



World Economic Outlook Report

For Prelims: [International Monetary Fund \(IMF\)](#), [World Economic Outlook \(WEO\)](#), [Pent-Up Demand](#), [Headline Inflation](#), [Global Slowdown](#), [Reserve Bank of India \(RBI\)](#), [Monetary Policy Committee \(MPC\)](#), [Tight Monetary Policies In Advanced Economies](#), [Global Headline Inflation](#)

For Mains: Significance of India's economic projections, inflation trends, and global growth dynamics in India's economic growth.

[Source: TH](#)

Why in News?

Recently, the [International Monetary Fund \(IMF\)](#) released its [World Economic Outlook \(WEO\)](#) report for October 2024.

- In this, the IMF reaffirmed India's growth projections at **7%** for FY2024 and **6.5%** for FY2025.

World Economic Outlook

- **About: WEO** is a key report produced by the **International Monetary Fund** and published **biannually**, in April and October.
 - **Focus:** Provides analysis and projections for the **global economy** and **individual countries**.
 - **Purpose:** Aims to assess **economic developments**, identify **trends**, and offer **policy recommendations**.
- **Components:**
 - **Economic Growth Projections:** Forecasts for **global** and **regional** economic performance.
 - **Inflation Trends:** Insights into inflation rates and their implications.
 - **Financial Stability Assessment:** Evaluates risks to **financial systems** and **markets**.
- **Importance:**
 - Serves as a critical tool for **policymakers**, **researchers**, and **investors** to understand and navigate the **economic landscape**.

What are the Key Highlights of the WEO Report?

- **India Specific Findings:**
 - **Growth Projections:** It projected India's **7%** growth for current fiscal year, highlighting slowdown from 8.2% in FY 2023-24.
 - The decline is attributed to the exhaustion of **pent-up demand (rapid increase in demand)** post-pandemic as the economy reconnects with its potential growth

trajectory.

- **Inflation: [Headline inflation](#)** (the total inflation rate in an economy, including all categories of goods and services) in India is expected to ease, projected at **4.4% for FY 2024-25** and **4.1% for FY 2025-26**.
 - This aligns with global trends of decreasing inflation after peaking during the pandemic.
- **Domestic Demand:** Despite the [global slowdown](#), **India's consumption and investment momentum remain strong**, supported by domestic policies and a favorable investment climate.
 - Recently, the [Reserve Bank of India \(RBI\)](#) maintained its growth projection for the current financial year at 7.2% due to strong domestic demand.
 - These factors could affect **India's growth trajectory** indirectly through external shocks.
- **Global Growth Projections:**
 - **Global growth** is forecasted to remain steady at **3.2% in 2024 and 2025**.
 - The IMF projects the U.S. economy to grow by 2.8% in 2024 and 2.2% in 2025, while China's economy is expected to expand by 4.8% in 2024 and 4.5% in 2025.
 - **Sectoral Shifts:** Goods prices remain higher than services due to the pandemic, with a shift toward services consumption expected globally.
 - The global automotive industry is transforming as it shifts to [electric vehicles \(EVs\)](#), which will reduce emissions but may cause job losses in capital-intensive manufacturing sectors.

What is the International Monetary Fund?

- **About:**
 - **International Organization:** Promotes **global economic growth** and **financial stability**.
 - **Encourages:** **International trade** and **reduces poverty**.
 - **Established:** In **1944** following the **Bretton Woods conference**.
- **Primary Goal:**
 - Initially aimed to foster **international economic coordination** to prevent countries from **competing currency devaluation** to boost exports.
- **Expansion:**
 - Became a **lender of last resort** for governments facing **severe currency crises**.
- **Reports by the IMF:**
 - **Global Financial Stability Report**
 - **World Economic Outlook**

What are Challenges Highlighted by the WEO Report?

- **Global Economic Slowdown:** Medium-term global growth projections remain weak due to [aging populations](#), **weak investments**, and **slow productivity growth**.
 - Geoeconomic fragmentation and trade tensions pose significant risks to global supply chains and market efficiency.
- **Social Resistance to Reforms:** **Structural reforms**, while necessary, often encounter significant public resistance, which typically arises from distrust, misinformation, and behavioral factors rather than economic concerns.
- **Fiscal Constraints and Debt:** Elevated debt levels, especially in low-income and emerging market countries, require careful debt management to avoid fiscal distress.
- **Climate and Energy Transition:** The transition to [clean energy](#), while essential, needs substantial investment and support, which is challenging for many economies under fiscal strain.

What are the Key Recommendations Suggested by the WEO Report?

- **Structural Reforms:** Policymakers should prioritize reforms in **health, education, labor**

markets, and **digitalization** to address productivity bottlenecks and enhance long-term growth .

- **Social Acceptability Framework:** Effective reform design should incorporate **public consultations, build trust, and ensure clear communication** to foster social acceptance.
- **Fiscal Policy Adjustments:** Countries need gradual and credible fiscal adjustments to ensure debt sustainability while avoiding sharp cuts that could harm growth.
 - **Public investments**, particularly in digital and infrastructure sectors, should continue for growth support .
- **Climate Resilience and Green Investments:** Expanding **climate financing**, particularly for vulnerable countries, and implementing carbon pricing policies with **WTO-compliant green subsidies** are crucial steps to advancing the green transition .

Drishti Mains Question:

India's growth trajectory shows resilience amidst global economic uncertainties. With reference to the World Economic Outlook report, discuss the internal and external factors that shape India's economic projections .

UPSC Civil Services Examination Previous Year Questions (PYQ)

Prelims:

Q. '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)