GLOBAL ECONOMIC PULSE

ABSTRACT

A Synopsis on Interest rates, Labour Markets and Inflation of the World's leading Economy

MERCURIUS

Table of Contents

Introduction: The Global Economic Outlook

The economic journeys of the world's leading five economies—United States, China, Japan, Germany, and India—show unique patterns of growth and contraction, particularly around the outbreak of COVID-19. Before the pandemic, spanning Q1 2018 to Q4 2018, these economies witnessed moderate growth with distinct variations. India, for instance, posted a GDP growth rate of 2.1% in Q1 2018, which slowed to 1.5% by Q4 2018. In contrast, Germany experienced fluctuations, with a -0.6% GDP growth rate in Q1 2018, bouncing back to 0.9% by Q4 2018.

The emergence of COVID-19 in 2020 drastically altered the global economic landscape, leading to severe recessions among these major economies. Starting in Q1 2020, the pandemic's impact was pronounced. China, Germany, and the United States reported significant negative GDP growth rates of -10.4%, -1.8%, and -1.4%, respectively. Interestingly, India and Japan initially avoided negative rates in Q1 2020, with modest growth rates of 0.1% and 0.5%, respectively. However, by Q2 2020, all five economies experienced negative GDP growth rates, reflecting worsening economic conditions.

Fast forward to the fourth quarter of 2023, the U.S. real GDP grew by 3.4%, continuing to increase at an annual rate of 1.6% in the first quarter of 2024, according to the Bureau of Economic Analysis' "advance" estimate. In China, the total GDP for Q4 2023 rose by 5.2% year-on-year, reaching RMB 34.79 trillion (US$4.88 trillion), with a quarterly growth of 1%. According to Trading Economics, Germany's GDP is projected to hit USD 4091.00 billion by the end of 2024. Meanwhile, Japan's GDP contracted by 0.50% in the first quarter of 2024 compared to the previous quarter, with an expected GDP growth rate of 0.80% by the end of this quarter. India's economy expanded by 7.8% in Q1 2024, significantly surpassing the initial forecast of a 6.7% expansion, and the annual GDP growth rate is expected to be 7.10% by Q4 2024.

Globally, the real GDP growth rate forecast for 2024 stands at 3.2%. The Conference Board predicts that the global economy will grow by 3% in 2024 and 3.1% in 2025.

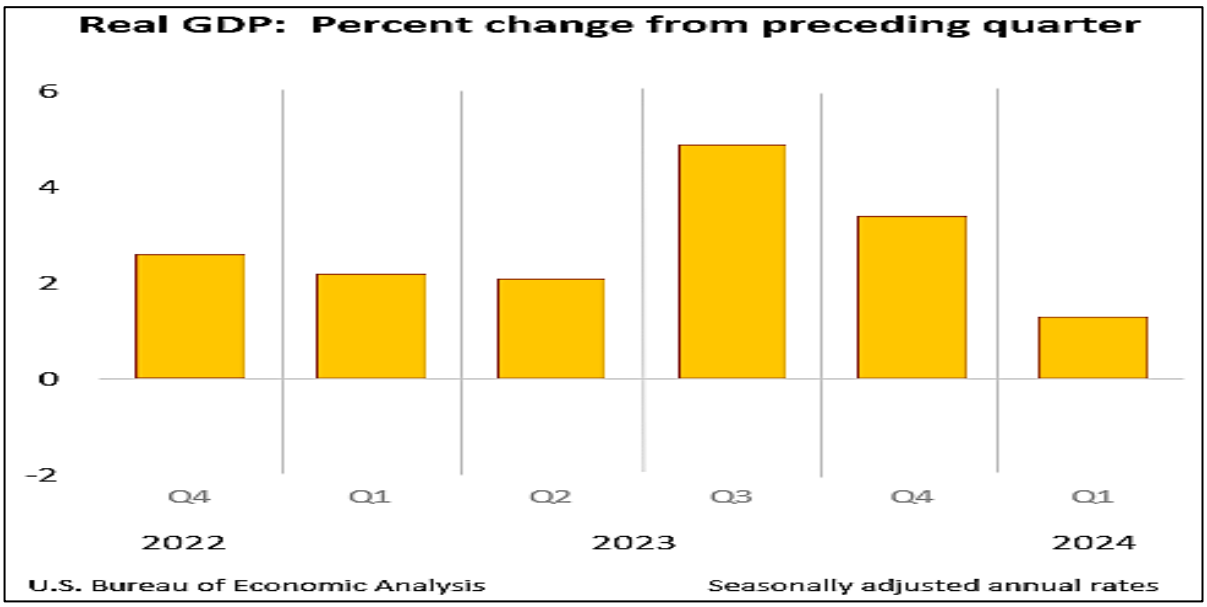
A Regional Analysis on Advanced, Emerging and Underdeveloped Economies: A closer look at advanced, emerging, and underdeveloped economies reveals distinct trends. IMF data shows **advanced economies** recorded a 1.6% GDP growth rate in 2023. Following this, the growth rate is expected to maintain at 1.7% in 2024, settling below the pre-pandemic decade average of 2.1%. The growth forecast for these economies in 2025 is set at 1.6%. **Emerging and developing economies** are anticipated to stabilize after the significant volatility post-2020 pandemic. These economies observed a 4.5% growth rate in 2023, with forecasts indicating a slight dip to 4.3% for both 2024 and 2025.In **underdeveloped regions**, which include Latin America and the Caribbean, the Middle East and Central Asia, and Sub-Saharan Africa, GDP growth rates in 2023 were 2.3%, 2%, and 3.4%, respectively. For 2024, the forecasted GDP rates are 2%, 2.8%, and 3.8%, respectively. Looking ahead to 2025, these regions are projected to grow at rates of 2.5%, 4.2%, and 4%, respectively.

US Market-

GDP growth rates:

In the fourth quarter of 2023, real GDP increased by 3.4%, and it continued to grow at an annual rate of 1.6% in the first quarter of 2024, according to the "advance" estimate from the Bureau of Economic Analysis. The Conference Board projects a steady GDP growth rate of 1.5% for 2025.The US economy entered 2024 with strong momentum; however, rising consumer debt and high interest rates are expected to slow economic growth. The increase in consumer spending was driven by higher expenditures on services, partially offset by a decrease in spending on goods. Within services, the increase was mainly due to higher spending on health care, financial services, and insurance. Conversely, the decline in goods spending was primarily due to decreases in motor vehicles and parts, as well as gasoline and other energy goods.

While a recession is not anticipated in 2024, consumer spending growth is expected to slow, causing overall GDP growth to dip below 1% during the second and third quarters of 2024. As inflation and interest rates gradually stabilize, quarterly annualized GDP growth should return to around 2% in 2025.According to the Bureau of Economic Analysis (BEA), the percentage change from the preceding quarter showed that the US experienced moderate growth, moving from 2.6% in Q4 2022 to 2.1% in Q2 2023. In Q3 2023, the real GDP percentage change from the preceding quarter was the highest at 4.9%.



Interest Rates in the US in 2023, 2024 and 2025:

At its March 2024 meeting, the Federal Reserve opted to maintain the federal funds target rate at 5.25% to 5.5%, a level it has held steady since July 2023. This marks the highest rate in 23 years, sustained by the US central bank despite persistent inflation. The Fed has indicated that three rate cuts are anticipated in 2024, with fewer cuts expected in 2025. Additionally, projections for US core inflation and GDP growth in 2024 have been slightly adjusted upward. The Fed initiated an assertive monetary policy tightening cycle, increasing the policy rate by 5.25 percentage points since March 2022. This represents one of the most rapid responses to rising inflationary pressures, significantly increasing borrowing costs for both businesses and households. Looking ahead, the central bank plans to reduce interest rates by 0.75 percentage points by the end of 2024, likely implemented through three incremental cuts. Despite the intention to start cutting rates for the first time since 2020, the forecast now includes only three rate cuts in 2025, down from four. As interest rates and bond prices typically move inversely, the anticipated rate cuts this year are expected to cause bond prices to rally, leading to capital gains for bondholders. The Fed also projects a further 0.75 percentage point reduction in rates for both 2025 and 2026, consistent with previous forecasts. Furthermore, the Fed has adjusted its outlook on the long-term interest rate, raising it slightly from 2.5% to 2.6%, indicating confidence that the economy can sustain higher rates in the future.

Investing in US debt securities:

1) Attractive Yields and Potential for Capital Gains:

As of March 2024, US 10-year bond yields are ranging between 4.2% and 4.5%. In November 2023, these yields briefly surpassed 5%, reaching multi-year highs. This presents a prime opportunity for investors to secure these elevated yields. US bonds offer a dual benefit: locking in high current yields and the potential for future capital gains. Additionally, they provide exceptional security and liquidity.

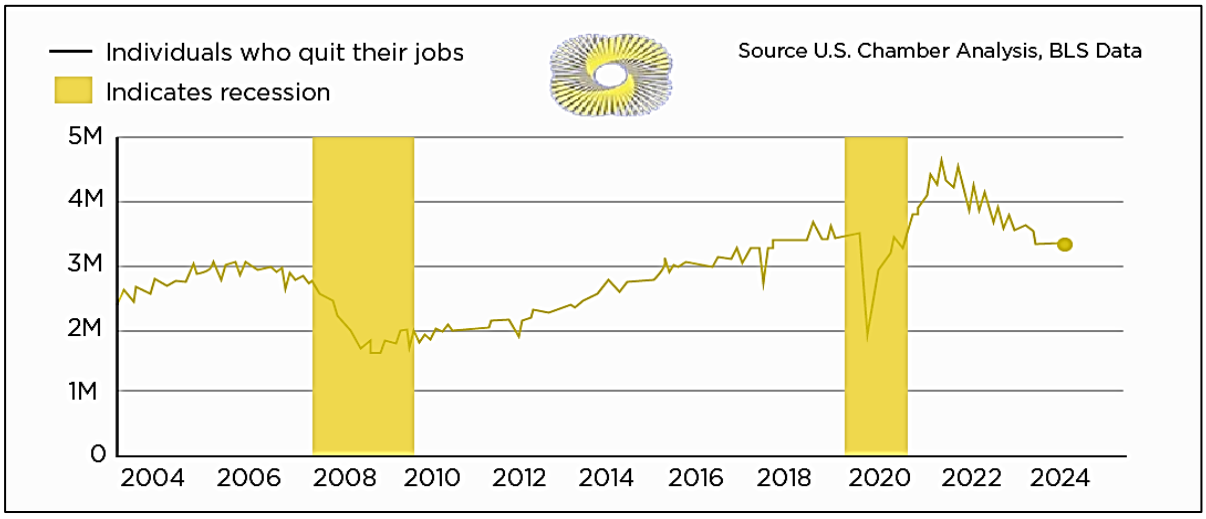
2) Benefit from Currency Depreciation:

Historically, the Indian Rupee (INR) has depreciated against the US Dollar (USD). For investors holding USD-denominated assets, this depreciation can be advantageous. Over the past decade, the INR has depreciated at

an average rate of 2-3% annually. Currently, yields on government securities in many countries, including the US and India, are at multi-year highs. With expectations that many central banks worldwide, including the US Fed and the Reserve Bank of India (RBI), will cut interest rates in the second half of 2024, now is an opportune time to invest in debt funds. This strategy allows investors to lock in high yields and potentially benefit from capital gains as interest rates decline.

Labor Market Scenario in the US-

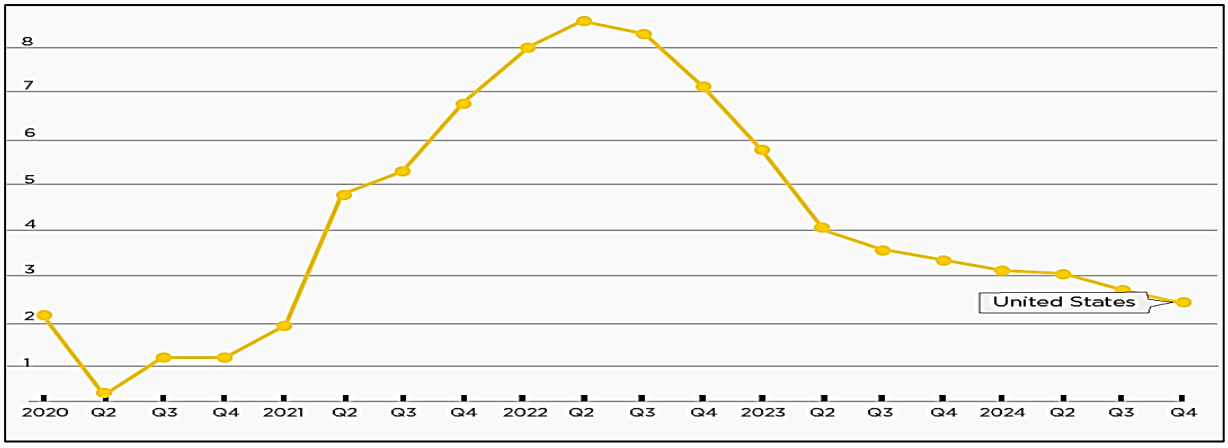
From February 2022 to April 2024, the US unemployment rate fluctuated between 3.4% and 3.9%, levels considered historically low. Since 2023, a tight labour market—characterized by low unemployment and a shortage of available workers—has been the norm in the US. Despite a rise in unemployment levels in February, various factors have kept the workforce resilient. These include increased immigration, sector-specific hiring, and more individuals with disabilities entering the workforce. In February, the unemployment rate increased after hitting a 54-year low of 3.4% in 2023 but slightly decreased to 3.8% in March. In a tight labour market where job seekers are fewer than job openings, this dynamic has provided more opportunities for people with disabilities to join the workforce. Additionally, the rise in telework opportunities has marginally contributed to this increased participation, with 24.5% of workers with disabilities teleworking in March compared to 22.8% of those without disabilities.



Factors contributing to the Labor Shortage:

In 2021, the pandemic drove nearly 3 million adults into early retirement, pushing labour force detachment from 48.1% in Q3 2019 to 50.3% in Q3 2021. The proportion of older individuals within the US population continues to rise, a trend likely to persist. This demographic shift is partly due to younger generations having fewer children than previous ones, leading to an aging and shrinking population. Additionally, **net international migration** to the US has reached its lowest level in decades.

In a surge of **entrepreneurial** spirit, some employees left their jobs or remained unemployed to start new businesses. In 2023, 5.5 million new businesses were launched. In 2024 alone, there have already been 884,981 new business applications. Moreover, the growing number of individuals earning six-figure incomes on social media presents new challenges for employers in attracting talent. According to data from the US Chamber of Commerce, enhanced unemployment benefits, stimulus checks, and reduced spending opportunities during the pandemic allowed US citizens to collectively add $4 trillion to their savings accounts since early 2020. Consequently, many people are still opting to stay out of the labour force.

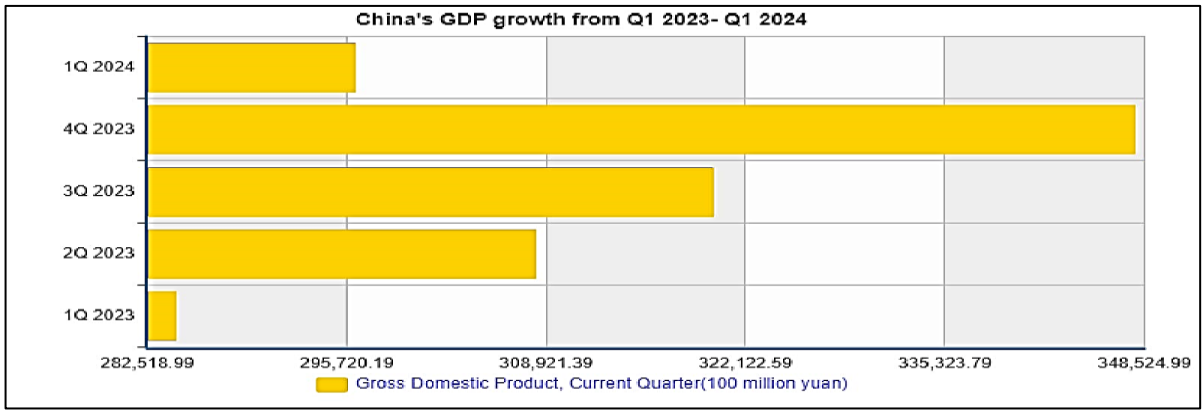


Inflation Rates in the U.S.:

The annual inflation rate in the US is anticipated to remain steady at 3.4% in May 2024.Month-over-month, the Consumer Price Index (CPI) is projected to rise by 0.1%, marking the lowest increase in seven months compared to 0.3% in April. Gasoline prices are expected to have stabilized in May, while used car prices likely saw an uptick. Meanwhile, core inflation is predicted to slow to 3.5% annually—the lowest since April 2021—down from 3.6% in April. The monthly core inflation rate is expected to stay at 0.3%, according to data from the US Bureau of Labor Statistics. The US inflation rate is expected to drop to 3.1% by the end of this quarter. Looking further ahead, their econometric models project the inflation rate to trend around 2.4% in 2025.

China Market-

GDP growth rates:



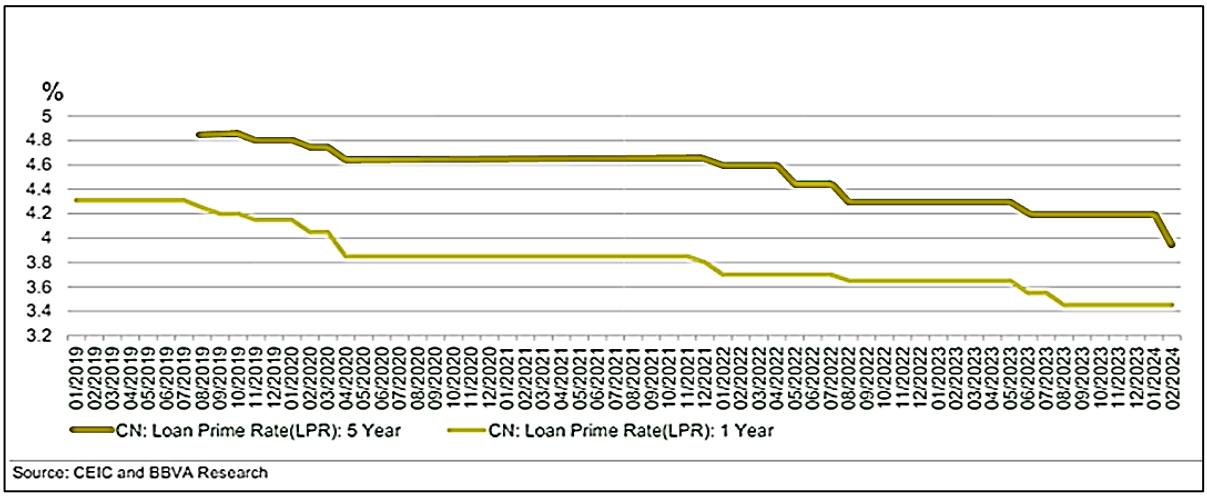
Source: National Bureau of Statistics of China

The bar chart illustrates China's economic trajectory from Q1 2023 to Q1 2024, highlighting significant growth and challenges. In 2023, China's GDP surpassed targets, expanding by 5.2% year-on-year at constant prices, reaching RMB 126.06 trillion (US$17.52 trillion), as estimated by the National Bureau of Statistics (NBS). This growth was largely driven by substantial gains in the high-tech manufacturing sector. Investment growth in the first quarter was primarily driven by state-owned enterprises, which increased spending by 7.8% compared to the previous year. In contrast, private sector investment rose by a mere 0.5%, and investment from foreign companies fell by 10.4% in the first three months. Beijing has made reviving economic growth its top priority for the year, renewing efforts to attract foreign investors.

According to IMF projections, China’s economy is set to grow by 5% this year after a strong first quarter. The IMF has revised its 2024 and 2025 GDP targets upward by 0.4 percentage points, but it warns that growth will slow to 3.3% by 2029 due to an aging population and slower productivity expansion. The IMF now expects China's economy to grow by 5% in 2024 and slow to 4.5% in 2025, as reported by Reuters. The IMF also expects core inflation in China to rise, averaging around 1% this year.

Interest Rates in China in 2023, 2024 and 2025:

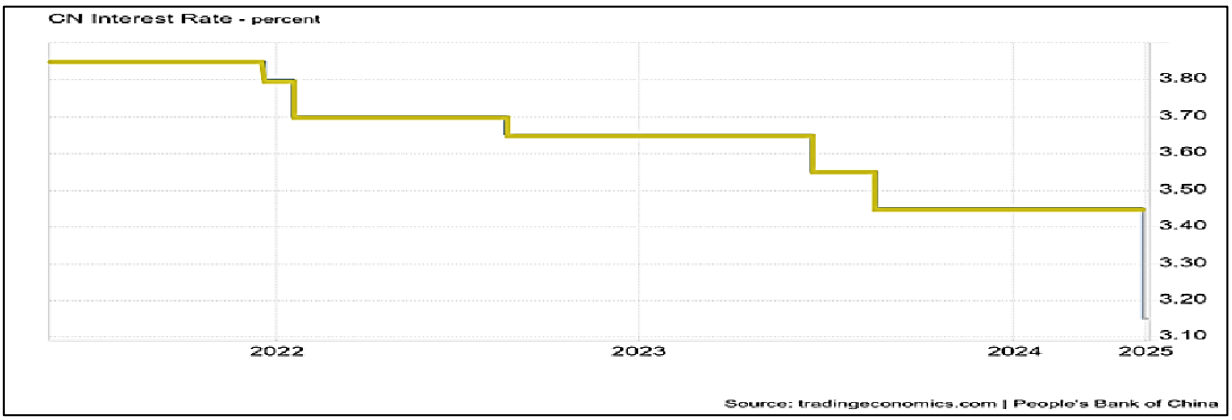
PBOC's (the People's Bank of China) Adjustment of Loan Prime Rates and Its Economic Implications-
In the world's second-largest economy, most new and outstanding loans are now based on the one-year LPR, currently at 3.45%. In a move to stimulate economic growth, China's central bank cut a key benchmark lending rate used to price mortgages in February 2024. The PBOC reduced the five-year LPR to 3.95% from 4.2%, while keeping the one-year LPR, which serves as a benchmark for corporate loans, unchanged at 3.45%. Maintaining the one-year LPR at 3.45% reflects the PBOC's concerns about the RMB exchange rate and potential capital outflows before the Federal Reserve implements its rate cuts. The five-year LPR, which was last reduced in June, is now at historic lows. The 25-basis point cut in the five-year LPR, the first change since June 2023 and the largest since the rate revamp in 2019, indicates that the authorities are intensifying efforts to support the



struggling property sector and revive domestic demand.

China's Recent Monetary Policy Adjustments and Economic Challenges-

Recently, Beijing announced a reduction in the reserve requirement ratio (RRR).This move reflects China's ongoing struggle to stimulate economic growth amidst various challenges. The country continues to grapple with a prolonged crisis in the property sector, rising youth unemployment, and global economic slowdowns that have dampened demand for Chinese exports. According to a report by BBVA, the monetary policy outlook for 2024 remains expansionary, buoyed by anticipated rate cuts from the Federal Reserve and China's persistent deflationary environment, which allows room for monetary expansion. Following the announcement of the policy cut, the RMB to USD exchange rate promptly depreciated from 7.1 to 7.2.

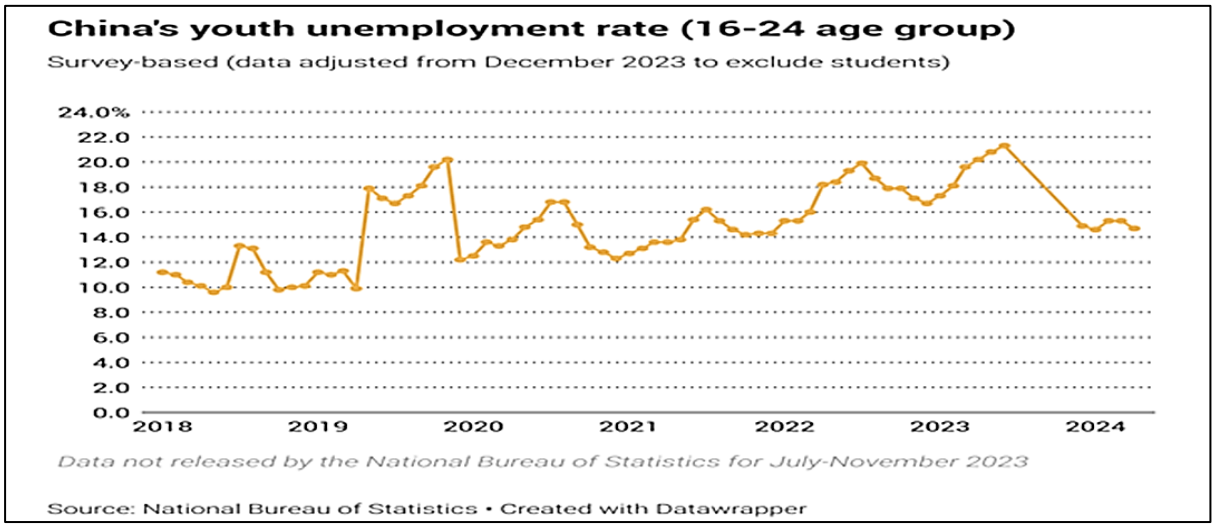


Interest rates predictions for China in 2025:

Based on information from Trading Economics, the projected interest rate in China is anticipated to reach 3.15 percent by the conclusion of this quarter, aligning with forecasts derived from global macro models and analysts' expectations. Looking ahead, the long-term trajectory for China's Loan Prime Rate is expected to stabilize around 3.15 percent in 2025, with a slight increase to 3.25 percent by 2026, as outlined by their econometric models and illustrated in the accompanying diagram.

Labor Market Scenario in China:

According to insights from the IMF World Economic Outlook, there is an expected significant shift in how labour supply will contribute to global GDP growth by 2030. China is projected to encounter contractionary trends, with a predicted decline of 0.6% in labour supply attributed to notable decreases in participation rates. Recent findings from the People's Bank of China's quarterly survey underscore ongoing challenges for policymakers. Despite efforts to boost domestic consumption in the post-Covid economy, households in China are contending with a sluggish job market and cautious spending habits favouring savings. The survey, encompassing 20,000 residents across 50 cities, revealed that 46.5% perceived the job market from January to March as precarious and uncertain, citing difficulties in finding employment. Moreover, nearly 70% of urban respondents reported stagnant incomes, while over 17% noted a decrease in their earnings.



Inflation Rates in China:

According to a recent report from Reuters, China's consumer inflation remained stable in May, while the decline in producer prices moderated slightly. Despite multiple rounds of stimulus, consumer prices in China have been kept in check since 2023 due to subdued consumption, largely impacted by ongoing challenges in the property sector. The latest figures from the National Bureau of Statistics (NBS) revealed that the consumer price index (CPI) increased by 0.3% in May compared to the previous year, matching the growth seen in April. This was slightly below the 0.4% increase anticipated in a Reuters poll. Meanwhile, producer prices, which had been experiencing deflation since September 2022, saw a slower decline of 1.4% in May, compared to a 2.5% contraction in April. This also aligned closely with expectations of a 1.5% decrease.

Germany Market:

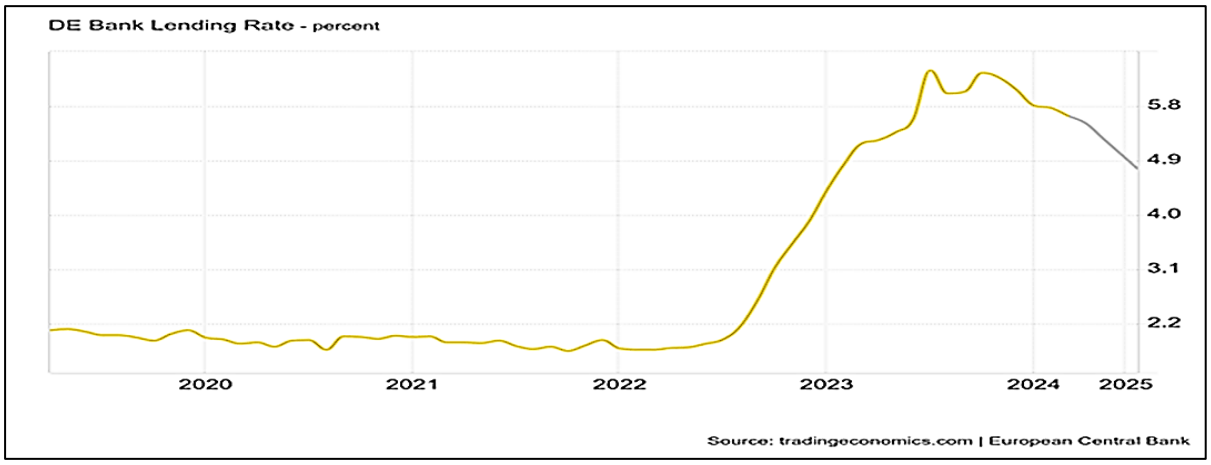
GDP growth rates:

In the final quarter of 2023, the Eurozone faced economic stagnation, largely influenced by Germany's industrial woes. Germany's manufacturing sector saw a significant decline of 1.2% in real terms throughout 2023, with pronounced drops in Q3 and Q4 (-2.0% and -2.2% quarter-on-quarter respectively), creating a challenging starting point for 2024. Although sentiment indicators hinted at stabilization, business expectations remained pessimistic. Germany, heavily reliant on Russian energy and deeply engaged in trade with China, saw its economic

model disrupted by geopolitical shifts. The country's economy contracted by 0.3% in Q4 2023, contrasting with modest growth across the wider Euro area, supported by expansions in Spain and Italy. Projections for Germany in 2024 suggest minimal growth at 0.2%, with a slight improvement to 1.1% anticipated in 2025.

Interest Rates in Germany in 2023, 2024 and 2025:

In March 2024, Germany's bank lending rate declined to 5.64 percent from 5.77 percent in February of the same year. Over the period from 2003 to 2024, the average bank lending rate in Germany stood at 3.58 percent, peaking at 6.55 percent in December 2007 and hitting a record low of 1.76 percent in October 2021. Analysts anticipate the bank lending rate in Germany to further decrease to around 5.52 percent by the end of the current quarter, based on Trading Economics' global macro models and market expectations. Looking ahead, the long-term projections indicate a trend towards a bank lending rate of approximately 3.77 percent in 2025 and 3.52 percent in 2026.



The European Central Bank (ECB) is expected to lower the interest rates for its main refinancing operations, marginal lending facility, and deposit facility by 25 basis points each, bringing them to 4.25%, 4.50%, and 3.75% respectively. Central banks typically base their interest rate decisions on economic indicators. Alongside the recent policy announcement, the ECB's survey of professional forecasters indicated upward revisions in inflation expectations for the next two years.

ECB's survey of professional forecasters: Inflation expectations

	2023	2024	2025	2027
Inflation	5.9%	2.7%	2.1%	2.1%
Core inflation	4.4%	2.8%	2.3%	2%

ECB interest rate predictions from analysts

	2023	2024	2025
ECB survey	3 – 3.5%	Below 3%	Below 3%
ING	3.5% – 4%	3.5% – 4%	3% in Q4
Trading Economics	3.5% in Q1	2.75%	1.5%

Source: ECB

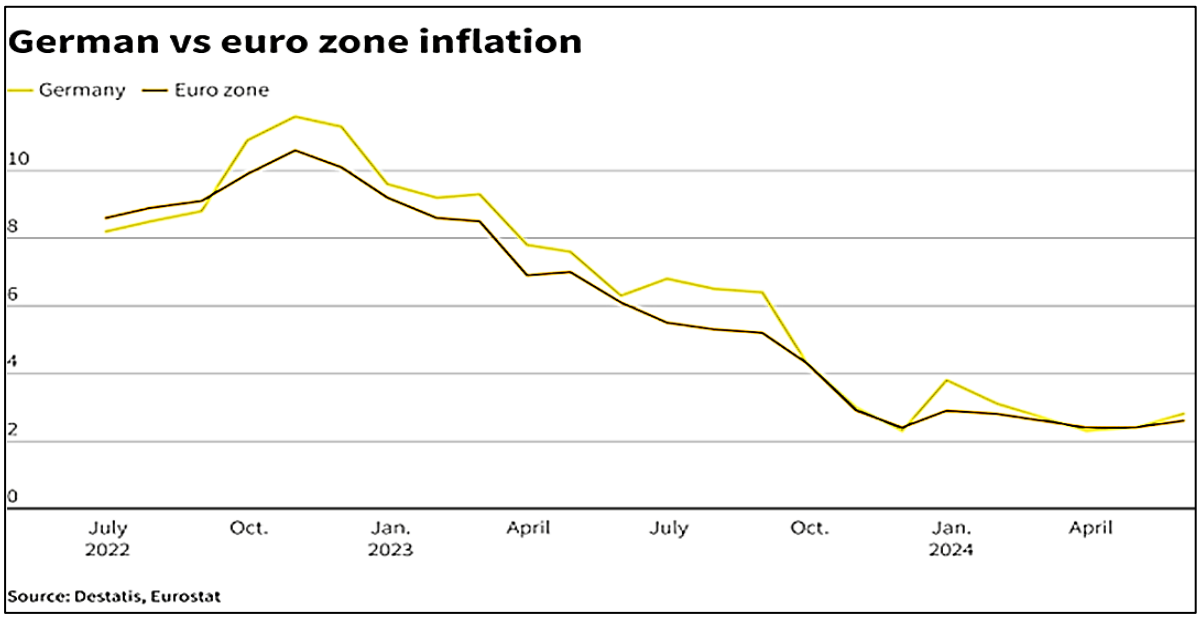
Germany is facing the prospect of entering its first two-year recession since the early 2000s, according to a report by The Guardian. The country's economy contracted by 0.3% in 2023, driven by challenges including higher energy costs and weakened industrial demand. Although Germany narrowly avoided a technical recession defined by two consecutive quarters of GDP decline, its industrial sector, excluding construction, saw a significant 2% drop due to rising energy prices and reduced global and domestic demand. Household consumption fell by 0.8% year-on-year, reflecting the impact of increased living expenses and borrowing costs on consumer spending. Government spending also decreased by 1.7% during the period. Germany, which had one of the weakest performances among advanced economies in 2023, is projected to continue struggling in 2024 with forecasted growth of only 0.8% according to EU predictions. Experts describe the German economy as being in a state of "permanent crisis mode," citing ongoing supply chain disruptions, persistent inflation pressures, reduced global demand for manufactured goods, and higher interest rates as factors weighing on economic output. While recent declines in inflation may offer some relief to households, investment in residential and business sectors is expected to contract further, with construction also facing a steep downturn. Fiscal policy tightening by the government is anticipated to contribute to a forecasted zero GDP growth in 2024. Despite slight recovery from the economic downturn of the pandemic year 2020, Germany's GDP in 2023 was only 0.7% higher than in 2019, prior to the COVID-19 pandemic.

Labor Market Scenario in Germany:

In April 2024, approximately 45.8 million people in Germany were unemployed, with seasonally adjusted figures showing a monthly increase of 25,000 (+0.1%), according to the Federal Statistical Office. Employment growth was modest in the first three months of 2024, rising by 4,000 in January, 17,000 in February, and 8,000 in March. Germany's economic decline is underscored by its struggling industrial sector. This labour tightness, marked by prolonged vacancies and rising hiring costs, suggests similar future challenges for the broader Eurozone as demographic shifts continue.

Inflation Rates in Germany:

In May 2024, Germany's annual inflation rate, measured by the consumer price index (CPI), was 2.4%, up from 2.2% in April and March. Energy and food prices have moderated overall inflation since the start of the year. The Federal Statistical Office (Destatis) noted a 0.1% increase in consumer prices from April to May 2024. A Reuters report highlighted a rise in German inflation in May due to higher service costs. Harmonized consumer prices, comparable across the EU, increased by 2.8% year-on-year in May, up from 2.4% in April.

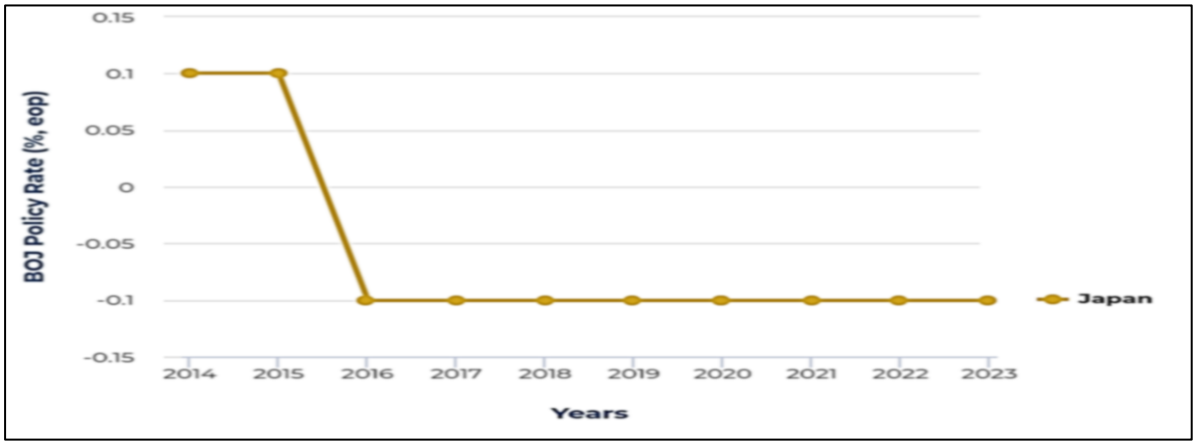


Japan Market:

GDP Growth Rates:

Japan's GDP shrank by 0.50% in the first quarter of 2024 compared to the previous quarter. Trading Economics' global macro models and analysts anticipate a GDP growth rate of 0.80% by the end of this quarter. Looking ahead, the Japan GDP Growth Rate is projected to average around 0.40% in 2025, based on Trading Economics' econometric models.

Interest rates in Japan in 2023, 2024 and 2025:

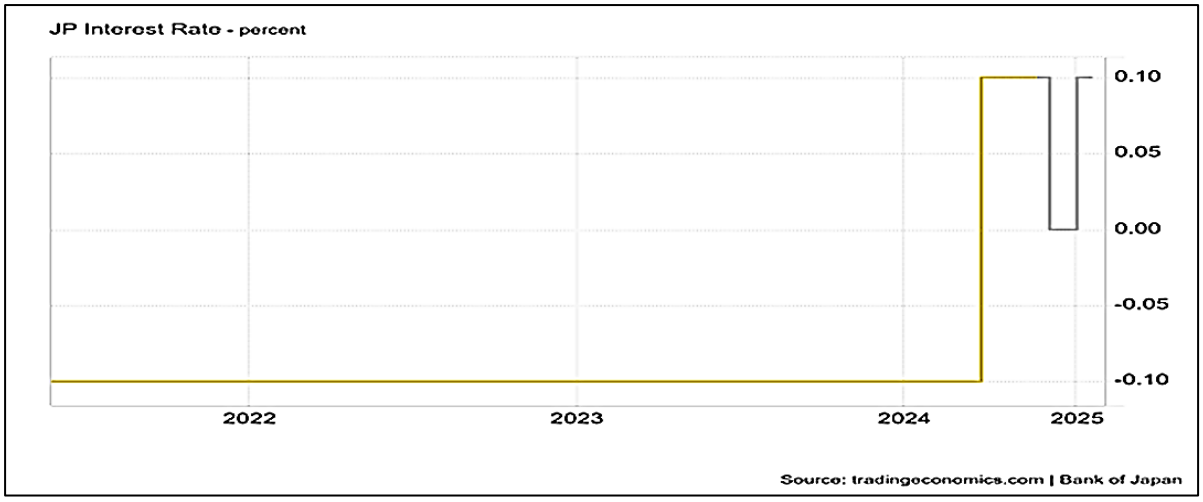


BOJ (Bank of Japan) Policy Rate in Japan-From 2013 to 2022, Japan's central bank upheld ultra-low policy rates as part of a vigorous monetary easing strategy aimed at combating deflation and spurring economic growth. By the end of 2022, the BOJ Policy Rate remained at -0.10%, consistent with the end-2021 rate, and significantly lower than the 0.10% rate from a decade prior. In contrast, the average policy rate in major economies stood at 3.50% at the close of 2022.

Note: This chart displays Policy Interest Rate (%) for Japan from 2014 to 2023.

Source: Bank of Japan **Recent Developments:**

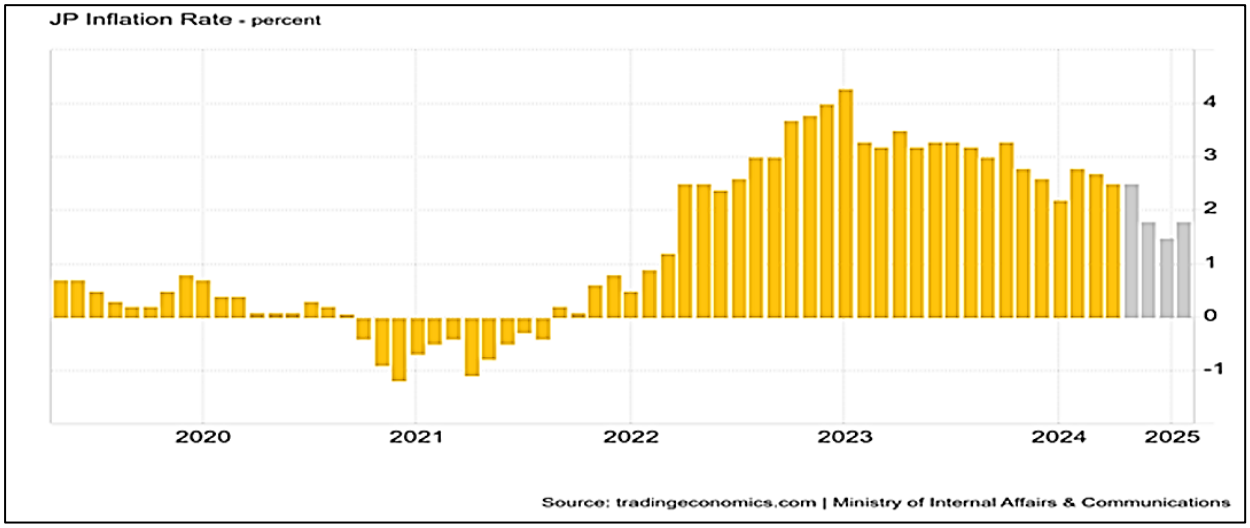
After raising its policy rate for the first time in 17 years last month, the Bank of Japan (BOJ) kept it unchanged at 0.00–0.10% during its April 25–26 meeting. The BOJ will continue guiding the uncollateralized overnight call rate to this range. This decision led investors to sell the yen in **favour** of the dollar, anticipating sustained interest rate gaps between Japan and the US. The rate hike from -0.1% marked an end to the BOJ's eight-year negative interest rate policy aimed at combating deflation. The BOJ maintained rates, projecting inflation to align with its 2.0% target through the forecast horizon. Core inflation forecasts for FY 2024 and FY 2025 were slightly raised to 2.8% and 1.9%, respectively, due to rising crude oil prices. Japan's benchmark interest rate was last recorded at 0.10%. Trading Economics projects it to be 0.00% by the end of this quarter, trending around 0.10% in 2025.



Labor Market Scenario in Japan:

In 2023, the average number of employed persons in Japan reached 67.47 million, marking an increase of 240,000 compared to the previous year. This growth included an addition of 180,000 regular employees and 230,000 non-regular employees. The overall employment rate rose slightly to 61.2%, an uptick of 0.1 percentage points. Breaking it down by gender, the employment rate for men edged up to 69.5%, a 0.1-point increase, while the rate for women saw a more significant rise, climbing by 0.6 points to 53.6%. Meanwhile, the average number of unemployed persons fell by 10,000, bringing the total to 1.78 million. Despite this decrease, the average unemployment rate remained steady at 2.6%, unchanged from the previous year.

Inflation Rates in Japan:

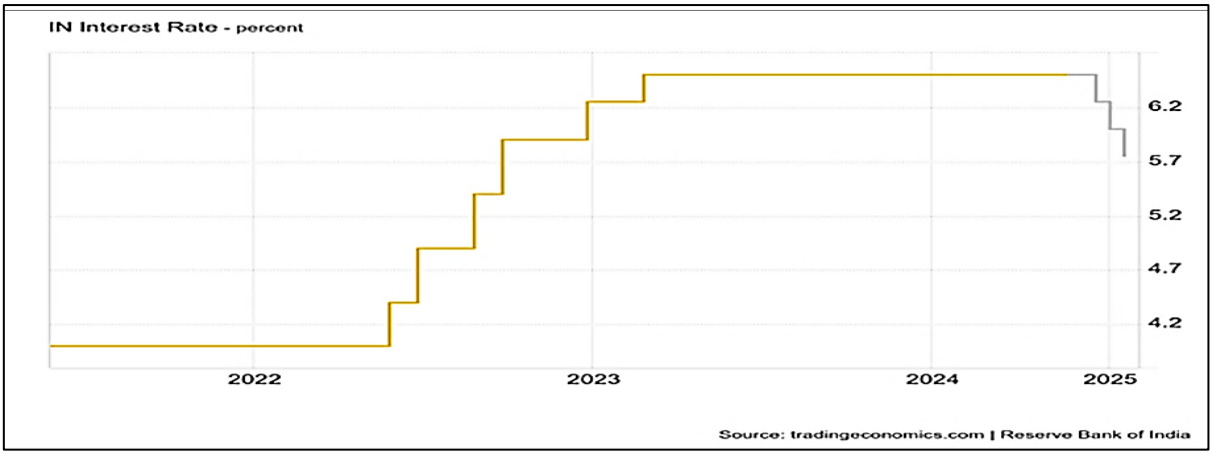


In April 2024, Japan's annual inflation rate dropped to 2.5% from 2.7% in March. Food prices increased, while costs for furniture and household utensils eased. Education prices fell for the first time since May 2021, dropping 0.9% compared to a 1.3% rise previously. Core inflation decreased to 2.2% from 2.6%. Monthly, the CPI increased by 0.2%, matching March's rate, the highest since October 2023.Japan's inflation rate is expected to remain at 2.5% by the end of this quarter. Long-term projections indicate the rate will decrease to around 1.6% in 2025.

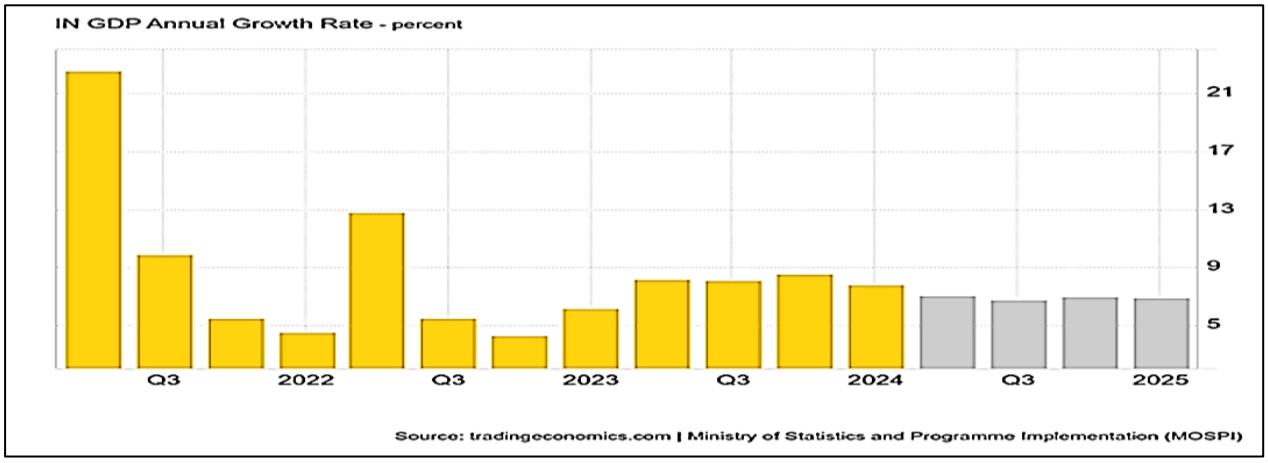
India Market:

GDP Growth Rates:

In Q1 2024, India's economy surged by 7.8%, significantly surpassing the anticipated 6.7% growth, reinforcing its position as the world's fastest-growing major economy. This robust performance was driven by substantial gains in manufacturing, construction, public administration and defence which grew by 4.3% compared to 2.9%



previously. According to Trading Economics, India's GDP annual growth rate is expected to reach 7.1% by the end of Q4 2024. Looking ahead, the growth rate is projected to be around 5.9% in 2025 and 5.1% in 2026, as per their econometric models.



Interest Rates in India in 2023, 2024 and 2025:

In April 2024, the Reserve Bank of India (RBI) maintained its benchmark policy repo rate at 6.5%.This decision followed February's annual inflation rate of 5.09%, nearly consistent with January's figure, and down from the four-month peak of 5.69% recorded in December 2023. The inflation rate remained within the RBI's medium-term target range of 2-6%. RBI Governor Shakti Kanta Das reiterated the central bank's goal of reducing inflation to 4%, acknowledging the persistent Uncertainties influencing the inflation outlook. The RBI kept its economic growth forecast for FY 2025 steady at 7%, with quarterly projections of 7.1% for Q1, 6.9% for Q2, and 7% for both Q3 and Q4. For inflation, the projections stood at 4.9% for Q1, 3.8% for Q2, 4.6% for Q3, and 4.5% for Q4. Additionally, the marginal standing facility (MSF) and bank rates remained unchanged at 6.75%, while the standing deposit facility (SDF) rate stayed at 6.25%.India's benchmark interest rate stood at 6.50% in the latest update. According to forecasts by Trading Economics, this rate is anticipated to remain stable at 6.50% by the end of the current quarter. Looking ahead, projections from their econometric models suggest a gradual decline to around 5.50% in 2025 and further to 5.00% by 2026. These expectations reflect anticipated adjustments in monetary policy aimed at managing economic conditions over the coming years.

Labor Market Scenario in India:

In a recent report from The Hindu, it was highlighted that nearly 83% of India's unemployed population comprises young people. The proportion of youth with secondary education or higher among the unemployed has nearly doubled since 2000, rising from 35.2% to 65.7% by 2022, according to findings from the India Employment Report 2024 jointly released by the International Labour Organisation (ILO) and the Institute of

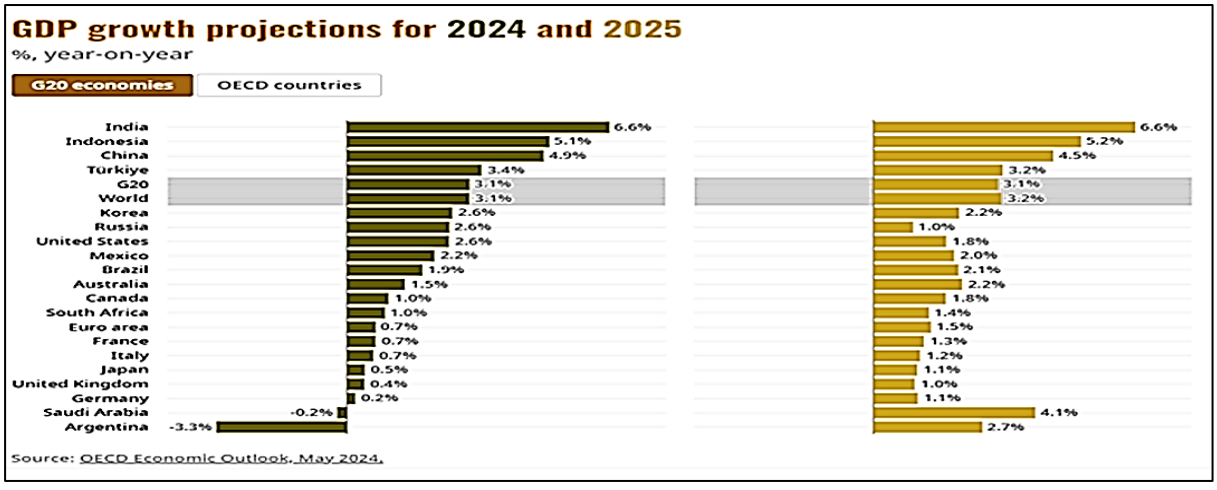
Human Development (IHD). Despite these challenges, the ILO predicts that real wages in India are experiencing "positive" growth compared to other G20 nations.

Inflation Rates in India:

After enduring the upheavals of the COVID-19 pandemic over the past two years, the Indian economy began its recovery trajectory in the second quarter of FY2022, demonstrating significant growth across various sectors. The economy achieved an impressive 8.7% GDP growth for FY2022, surpassing pre-pandemic levels and fostering ambitions of India becoming the world's third-largest economy by the mid-2030s. However, this recovery faced challenges in the latter half of the year due to geopolitical tensions, inflationary pressures exceeding tolerance levels in major economies, resulting in rate hikes, and disruptions in supply chains. Despite ongoing fiscal and monetary support post-pandemic, challenges persisted, exacerbated by waves of the Delta and Omicron variants. According to a Forbes article, the inflationary landscape in India, reflected by the Consumer Price Index (CPI) and Wholesale Price Index (WPI), presents a varied picture. While CPI eased marginally to 4.83% in April 2024, WPI showed a slight uptick to 1.26% from the previous month. The Reserve Bank of India (RBI) remains committed to balancing inflation and fostering growth, projecting CPI to hover around 5% in the coming quarters. With real GDP growth forecasted at 6.5% for FY2024-25, the RBI aims to manage inflation expectations while promoting economic expansion. However, investors are at a crossroads, grappling with interpreting inflation pressures. While the RBI's policies aim to strike a delicate balance between growth and inflation, persistent upward price pressures raise concerns about the economy's trajectory. This mirrors global trends, as seen in March 2024 inflation figures in the U.S., highlighting the pervasive nature of the challenge. Investors face the daunting task of assessing whether the economy is heading towards recession or on a path to recovery, or poised for robust growth, underscoring the importance of informed decision-making in uncertain times.

GDP growth predictions for 2024 and 2025-

The chart below provides an analysis **of OECD projections for GDP growth rates across G20 economies,** highlighting the top five economies: US, China, Japan, Germany, and India.



In 2024, the **United States** anticipates modest economic growth at 2.6%, which is projected to decelerate to 1.8% in 2025. This outlook reflects adjustments to higher borrowing costs and a moderation in domestic consumer spending.

China's economic trajectory for 2024 indicates growth expectations of approximately 4.9%, with the IMF slightly downgrading its projection to 4.5%. This adjustment aligns with Beijing's target of achieving "around" 5% growth, supported by a strong first quarter performance where growth surpassed expectations at 5.3%. However, challenges persist as deflationary pressures remain significant and the ongoing property crisis continues to weigh heavily on economic prospects. Before the release of first quarter GDP data, a Reuters poll had forecasted China's 2024 growth at 4.6%.

Comparatively, **Germany's** economic forecast remains subdued, with growth expected to reach only 0.2% in 2024 and improve slightly to 1.1% in 2025. Chancellor Olaf Scholz expressed concern over these figures, citing significant challenges stemming from global uncertainties, including the aftermath of Russia's invasion of Ukraine. Germany narrowly avoided a recession earlier this year, showing a slight expansion of 0.2% in the first quarter following a contraction of 0.5% in the final quarter of 2023. Economic analysts are cautiously less optimistic for 2024 compared to the government's projections of 0.3% growth, with expectations rising to 1.0% in 2025.

Japan's economy is expected to continue growing at a pace above its potential growth rate. This growth is influenced by several factors, including moderate growth in overseas economies and a virtuous cycle from income to spending. Accommodative financial conditions also play a role in supporting economic expansion. Consumer Price Index (CPI) Projection: The year-on-year rate of increase in the CPI (all items less fresh food) is projected as follows: Fiscal year 2024: Likely to be in the range of 2.5% to 3.0%. Fiscal years 2025 and 2026: Expected to stabilize around 2%.

India's positioning is consistent with projections of 6.6% growth anticipated for both 2024 and 2025 on a year-on-year basis. This marks a significant rise for India on the global economic stage. The United Nations has revised upwards its growth forecasts for India in 2024, now expecting the economy to expand by nearly 7%, driven by robust public investment and resilient private consumption. Earlier in January, the UN's World Economic Situation and Prospects (WESP) 2024 report had forecasted a growth rate of 6.2% for India in 2024. The latest assessment maintains a steady projection of 6.6% GDP growth for India in 2025, reflecting confidence in the country's economic outlook amid ongoing supportive factors.

Bibliography:

- https://www.conference-board.org/topics/global-economic-outlook
- https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD/DA/EDE/AS5
- https://www.bea.gov/sites/default/files/2024-04/gdp1q24-adv.pdf
- https://tradingeconomics.com/euro-area/gdp-growth
- https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/economic-forecasts/spring-2024-economic-forecast-gradual-expansion-amid-high-geopolitical-risks_en#:~:text=This%20Spring%20Forecast%20projects%20GDP,of%200.1%20pps.%20from%20winter.
- https://ec.europa.eu/eurostat/databrowser/bookmark/e7b20b9e-2e51-4cab-b1d2-99a020f15066?lang=en
- https://data.stats.gov.cn/english/easyquery.htm?cn=B01
- https://edition.cnn.com/2024/04/15/business/china-q1-gdp-growth-intl-hnk/index.html#:~:text=China%20has%20set%20an%20annual,mired%20in%20a%20prolonged%20downturn.
- https://www.thehindu.com/business/Economy/indias-2024-economic-growth-projection-revised-upwards-by-un-to-nearly-7/article68185210.ece
- https://www.oecd.org/newsroom/economic-outlook-steady-global-growth-expected-for-2024-and-2025.htm#:~:text=The%20global%20economy%20is%20continuing,up%20to%203.2%25%20in%202025.
- https://data.oecd.org/gdp/real-gdp-long-term-forecast.htm
- https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?end=2022&locations=US-CN-JP-DE-IN&start=2018&view=chart
- https://www.fitchratings.com/research/sovereigns/global-interest-rate-moves-becoming-more-divergent-24-04-2024#:~:text=The%20Swiss%20National%20Bank%20(SNB, inflationary%20pressures%20continued%20to%20ease.
- https://tradingeconomics.com/forecast/interest-rate
- https://pushstg.indiatimes.com/news/economy/indicators/interest-rates-may-stay-higher-than-expected-in-2024-25-world-bank-report/articleshow/109602914.cms
- https://www.cnbc.com/select/when-will-interest-rates-drop/#:~:text=Interest%20rates%20have%20held%20steady%20since%20July%202023.&text=At%20its%20March%202024%20gathering,March%202022%20and%20July%202023.
- https://www.livemint.com/economy/us-fed-keeps-benchmark-rates-steady-at-23-year-high-mark-projects-3-rate-cuts-in-2024-5-key-highlights-11710959758372.html
- https://www.livemint.com/mutual-fund/us-fed-signals-interest-rate-cuts-in-2024-should-you-invest-in-debt-funds-mutual-funds-rbi-us-bonds-gilt-funds-11712731107936.html
- https://www.livemint.com/economy/china-central-bank-cuts-benchmark-lending-rate-for-the-first-time-since-june-11708393569920.html
- https://www.bbvaresearch.com/wp-content/uploads/2024/02/20240220-China-PBoC-cut-5-year-loan-prime-rate.pdf

- https://tradingeconomics.com/china/interest-rate#:~:text=Interest%20Rate%20in%20China%20is,according%20to%20our%20econometric%20models.
- https://www.focus-economics.com/country-indicator/japan/interest-rate/
- https://tradingeconomics.com/germany/bank-lending-rate
- https://capital.com/projected-ecb-rate-rise-in-5-years
- https://www.theguardian.com/world/2024/jan/15/germany-two-year-recession-2023-gdp#:~:text=The%20German%20national%20statistics%20office,living%20costs%20took%20their%20toll.
- https://www.thehindu.com/business/Economy/ilo-sees-structural-imbalances-in-global-labour-market/article67727676.ece#:~:text=The%20global%20unemployment%20rate%20in,recovered%20from%20their%20pandemic%20lows.
- https://www.jobsandskills.gov.au/download/19575/international-labour-market-update-may-2024/2423/international-labour-market-update-may-2024/docx
- https://openknowledge.worldbank.org/server/api/core/bitstreams/7fe97e0a-52c5-4655-9207-c176eb9fb66a/content
- https://www.worldbank.org/en/research/brief/global-inflation#:~:text=Global%20inflation%20declined%20sharply%20in,level%20since%20the%20mid%2D1990s.
- https://news.un.org/en/story/2023/05/1136727
- https://www.forbes.com/advisor/in/personal-finance/inflation-rate-in-india/#:~:text=Average%20Inflation%20Rate%20in%20India,at%204.81%25%20in%20June%202023.
- https://www.nabard.org/pdf/economy-in-recovery-mode-eng.pdf
- https://cepr.org/voxeu/columns/monetary-policy-responses-post-pandemic-inflation-challenges-and-lessons-future

About Us

Mercurius is an independent firm of Business Advisors and Chartered Accountants with its corporate office situated at New Delhi. It is a team of eminent and trained advisors and consultants, specializing in the field of outsourcing services based in New Delhi, India. It offers a comprehensive suite of professional consultancy services to its clients ranging from accounting, finance and taxation to legal consultancy and human resource management and has achieved an exponential growth in its international accounting and business consulting practice. Moreover, it also positioned itself amongst one of the most reputed accounting firms in India. It provides low-cost accounting solutions to its clients across the globe on an outsourced basis. Mercurius has brought together a team of highly qualified and experienced consultants from diverse professional fields and expertise. We cater to Indian and multinational corporates, high net worth individuals, financial institutions, start-ups and expatriates. We specialize in the fields of accounting, auditing and assurance, taxation, foreign investments along with a host of other financial services. Mercurius is an ISO 9001:2015 certified firm and is also registered with Public Company Accounting Oversight Board (USA) and Canadian Public Accounting Board (Canada). We have clients in India, USA, Africa, Australia, Europe, Hong Kong, Japan, China, Malaysia, Singapore and Thailand. Thus, we work across several different time zones based on our client needs. We are a member firm of TIAG (USA). TIAG is a worldwide alliance of independent accounting firms with more than 120 member firms based in over 70 countries and UTN. We are also a member of United Tax Network (UTN) representing from India, getting the firm's foothold in Western Countries. We support our clients to streamline their day-to day business operations and lower their overhead costs without compromising on quality or productivity. Our clientele ranges from start-ups to large established business houses that operate across the globe in various sectors. Mercurius is also a member firm of TIAG (USA) and holds ISO certificate 27001:2013.

Disclaimer

contained herein. **Mercurius** shall not be responsible for any loss whatsoever sustained by any person who relies on this material.

Contact Us

Ankit Jain
+91 98106 61322
ankit@masllp.com
ankit@maspartner.com

Siddhartha Havelia
+91 98113 25385
siddhartha@masllp.com
siddhartha@maspartner.com

Address- A-94/8, Wazirpur Industrial Area, Main Ring Road, New Delhi-110052
T: +91-11-45596689