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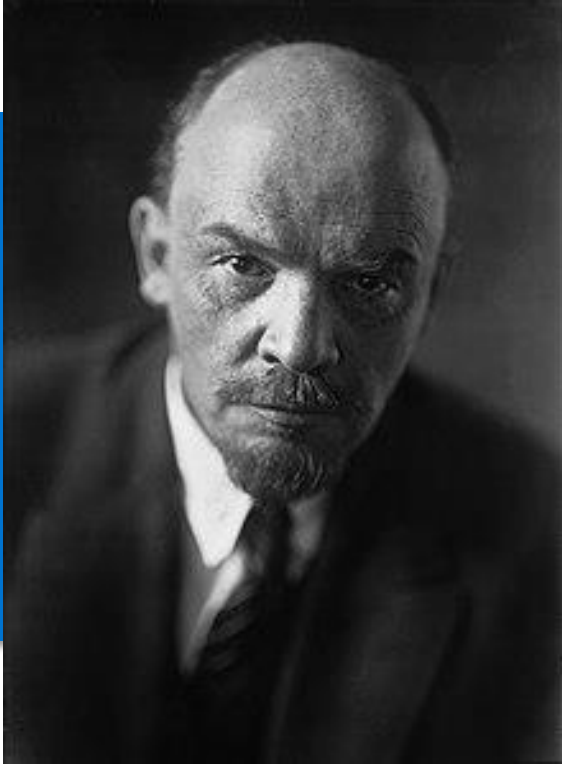
The macroeconomic landscape

Subitha Subramaniam



World at a critical juncture

Pandemic and war will become turning points that alter the course of economics



“There are decades where nothing happens;
and there are weeks where decades happen”
– **Vladimir Ilyich Lenin**

World at a critical juncture

Pandemic and war will become turning points that alter the course of economics



**Acceleration in the adoption of new technologies:
Techceleration**



**Sharing the gains of prosperity more widely:
Levelling up**



**Building resilience: Walled gardens to fortress
economies**



Techceleration – accelerated adoption of technology

zoom

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Help o

Zoom, *v.2*

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Pronunciation: [?] Brit. [/zu:m/](#), U.S. [/zum/](#)

Forms: also with lower-case initial.

Origin: From a proper name. **Etymon:** proper name *Zoom*.

Etymology: < *Zoom*, a proprietary name for a video-chat application.

intransitive and *transitive*. To communicate with (a person or group of people) over the internet, typically by video-chatting, using the Zoom application.



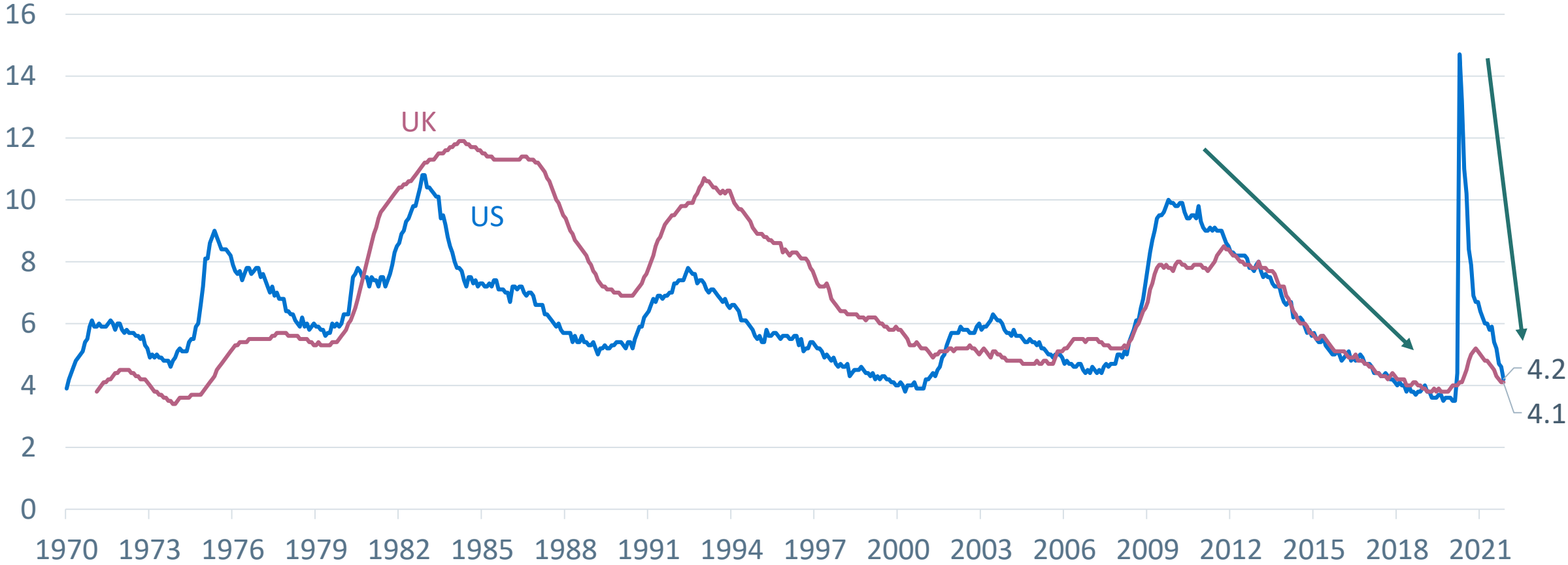
Leapfrogging



Labour markets are at full capacity



Unemployment rate



Source: Macrobond, March 2022





Levelling up – sharing the gains of prosperity more equally

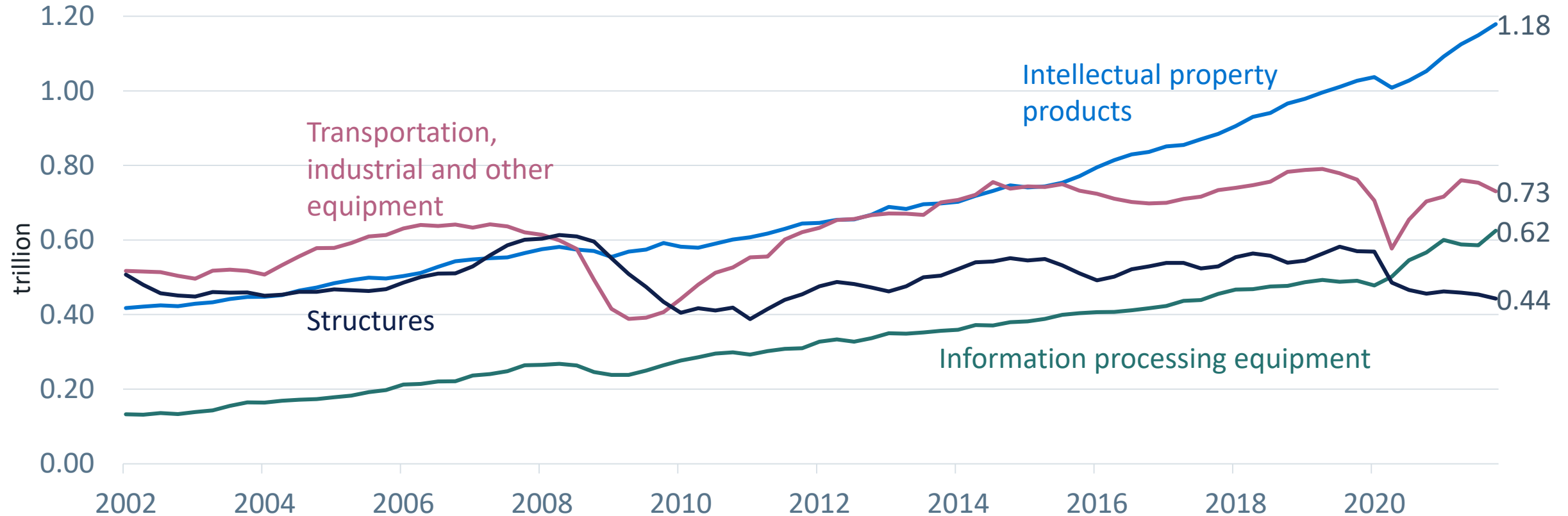


A transformation of the capital stock is underway

Faster adoption of digitalisation and automation



US Non-residential investment spending, USD



Source: Macrbond, March 2022

Levelling up has become a political imperative



Redistribution:

- Progressive income taxes
- Wealth taxes
- Income transfers to the less well-off



Pre-distribution:

- Prevent inequality rather than fix it
- Raise minimum wage
- Investment in infrastructure, education, health



From Walled Gardens to Great Power Competition - a new global architecture for security, trade and finance



6/12/87



PRESIDENT REAGAN AT THE BERLIN WALL

**West Berlin, Germany
Brandenburg Gate**



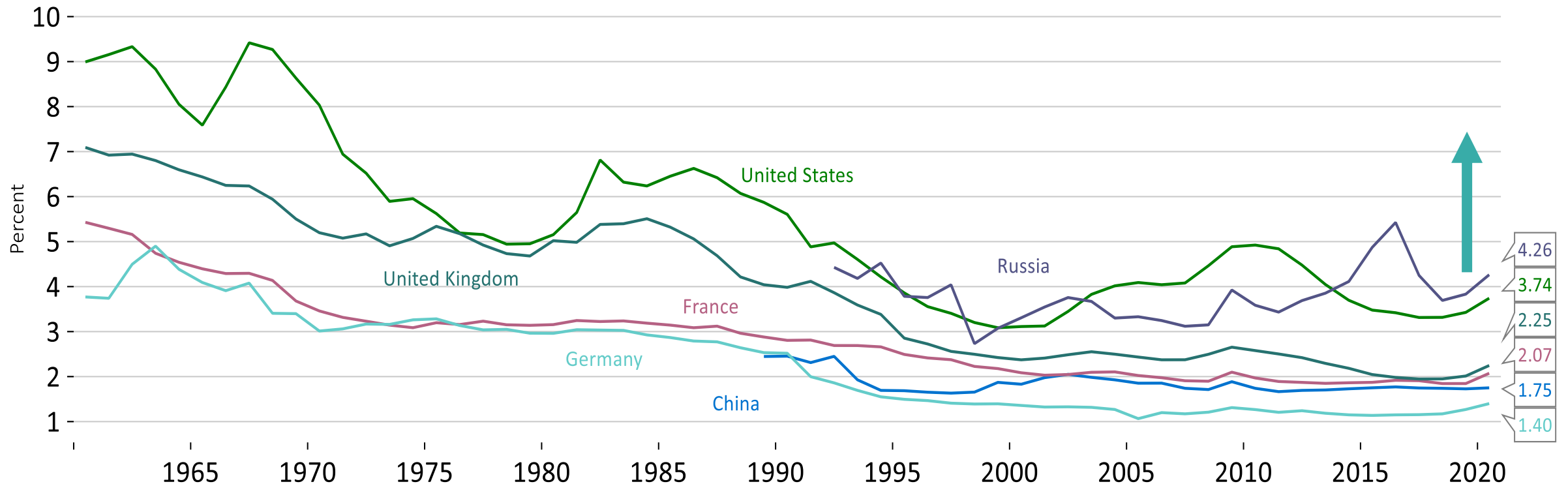
Get ready for a bigger state

Spending on defence, energy security and energy transition, levelling up, aging will strain the public purse



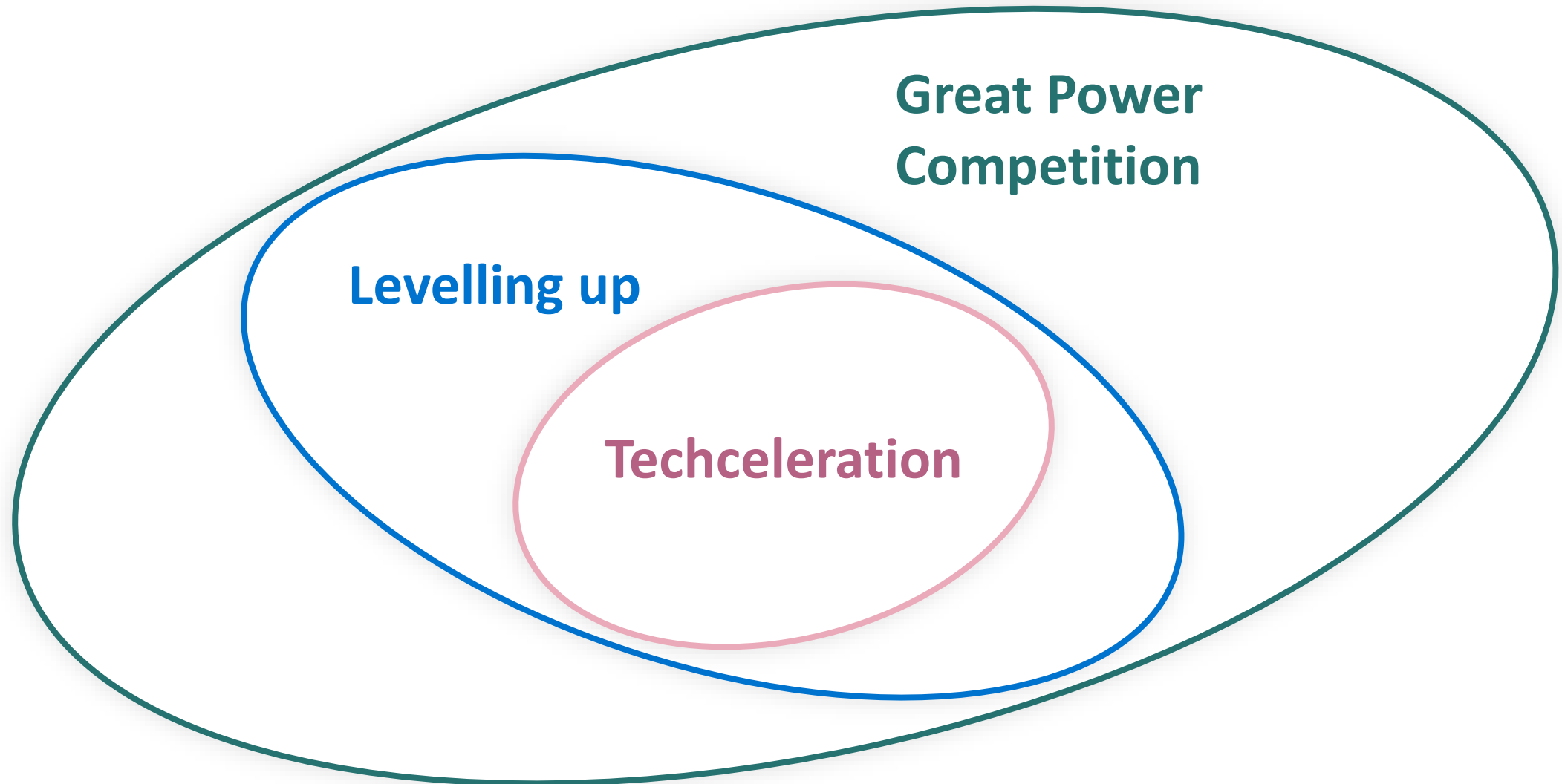
Defence spending as a share of GDP is set to pick up

Military expenditures as percent of GDP



Source: Macrobond, 09.03.22

A time of enormous flux

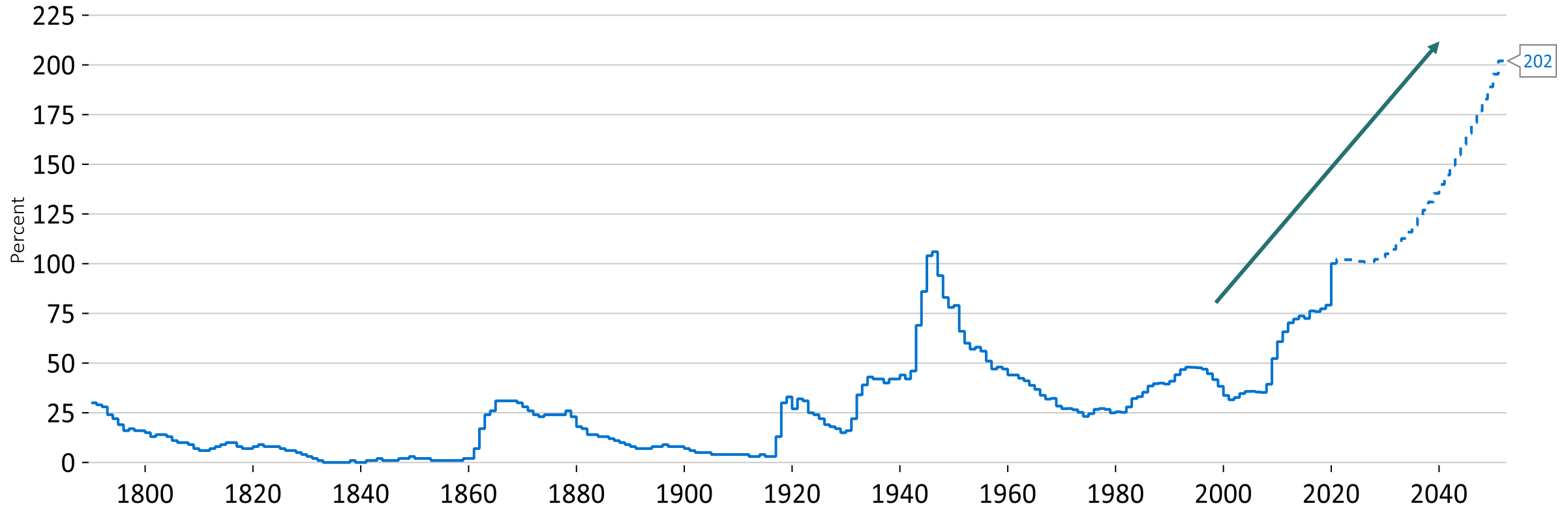


As substantial increase in public debt was already on the cards

US Federal Government debt held by the public as a percent of GDP, Congressional Budget office estimates



US debt as a share of GDP is set to rise sharply

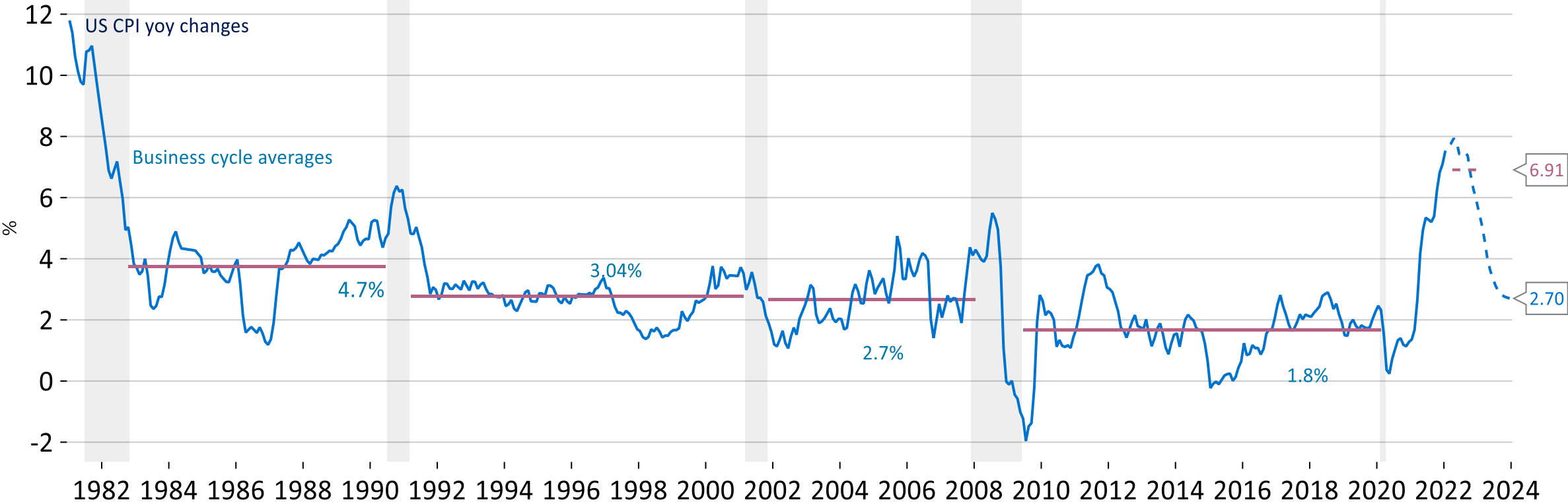


Source: Macrobond, 11.03.22

Inflation risks remain elevated

Expect inflation to fall back after the supply shocks abate; medium term trend will be higher at 2.5% -3%

US Headline CPI: averages during expansions

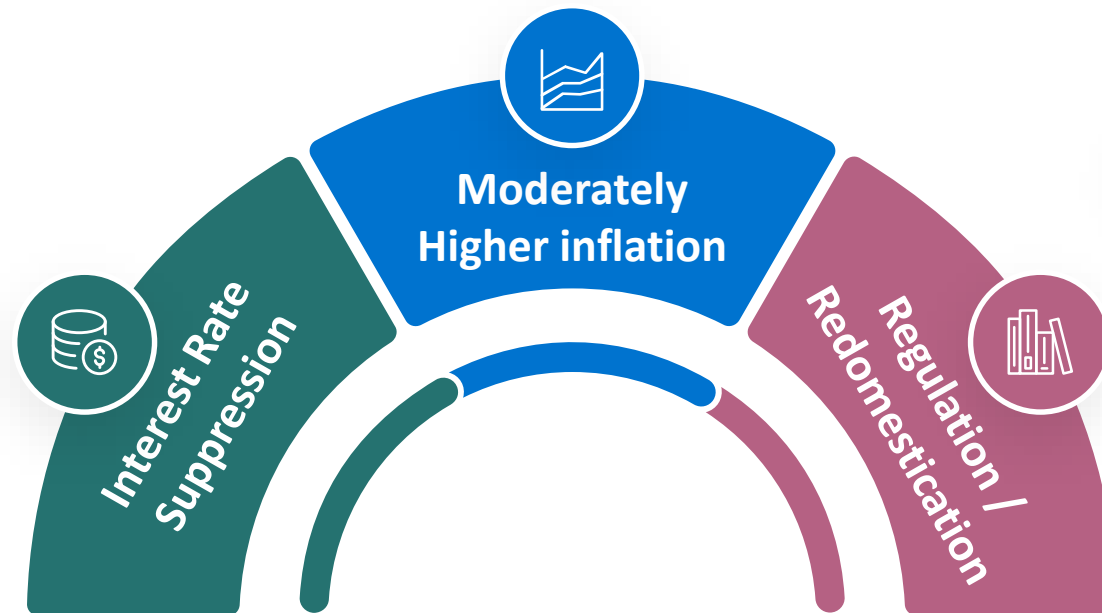


Source: Macrobond, 09.03.22

Financial repression to remain in place

- A greater tolerance for running high pressure economies with moderately higher inflation rates

- Interest rates to remain low even as Central Bank's normalise policy



- Regulations to encourage the banking system to exhibit a stronger home country bias and become a natural buyer of government debt

Conclusion: End of the Great Moderation

Era of flux: Techceleration, Levelling up and Great Power Competition

- Digitalisation and automation to speed up
- Supply chains to be restructured to build resilience and reflect new alliances
- Role of the state to expand as spending on defence, energy, infrastructure and education increase
- Risk and volatility to remain high: Growth, inflation, interest rates

Inflation is back in the system

- Substantial short term pressures on the back of supply shocks
- Moderate overshoot of central bank targets in the medium term

Interest rate suppression to continue

- Debt levels are high and governments will run ongoing fiscal deficits
- Policy normalisation will kick off in 2022
- Terminal interest rates will remain low

Asset prices: more volatile

- Real over nominal
- Alpha over market beta

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