



World Economic Outlook: IMF

For Prelims: World Economic Outlook, [International Monetary Fund \(IMF\)](#), [Russia's invasion of Ukraine](#), Inflation, [World Bank \(WB\)](#).

For Mains: World Economic Outlook, Important International Institutions, Agencies and Further Structure, Mandate etc.

[Source: ET](#)

Why in News?

Recently, the [International Monetary Fund \(IMF\)](#) has released its World Economic Outlook 2023 titled- Navigating Global Divergence, which stated that the **Indian Economy** will grow **faster than previously estimated**.

What are the Key Highlights of the World Economic Outlook?

▪ **Global Growth Forecasts:**

- The IMF expects **global GDP (Gross Domestic Product) growth to be 3%** in 2023, which is the same as its July 2023 forecast.
- Global GDP growth for 2024, however, has seen a reduction of **10 basis points from the July forecast to 2.9%**.

▪ **Forecast for China:**

- The Chinese economy is expected to grow at 5% in 2023, which is higher than the 3% it grew at in 2022.
- The IMF's October forecast for China's 2023 and 2024 growth is 20 and 30 basis points lower than its July projections, which suggests that the world's second largest economy might be losing momentum.

▪ **Inflation and Monetary Policy:**

- The IMF expects Global inflation in **2024 to rise at 5.8%**, faster than the 5.2% estimated three months and these projections do not reflect events of the weekend and their fallout.

▪ **Concerns and Risks:**

- Growth has lagged on account of **Tight Monetary Policies** as central banks have kept money supply tight to fight **Inflation** which rose to 8.7% in 2022.
- And it has lagged on account of an uneven recovery from the pandemic and supply chain disruptions caused by [Russia's invasion of Ukraine](#).

▪ **Uncertainties and Downside Risks:**

- Investment is lower than pre-pandemic levels, influenced by **higher interest rates and stricter lending conditions**.
- The IMF advises countries to rebuild fiscal buffers against future shocks.
- The chance of growth falling below 2% is seen at 15%, with more downside than upside risks for 2024.

What are the Findings Related to India?

- India's GDP for 2023-24 will be 6.3%, a 20-basis point increase from the July 2023 numbers.
 - The IMF's 2023-24 growth forecast for India is **now the same as what the [World Bank \(WB\)](#)** had projected in its India Development Update.
- India's 2024-25 GDP growth forecast has been left unchanged at **6.3%**.
- While the IMF's upward revision of India's 2023-24 GDP growth comes **in the wake of a strong 7.8% growth** in the quarter ending June 2023, the annual growth number is still lower than the 6.5% projection by RBI's Monetary Policy Committee (MPC).

What are the Key Recommendations?

- **Encourage business investment to boost economic growth**, as seen in the US, where stronger business investment has contributed to the upgraded growth forecast.
- Economic divergence across major economies, particularly in the eurozone, should be closely monitored, and the **factors causing contraction or slower growth in certain regions need to be addressed**.
- Exercise caution in managing inflation and monetary policy. The IMF emphasized that **globally synchronized central bank tightening is essential to control inflation** and maintain economic stability.

What is the IMF?

- The IMF is an **international organization** that promotes global economic growth and financial stability, encourages international trade, and reduces poverty.
 - It was set up in **1945 out of the Bretton Woods conference**.
- Originally, the primary goal of the IMF was to bring about international economic coordination to prevent competing currency devaluation by countries trying to promote their own exports.
 - Eventually, it evolved to be a lender of last resort to governments of countries that had to deal **with severe currency crises**.
- **Reports by IMF:**
 - Global Financial Stability Report.
 - World Economic Outlook.
 - It is usually published twice a year in the months of 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)**