Editorial

The World Economy in 2015

The World is slated to experience unforeseeable vagaries from the interplay of extremely divergent variables in 2015, ranging from the unbelievable plunge in oil prices to the financial crash in Russia, accumulation of down-slide risks in the Euro-area, faltering of economic recovery in Japan, very frigid stagnation in the Chinese economy, loss of steam in Indian manufacturing, weakening of German economy, fall of currencies in key emerging markets to a decade low against the dollar, speeding growth-rates in parts of Africa-though on a very low base and interrupted by Ebola, the emergent fundamentalist forces like the Islamic State, the Hamas, Boko Haram, Muslim Brotherhood, Salafis, Lashkar-e-Taiba, SIMI, Indian Mujahideen, Hizbul Mujahideen and so on, eluding tranquility and peace on the planet. However, in spite of such unprecedented turbulence, frigidity and sporadic contractions in several economies, the American revival appears to be quite steady, after its quick recovery from the worst ever meltdown of 2008. But economy at home in India, has been facing the most challenging problems characterized by a period of worst ever crisis of the post-independence era, including a severe fiscal mess coupled with burgeoning trade and current account deficits, plummeting manufacturing sector, frigid investment scenario and growing dependence on foreign funds to keep the economy afloat against persistent current account deficit. So, in spite of a windfall decline in oil prices helping to curb inflation, revenue expenditure and oil import bills, the deficits in trade, current account and fiscal balance are quite worrisome. India's trade deficit has breached the $ 100 billion mark within 8 months from April to November 2014 against $ 96.89 billion in the same period last year, notwithstanding depreciating oil prices. The fiscal deficit for April-November- 2014-15 has also breached Rs 5.25 lac crores against the budgetary estimate of Rs. 5.31 lac crores, almost 99 percent of the annual estimate, which is high enough to derail the fiscal health of the exchequer and economy. The revenue for this 8 months period is only 43.8 % of the estimate for the year, much lower than that of last year's mop up of 45% in the corresponding period.

However, out of the positive signals in composite for 2015, the world economy, according to most of the forecasts, is slated to grow between 3.4 to 3.8 percent- a little higher than the year end estimate of 3.3 percent for 2014, which is a silver lining. Although the International Monetary Fund (IMF) has scaled down its own July'14 estimate of 4 percent growth for the world economy in the calendar year 2015 to 3.8 percent in its October estimate, it is still higher than that of 2014. The US economy is projected to grow faster than the preceding year according to all the forecasts. The IMF has even been ascribing 3.1 percent growth for the US to put it again at the centre-stage of the world economy as the most likely candidate to power world growth in 2015. Though, other estimates of the scenario for 2015 are not as much ambitious about the US economy as the IMF. The Global Economic Outlook has made a forecast of 2.6 percent growth for the US economy. But, defying all downside forecasts for 2014, the US economy is reported by the Bureau of Economic Analysis to have grown 4.6% in Q2 and 5% in Q3 of the CY 2014. The US was being described as the planet's peril five years back and was then blamed for being the bane of the global Economy. Japan, France, and China all ridiculed the US and warned the decision makers to dither away from the silly moves causing damages across the world. But, in spite of the political brinkmanship that brought the US Federal Government within a whisker of debt default in 2011, a rapid recovery, also offers a lesson for many EMEs, including India to attempt to engineer recovery with internal resources, especially by monetizing resources, instead of depending over external support in the form of investments, FDI as well as FPI being attracted with all-out efforts. The EMEs including India, Turkey, South Africa and Brazil might face fresh turbulence due to further draining out of foreign capital, as the US Federal Reserve is laying ground for the first ever interest rate hike after 2006. According to the World Bank estimate of last year, private capital flows to developing nations might drop 50% with just one percentage point rise in long-term US bond yields. A Bloomberg index tracking 20 of the most traded EME currencies has already fallen to the lowest since 2003 on December 15, 2014. The Rouble has even dipped to 64 against the Dollar for the first time and Turkey's Lira has tumbled quietly to an all time low exchange rate and the Indonesian Rupiah has gone down to levels last never seen after 1998, i.e. in their post 1997 crisis era. The fall of crude prices to below $50 a barrel, from $135 a year ago is bound to starve several countries from Venezuela to Russia and Nigeria to Iran and Saudi Arabia of resources. It may even lead to a couple of, or even more, sovereign bond defaults.

Under this state of turbulence and disarray, Japan has begun to emulate the US to resort to quantitative easing in a big way to revive its sagging economy, even ignoring the warning signals from the consequent fall in the GDP in Q2 of 2014 by 7.1 percent and decline in the value of Yen to the lowest level not seen in last 6 years. It is also a case in example to take a cue from, to opt for indigenously monetized resources instead of depending upon FDI for expanding manufacturing and infrastructure capacities. India may also opt to endeavour to monetize resources, may be via a special purpose vehicle, to push these resources in infrastructure as well as in manufacturing in the form of equity, to ease the cost of credit prohibiting new projects from coming up due to high interest rates. But, it is nowhere in the pipe line. Therefore, the true fate of nations is yet to be seen in 2015.

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