

What can we expect from the global economy in the second half of 2024?

IESE Profs. Javier Diaz Gimenez and Pedro Videla discuss different ways to tackle inflation and bring down public debt in a world fraught with geopolitical tensions.



May 28, 2024

We're living in uncertain times — and that's affecting the global economy.

In much of the world, inflation continues to be high. Public debt is a burden for many advanced economies, including Spain and Italy. At the same time, various [geopolitical shocks](#) — like the Russian invasion of Ukraine, the Israel-Hamas war, and the upcoming EU and U.S. elections — are affecting the way companies do business and governments regulate trade.

While it's impossible to predict the future, IESE professors [Pedro Videla](#) and [Javier Diaz Gimenez](#) say there are things to consider when preparing for the upcoming challenges. The two macroeconomists went head-to-head at a conference in Madrid to discuss the global economic outlook for 2024.

Inflation is still a concern

One of the hot topics this year is inflation, which continues to be high: [5.9% globally](#), 3.4% in the United States and [2.4% in the eurozone](#).

According to Videla, the main culprit is the COVID-19 pandemic. During the 2020 lockdown, GDP per capita growth took the sharpest fall on record since the International Monetary Fund started collecting data. The world had never seen this kind of economic impact during times of peace, he said.

“The whole world was in a recession. There was a decline in available goods. The impact went beyond the pandemic,” Videla said. “Why was that? Because keeping people at home is a very regressive policy.”

While stores and restaurants closed, some of them for good, millions of employees — particularly in advanced economies — continued to work from home, making money but not spending it. Inflation was the response to that recession — and for debtors, said Videla, it can work as an implicit default.

The supply shocks that took place as a result of the restrictions in mobility and activity also contributed to inflation, but it wasn't until Russia invaded Ukraine in early 2022, again affecting trade, that inflation really spiked.

“If we want inflation to go down, we need to get rid of central banks' excess reserves,” said Videla. He recognized this may cause nominal interest rates to go up, but he argued that real interest rates will only increase a small amount. “Monetary policy has been restrictive, but it hasn't been restrictive enough to really get rid of inflation.”

Diaz Gimenez said we need to look beyond the current inflation rates. An economy isn't measured by whether it's *good* or *bad*, it's measured by drawing comparisons — with how it did in the past, with other countries and with economists' expectations. If we go through all these check points with Spain, Diaz Gimenez said, we'll see that it's actually doing rather well.

While inflation is still above pre-pandemic levels, those numbers have stayed lower than expected for the first quarter of 2024. More important, Spain is doing better than many other EU countries — especially compared with Germany, which is seeing stagnant GDP.

The problem with public debt

One major problem getting in the way of increasing interest rates, which could bring down inflation, is public debt. The world owes 250% of global GDP, but it's not distributed equally among countries. In [advanced economies, public debt is, on average, around 120% of their GDPs](#), whereas in emerging economies it is about 60% of their GDPs.

By keeping interest rates down, the European Central Bank is creating fiscal space for countries like Spain and Italy, in spite of their high levels of public debt. It continues to buy Spanish and Italian bonds so that their implicit interest rates remain low. And their actions are in part political, Videla said, because if either Spain or Italy defaults, the euro area could fall apart.

There are various ways to reduce the public-debt-to-GDP ratio, according to Videla, but all of them have their downsides. Governments could implement fiscal adjustments, which would mean higher taxes, or they could default on their promises, which would cause a macroeconomic debacle in countries like Spain and Italy.

“We're aiming for a soft landing, but that is almost impossible,” said Videla. “[We won't get to a soft landing](#) because if we try to do so, we'll head into a recession. So, looking at the growth and inflation trade-off in this way, I would argue that the best thing to do is to stay where we are: with inflation above its 2% target, but with growing GDPs.”

Diaz Gimenez, however, said that when economists talk about public debt, it's important to also consider what the private sector is doing.

“Spain is the sum of its households, businesses and public administrations,” said Diaz Gimenez. “When we look at the numbers for the Spanish economy in 2023, we see that, in

spite of its public debt, Spain had a 40-billion-euro surplus in its current account. This means that Spain financed the rest of the world by that amount. So, both things can be true: We need to bring down our public debt, of course, but in the past decade or so, the Spanish private sector has created so much excess financing capacity that it has compensated for the persistent public deficit.”

READ MORE:

[Who's to blame for the euro area pandemic inflation? The answer is complicated](#)

[The dawning of a new geopolitical landscape for business and the economy](#)

www.iese.edu/insight