



World Economic Outlook: IMF

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Why in News

The latest edition of the **International Monetary Fund's (IMF) World Economic Outlook** has cut its **2021** growth forecast for India to 9.5% from 12.5% estimated **earlier in April 2021**.

While re-calibrating its forecast IMF considered two major factors which are **access to vaccines** and **risk of new Corona-variants**.

Key Points

- **Indian Economy:**

- Indian economy is expected to grow by **9.5% in 2021** and **8.5% in 2022** (larger than the **6.9% it had projected in April**).

In **2020**, India's economy witnessed an estimated **contraction of 8%**.

- The IMF has cut its growth forecast because of the **Covid-19 Second Wave** that hit the recovery momentum, damaging consumer confidence and rural demand.

- **Global Economy:**

Retained its global growth forecast at **6% for the year 2021**, and it is expected to grow at **4.9% for the year 2022**.

In **2020**, the global economy **contracted by 3.3%**

- **Global Trade Volume:**

Revised up its predictions of global trade volume growth by a sharp 130 bps **for 2021 to 9.7%** and **50 bps for 2022 to 7%**.

India is set to benefit from an expected rise in global trade prospects once its supply side gains traction.

- **Suggestions:**

- **Tighter External Financial Conditions:**

Emerging markets **should prepare for possibly tighter external financial conditions by lengthening debt maturities** where possible and limiting the buildup of unhedged foreign currency debt.

- **Avoid Premature Tightening Policies:**

Central banks should avoid premature tightening policies when faced with **transitory inflation pressures** but should be prepared to move quickly if inflation expectations show **signs of de-anchoring**.

- **Prioritize Health Spending:**

Fiscal policy **should continue to prioritize health spending**, including on vaccine production and distribution infrastructure, personnel, and public health campaigns, to boost take-up.

Fiscal policy is the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy.

International Monetary Fund

- The IMF was set up along with the **World Bank** after the **Second World War** to assist in the reconstruction of war-ravaged countries.

The two organisations were agreed to be set up at a conference in Bretton Woods in the US. Hence, they are **known as the Bretton Woods twins**.

- **Created in 1945, the IMF is governed by and accountable to the 189 countries** that make up its near-global membership. India joined on **27th December, 1945**.
- The IMF's primary purpose is **to ensure the stability of the international monetary system** — the system of exchange rates and international payments that enables countries (and their citizens) to transact with each other.

The Fund's **mandate was updated in 2012** to include all macroeconomic and financial sector issues that bear on global stability.

- **World Economic Outlook**

- It is a survey by the **IMF that is usually published twice a year** in the months of April and October.
- It analyzes and predicts **global economic developments during the near and medium term**.
- In response to the growing demand for more frequent forecast updates, the **WEO Update is published in January and July between** the two main WEO publications released usually **in April and October**.

Source: IE