

## World Economic Outlook

### Why in news?

\n\n

International Monetary Fund's (IMF) recently released World Economic Outlook.

\n\n

### What is secular stagnation?

\n\n

\n

- Many economists believe that the world economy was in the grip of 'secular stagnation'

\n

- It is an expression coined by the economist **Alvin Hansen** in the 1930s.

\n

- Hansen argued that **where savings substantially exceed investment, the real interest rate tends to drop to a very low level.**

\n

- Conventional monetary policy operates by reducing nominal interest rates in order to stimulate growth.

\n

- Where the nominal interest rate is already close to zero, there isn't much scope for cutting interest rates.

\n

- In conditions of 'secular stagnation', **conventional monetary policy is doomed to be ineffective.**

\n

- The burden of reviving growth in such a situation falls on fiscal policy.

\n

- This means running up large government deficits and increasing public debt.

\n

- But markets will finance government borrowings only up to a point.

\n

- There is also resistance among policymakers to increased government spending.

\n

\n\n

## What is the present world economic scenario?

\n\n

\n

- This seemed to be an accurate description of the world economy in recent years.
- The real interest rate had been falling for several years.
- This was because savings were rising and investment was falling.
- Higher savings flowed from factors such as **greater inequality, greater life expectancy and reduced post-retirement benefits.**
- Investment had fallen because **capital goods had become cheaper.**
- With decreased spending, inflation rates also fell in the advanced world.

\n

\n\n

## What are the findings of IMF?

\n\n

\n

- The prospects for the world economy have improved.
- The world economic growth accelerates from 3.1% in 2016 to 3.5% in 2017, and 3.6% in 2018.
- Growth in advanced economies is projected to rise from 1.7% in 2016 to 2% in 2017 and 2018.
- Emerging markets will grow at 4.5% in 2017, and 4.8% in 2018, compared with growth of 4.1% in 2016.
- China will see growth decelerating from 6.7% in 2016 to 6.6% and 6.2% in 2017 and 2018, respectively.
- India's growth, in contrast, will accelerate from 6.8% in 2016 to 7.2% and 7.7% over the next two years.
- The IMF also warns that high income inequality is likely to persist.
- The IMF warns that emerging markets, including India, will find the external

\n

conditions for growth less supportive than in the post-2000 period.

\n

- Tightening monetary conditions in the advanced world spell lower capital flows.

\n

\n\n

\n\n

**Source: The Hindu**

\n

