft Landing

Global economy in 2023 has beaten dire forecasts. But policymakers need to be on guard. Old risks remain

What a difference a year can make. As 2022 ended, economic predictions were gloomy. Central banks were fighting a surge in inflation by quickly increasing interest rates. There were predictions of hard landings: inflation gets lowered but only via causing a deep recession. A year later, the situation couldn't be more different.

US, the bellwether | The world's largest economy remains resilient. In the third quarter of 2023, America grew 5.2% at seasonally adjusted rates. To put this in perspective, the US real GDP in 2022 was about \$21 trillion, which means that it's set to add more to the global GDP this year than any other economy. It's managed to grow at this pace while lowering retail inflation to 3% in October. And unemployment rate in October was 3.9%, not much higher than the 50-year low of 3.4% seen in April.

China struggles but matters | The real estate bubble and an overdose of debt – corporate debt is about 131% of GDP – are worrisome. But as the year draws to a close, things are beginning to look up for the Chinese economy. In November, exports increased 0.5%, ending a six-month decline. China's economic performance has global implications. In 2022, its economy was 73% the size of the US economy. To put this in perspective, it was just 7% in 1990.



And China buys more from the world | Following the global financial crises, China has tried to pivot from an investment-led growth model to one that places greater emphasis on consumption. It's taken effect and in recent years household consumption has been the main contributor to growth. Therefore, an improvement in China's growth prospects will have a positive effect on exports of other economies and related supply chains.

And then there's India | Macro headline numbers in 2023-24 are almost certain to beat initial forecasts. The second quarter's GDP growth of 7.6% overshoot expectations and there are early signs that private investment is beginning to respond to the growth performance. India's main challenge now is to ensure that the rural economy does better as it's a prerequisite to improving the lacklustre private consumption growth of 3.1%.

But even though economic policymakers globally managed the inflation challenge well, many risks, especially geopolitical ones, will persist in 2024. We shouldn't assume the next year will be all hunky-dory.