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# IMF: Uncertainty and Gloomy Outlook

*After recovering quickly in 2021 from the pandemic induced downturn in CY20, the global economy is on the path of uncertainty and a slowdown in CY22 and CY23. Sharp slowdown in US, China and Euro Area has prompted IMF to revise its global growth forecast downwards to 3.2% and 2.9% in CY22 and CY23, respectively. With risks further tilted to the downside, IMF believes we are 'getting close to global recession'. Inflation will remain a top priority; however tighter monetary policy will add to real economic cost. The report notes if there are further shocks that hit the global economy, economic outlook might even become worse.*

## Global economic slowdown

In the World Economic Outlook, IMF stated the global economic slowdown has intensified led by gloomy developments in CY22. The downside risks are materializing and are of concern:

- Surge in global inflation especially in U.S and major European Economies, which has triggered sharp tightening in global financial conditions.
- Sharper than expected slowdown in China on the back of Covid-19 outbreak and lockdown restrictions.
- Spillover effect and negative cross-border impact of war in Ukraine.

Under a baseline scenario, IMF has downgraded global growth forecast from 6.1% in CY21 to 3.2% in CY22 and to 2.9% in CY23. Growth revisions from Apr'22 have been largely negative for major advanced economies. Slower growth in U.S (2.3% in CY22 to 1.0% in CY23) has already been reflected by weaker than anticipated growth in first two quarters of CY22 along with lower momentum expected in private consumption, reflecting erosion of household purchasing power and the impact of steeper tightening in monetary policy. Growth moderation in in Euro Area is seen through the impact from war in Ukraine and the assumption of tighter financial conditions including ECB ending net asset purchases and hiking rates in Jul'22, first in over 10-years.

Growth in emerging market and developing economies is also expected to be lower on the back of sharp slowdown in China's economy along with moderation in India's economy. In China, severe Covid-19 outbreaks, lockdown restrictions and deepening of real estate crisis has impacted growth projections negatively. The slowdown in China has also added to the global supply chain disruption with strict lockdown restrictions pushing economic activity to a halt in Apr'22 for over 8-weeks. There also has been contraction in domestic spending, resulting in lower demand for goods and services from China's trade partners. A sustained slowdown in China will have global spillover impacting both demand and supply factors. Moreover, China's property sector is dragging down sales and real estate investment which has added to the concerns.

**Table 1: Growth Projections**

| Real GDP (Annual, %) | 2021 | 2022 | 2023 |
|---|---|---|---|
| **World Output** | **6.1** | **3.2** | **2.9** |
| Advanced Economies | 5.2 | 2.5 | 1.4 |
| **U.S** | **5.7** | **2.3** | **1.0** |
| **Euro Area** | **5.4** | **2.6** | **1.2** |
| Germany | 2.9 | 1.2 | 0.8 |
| France | 6.8 | 2.3 | 1 |
| Japan | 1.7 | 1.7 | 1.7 |
| U.K | 7.4 | 3.2 | 0.5 |
| Canada | 4.5 | 3.4 | 1.8 |
| Other Advanced Economies | 5.1 | 2.9 | 2.7 |
| Emerging Market Developing Economies | 6.8 | 3.6 | 3.9 |
| **China** | **8.1** | **3.3** | **4.6** |
| **India** | **8.7** | **7.4** | **6.1** |
| ASEAN-5 | 3.4 | 5.3 | 5.1 |
| Russia | 4.7 | (6.0) | (3.5) |
| Brazil | 4.6 | 1.7 | 1.1 |
| South Africa | 4.9 | 2.3 | 1.4 |

Source: IMF

IMF has also stated a serious risk to its medium-term outlook is the war in Ukraine will contribute towards fragmentation of world economy geo political blocs with cross-border payment systems, distinct technology standards and reserve currencies. This fragmentation might also diminish the effectiveness of multilateral cooperation to address climate change and the risk on ongoing food crisis becoming a norm.

**India's growth optimistic than other regions**

Moving in line with global growth, IMF has also slashed India's growth forecast to 7.4% in FY23 and 6.1% in FY23. This is on the back of less favorable external conditions and more rapid policy tightening. Despite this revision, India remains one of the fastest growing economies and the outlook looks more optimistic than other countries. RBI has pegged India's growth at 7.2% in FY23. As per our projections, we also expect the economy to expand by 7.2% for this period.

**Policy Priorities**

As a part of its policy priority, IMF noted it's imperative to bring inflation under control with price stability is a precondition for durable growth in economic well-being and financial stability. This will require a mix of structural, fiscal and monetary policy in order to lower inflation risk across economies. It also stated tackling of food and energy crisis along with preparing for tighter credit and financial instability. Tighter monetary conditions will impact global capital markets and will increase the role of support from multilateral institutions. It might push some sovereign borrowers in debt distress owing to higher interest rates and lower tax revenues.

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