



# INSTITUTE OF ECONOMIC GROWTH

## KEC POLICY BRIEF

## GLOBAL MACRO PRUDENCE\*

Chair: Dr. P.K. Mishra

Speakers: John Lipsky, Jean-Pierre Landau, Nandalal Weerasinghe,  
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Plenary  
Session

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This policy brief summarizes the key policy insights from the deliberations on Global Macro Prudence and Institutional Coordination held at the Kautilya Economic Conclave 2025 and outlines strategic implications for India's macroeconomic and global engagement framework in a changing international order.

### Background

The global economy today is navigating one of its most uncertain and complex phases since the post–World War II reconstruction period. The interplay between geopolitics, financial volatility, and technology-driven transformation has redefined macroeconomic priorities worldwide.

Nations are balancing between fiscal expansion for recovery and prudence for stability, and between integration for growth and protectionism for resilience. The existing global order, originally anchored in rule-based cooperation through institutions such as the IMF, World Bank, and WTO, now faces challenges stemming from diminished institutional credibility, growing debt burdens, and fragmented policy coordination.

Repeated crises, from the oil shocks to the Global Financial Crisis (GFC) and the COVID-19 pandemic, have exposed systemic weaknesses.

While mechanisms like the G20 and the Financial Stability Board sought to reinforce resilience, fiscal excesses, inconsistent monetary responses, and political polarization have eroded trust in the global system.

### Context and Global Challenges

#### 1. Macroeconomic Volatility and Inequality

Global macroeconomic volatility arises from supply chain disruptions, climate shocks, and uneven recovery patterns. The widening gap between advanced and developing economies has deepened inequality. Nations must build fiscal and institutional buffers in stable times to manage future shocks effectively. Economic uncertainty should encourage frameworks of shared security rather than isolation.

#### 2. Fiscal Prudence and Public Debt

Fiscal prudence remains the foundation of macroeconomic stability. Economies that entered past crises with moderate debt levels recovered faster. The post-pandemic fiscal expansion has raised debt ratios to unsustainable levels in many economies, constraining policy flexibility. Sound debt management, transparent fiscal reporting, and credible fiscal rules are essential to restore

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investor confidence and maintain stability.

### 3. Monetary Policy Credibility

Monetary policy credibility depends on autonomy, clarity of communication, and predictability. Recent inflationary pressures have highlighted the importance of consistent frameworks and disciplined signaling. Predictable monetary actions stabilize inflation expectations and strengthen the trust required for long-term investment.

### 4. Financial Buffers and Institutional Discipline

Ignoring prudential safeguards can rapidly translate into macroeconomic distress. Economies lacking adequate reserves, with excessive external borrowing and delayed fiscal adjustments, face prolonged vulnerabilities. Building capital and liquidity buffers, supported by transparent supervision and proactive regulation, is critical. Small economies particularly benefit from regional financial safety nets and early-warning mechanisms.

### 5. Erosion of Trust and Coordination Failures

Global governance today suffers from declining institutional credibility. Although several post-GFC frameworks were established, enforcement inconsistencies and unilateral actions have weakened trust. Restoring confidence demands transparent data-sharing, anticipatory coordination, and mutual accountability among nations.

### 6. Demographic and Technological Headwinds

Ageing populations, climate vulnerabilities, and technological disruption have transformed the global risk landscape. Addressing these requires structural reforms, investments in innovation, education, healthcare, and sustainable infrastructure. Prudence must balance stability with progress—preparing for the future without constraining long-term growth.

### India's Economic Outlook

India continues to demonstrate macroeconomic resilience amid global turbulence, with one of the fastest growth rates among major economies. However, structural challenges persist.

- Public debt remains elevated at over 80% of GDP, and combined fiscal deficits of the Centre and States hover around 7%.
- Goods exports have declined from about 17% to 12% of GDP, while services—particularly IT and business services—remain robust but face external policy risks.
- Inflation control and fiscal consolidation are key to sustaining macroeconomic credibility.

Sustained growth will depend on maintaining openness, deepening fiscal discipline, and aligning domestic reforms with global engagement. Strengthening the fiscal framework, enhancing revenue mobilization, maintaining price stability, and reinforcing central bank independence are essential.



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India's external strategy should balance prudence with opportunity, expanding trade partnerships, participating in regional and global frameworks, and pursuing long-term resilience through credible governance and macro transparency.

### Policy Recommendations

#### 1. *Reinvigorate Rule-Based Multilateralism:*

Reform global institutions such as the IMF and WTO to enhance fairness, representation, and credibility. Strengthen mechanisms for dispute resolution and transparent data-sharing.

#### 2. *Institutionalize Fiscal and Financial Prudence:*

Adopt medium-term fiscal frameworks that promote countercyclical policies. Build capital and liquidity buffers across both public and private sectors.

#### 3. *Enhance Monetary Policy Credibility:*

Ensure central bank autonomy, improve policy communication, and reinforce financial regulation to safeguard stability.

#### 4. *Strengthen Global and Regional Cooperation:*

Deepen regional and mega-regional trade engagements, while promoting inclusive multilateralism and regional financial safety nets.

#### 5. *Invest in Productivity and Human Capital:*

Encourage innovation, technology adoption, and skill development. Support labor market reforms and AI-driven productivity gains.

#### 6. *Ensure Sustainable and Inclusive Growth:*

Align fiscal priorities with environmental sustainability, promote renewable energy investment, and increase women's participation in the workforce.

#### 7. *Build Trust and Anticipatory Governance:*

Establish transparent coordination mechanisms to anticipate crises, share information, and coordinate responses globally.

### Conclusion

The deliberations reaffirmed that macro prudence is not merely a policy stance but a mindset of responsibility and foresight. The erosion of rule-based global systems and rising protectionism demand renewed commitment to cooperation and discipline.

For India, the path forward lies in reinforcing fiscal discipline, safeguarding monetary credibility, sustaining structural reforms, and actively contributing to the revival of a stable global economic architecture. Prudence must remain the guiding principle, balancing sovereignty with solidarity, and growth with resilience, to ensure that stability today becomes the foundation for sustainable prosperity tomorrow.

### References:

Kautilya Economic Conclave' Session







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