IMF's World Economic Outlook (WEO) (April 2023)

Why in news?

IMF's latest World Economic Outlook (WEO) has stated that outlook is uncertain again amid financial sector turmoil, high inflation, ongoing effects of Russia's invasion of Ukraine, and three years of COVID.

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 is the model used by IMF?

- **Macroeconomic model –** The IMF used a macroeconomic model based on Platzer and Peruffo (2022) to analyse the impact of different forces on the world economy.
- This includes foreign developments affecting domestic interest rates through net international capital flows.
- **8 economies –** The model represents 8 major global economies, including the United States, Japan, Germany, the United Kingdom, France, China, India, and Brazil.
- The model is calibrated to reflect demographic developments, productivity trends, retirement age, and other factors.
- **Global GDP –** These are the five largest advanced economies and the three largest emerging market and developing economies, which cover some 70% of global GDP.

What are the findings of the latest report?

- The baseline forecast is for growth to fall from 3.4% in 2022 to 2.8% in 2023, before settling at 3.0% in 2024.
- Advanced economies are expected to see an especially pronounced growth slowdown, from 2.7% in 2022 to 1.3% in 2023.
- In a plausible alternative scenario with further financial sector stress, global growth declines to about 2.5% in 2023 with advanced economy growth falling below 1%.
- Global headline inflation in the baseline is set to fall from 8.7% in 2022 to 7.0% in 2023 on the back of lower commodity prices but underlying (core) inflation is likely to decline more slowly.

- Inflation's return to target is unlikely before 2025 in most cases.

Global Prospects and Policies

- **Steady growth –** Tentative signs in early 2023 that the world economy could achieve a soft landing, with inflation coming down and growth steady.
- **Price pressure –** Although inflation has declined as central banks have raised interest rates and food and energy prices have come down, underlying price pressures are proving sticky.

The Natural Rate of Interest: Drivers and Implications for Policy

- **Real interest rate –** The natural rate of interest, the real interest rate that neither stimulates nor contracts the economy, is important for both monetary and fiscal policy.
- It is a reference level to gauge the stance of monetary policy and a key determinant of the sustainability of public debt.
- Once the current inflationary episode has passed, interest rates are likely to revert toward pre-pandemic levels in advanced economies.

Coming Down to Earth: How to Tackle Soaring Public Debt

- **Public debt –** Public debt as a ratio to GDP soared across the world during COVID-19 and is expected to remain elevated.
- This poses a growing challenge for policymakers, particularly as real interest rates are rising across the world.
- Economic growth and inflation have historically contributed to reducing debt ratios.

Geo-economics Fragmentation and Foreign Direct Investment

- **Geopolitical tensions –** Supply-chain disruptions, rising geopolitical tensions, brought the risks & potential benefits of geo-economics fragmentation to the centre of the policy debate.
- **FDI –** FDI flows are increasingly concentrated among geopolitically aligned countries, particularly in strategic sectors.
- Several emerging market and developing economies are highly vulnerable to FDI relocation, given their reliance on FDI from geopolitically distant countries.
- Multilateral efforts to preserve global integration are the best way to reduce the large and widespread economic costs of FDI fragmentation.

What is the forecast for India?

- **In bright spot –** The International Monetary Fund (IMF) has identified India as a bright spot in the world economy and a key contributor to global growth in the coming years.
- **Contribute to global growth –** The report showed that India is likely to grow 5.9% in 2023 and will contribute 15% of the global growth in 2023.

- **Impressive performance –** The report cites India's impressive performance, with digitization helping to pull the country out of pandemic lows.
- **Prudent policies –** The country also has prudent fiscal policies and significant financing for capital investments which are expected to sustain growth momentum.

References

1. IMF | A Rocky Recovery
2. Live Mint |India bright spot for global economic revival

