IMF's World Economic Outlook (October 2022)

Why in news?

IMF's latest World Economic Outlook (WEO) has warned that the worst is yet to come for the global economy.

What is the World Economic Outlook about?

- The World Economic Outlook (WEO) is an **International Monetary Fund (IMF)** report providing output, inflation, employment, fiscal balances, and debt statistics for member countries.
- The report forecasts the global growth, summarizes the state of global economy and highlights the most important developments.
- The IMF publishes the WEO report **twice a year** (April and October) based on data obtained from its consultations with member countries' governments.
- The IMF also publishes two additional and less comprehensive WEO updates a year, each three months after the main WEO report.

What are the findings of the latest report?

- **Outlook on growth-** The IMF has sharply cut the forecast for global growth from 6.0% in 2021 to **3.2%** in 2022 and 2.7% in 2023.
- The global economy continues to face steep challenges shaped by the Russian invasion of Ukraine, cost-of-living crisis caused by persistent and broadening inflation pressures and the slowdown in China.
- More than a third of the global economy will contract in 2023, while the three largest economies—the US, the European Union, and China, will continue to stall.
- **On inflation**- Global inflation is now expected to peak at 9.5% in late 2022 and is likely to decrease to 4.1% only by 2024.
- Global core inflation is expected to be worrisome, reflecting the pass-through of energy prices, supply chain cost pressure, and tight labour markets.

What it means for India?

- The IMF sharply lowered India's economic growth forecast to **6.8%** for 2022 and 6.1% for 2023.
- India appears to be better placed in growth and inflation.
- However, India is barely out of the contraction suffered in 2020, that it was home to 5.6 crore, according to World Bank and several are unemployed.
- Minimal dependence on external debt insulates it from sovereign debt distress.
- But high import reliance for energy and a widening CAD are the concerns.

- **Threats to India**
    - Higher crude oil and fertiliser prices will spike domestic inflation.
    - Global slowdown will hurt exports, reduce the domestic growth and worsen the trade deficit.
    - A strong dollar will put pressure on the rupee's exchange rate, which will reduce the forex reserves and the capacity to import goods.
    - Given the low demand among Indians, the government might be forced to spend more in the form of food and fertiliser subsidies.

What are the worrisome risks in this projection?

- **Policy miscalibration**- The fiscal and monetary policies should not run against each other.
    - For instance, the Liz Truss government's expansionary fiscal policy when the Bank of England was trying to contain high inflation resulted in a mini-financial collapse with investors losing confidence in the policymakers.
- **Monetary measures-** Over-tightening hampers growth while under-tightening will have its effect on inflation.
- **Financial stability**- Another big cause of worry is financial stability and its interplay with a stronger US dollar.
- Sharp revision of interest rates will likely expose the weakest links in the global credit chain.
- **Geopolitical risks**- There are geopolitical risks associated with the war in Ukraine that may worsen the pressure.
- **Erroneous reports**- WEO forecasts have been subject to errors in the past, with the previous two reports overestimating growth and underestimating inflation.

References

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2. https://indianexpress.com/article/explained/explained-economics/imfs-latest-world-economy-report-red-flags-for-india-8205196/#:~:text=As%20Chart%201%20shows%2C%20the,for%20the%20world%20since%202001.
3. https://www.investopedia.com/terms/w/world-economic-outlook.asp

Quick facts

Core inflation

- Core inflation is the change in the costs of goods and services but does not include those from the food and energy sectors as they are too volatile or fluctuate wildly.
- Core inflation is used to determine the impact of rising prices on consumer income.



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