



World Economic Outlook: IMF

Prelims: World Economic Outlook, IMF, Global Financial Stability Report, World Economic Outlook.

Mains: Important International Institutions, Effect of Policies & Politics of Countries on India's Interests.

Why in News?

Recently, the [International Monetary Fund \(IMF\)](#) has released its World Economic Outlook (WEO) Update, which has marginally improved the **forecast for global growth in 2023**.

What are the Key Takeaways of WEO?

▪ Global Growth will Bottom Out:

- The global growth, which was estimated at 3.4% in 2022, is now projected to fall to 2.9% in 2023 before rising to 3.1% in 2024.
- The IMF effectively rules out a global [recession](#).
- Negative growth in global [GDP \(Gross Domestic Product\)](#) or global GDP per capita—which often happens when there is a global recession—is not expected.
- Instead, it expects **global growth to bottom out in 2023** before starting to gather speed in 2024.

▪ Relief of Inflation will be Slower:

- **Inflation-Disinflation:**
 - Inflation is expected to have peaked in 2022 but the **disinflation will be slow** and take all of 2023 and 2024.
- **Headline Inflation:**
 - About 84% of countries are expected to **have lower headline (consumer price index) inflation** in 2023 than in 2022.
- **Global Inflation:**
 - Global inflation is set to fall from 8.8 % in 2022 (annual average) to 6.6 % in 2023 and 4.3 % in 2024—above pre-pandemic (2017-19) levels of about 3.5 %.
- **Slowing of Price Rise:**
 - Price rise is slowing **for two main reasons:**
 - One, **monetary tightening all across** the world — higher interest rates drag down overall demand for goods and services and that, in turn, slows down inflation.
 - Two, in the wake of a faltering demand, prices of different commodities — both fuel and non-fuel — have come down from their recent highs.
 - In 2023, advanced economies are expected to **have an inflation of 4.6%** while emerging economies will continue to face an inflation of 8.1%.

▪ India will be the Fastest Growing Economy:

- India will be the world's fastest growing economy in 2023 and 2024.
- Growth in India is set **to decline from 6.8 % in 2022 to 6.1 % in 2023** before picking up to 6.8% in 2024, with resilient domestic demand despite external headwinds.

What is the International Monetary Fund?

▪ About:

- 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 organizations 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 1944, the IMF is governed by and accountable to the 190 countries** that make up its near-global membership. India joined on 27th December 1945.
 - The IMF came into **formal existence in 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.

▪ Reports by IMF:

- [Global Financial Stability Report](#).
- [World Economic Outlook](#).

▪ 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.

UPSC Civil Services Examination, Previous Year Question (PYQ)

Prelims

Q1. "Rapid Financing Instrument" and "Rapid Credit Facility" are related to the provisions of lending by which one of the following? (2022)

- (a) Asian Development Bank
- (b) International Monetary Fund
- (c) United Nations Environment Programme Finance Initiative
- (d) World Bank

Ans: (b)

Exp:

- **Rapid Financing Instrument (RFI)** provides quick financial assistance, which is available to all member countries facing urgent balance of payments requirements. The RFI was created as part of a broader reform to **make IMF financial support more flexible** to meet the diverse needs of member states. The RFI replaces the IMF's previous emergency assistance policy and can be used in a wide variety of circumstances.
- The **Rapid Credit Facility (RCF)** provides immediate balance of payments (BoP) requirements to low-income countries (LICs) with no ex-post condition, where a full economic program is neither necessary nor feasible. RCF was set up as part of a comprehensive reform to make the fund's financial support more flexible and better suited to suit the diverse needs of LIC including times of crisis.
- There are three areas under the RCF: (i) a "regular window" for immediate BoP needs due to a wide range of sources such as household instability, emergencies and fragility (ii) for immediate BoP needs due to sudden, exogenous shocks. an "exogenous shock window" and (iii) a "large

natural disaster window” for immediate BoP needs due to natural disasters where the damage is estimated to be equal to or greater than 20% of the member's GDP.

Q2. “Gold Tranche” (Reserve Tranche) refers to (2020)

- (a) a loan system of the World Bank
- (b) one of the operations of a Central Bank
- (c) a credit system granted by WTO to its members
- (d) a credit system granted by IMF to its members

Ans: (d)

Q3. ‘Global Financial Stability Report’ is prepared by the (2016)

- (a) European Central Bank
- (b) International Monetary Fund
- (c) International Bank for Reconstruction and Development
- (d) Organization for Economic Cooperation and Development

Ans: (b)

Mains

Q. The World Bank and the IMF, collectively known as the Bretton Woods Institutions, are the two inter-governmental pillars supporting the structure of the world’s economic and financial order. Superficially, the World Bank and the IMF exhibit many common characteristics, yet their role, functions and mandate are distinctly different. Elucidate. **(2013)**

Source: TH

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