

IMF FORECASTS DIP IN GLOBAL GROWTH IN 2019

Relevant for: International Relations | Topic: IMF and India

Gita Gopinath, chief economist at the IMF in Washington. AP Jose Luis Magana

The International Monetary Fund (IMF) has projected that global growth will be 3.3% in 2019, down from 3.6% in 2018 and 4% in 2017, IMF Chief Economist Gita Gopinath told the press at the release of the World Economic Outlook 2019 April report, at the start of the World Bank IMF Spring Meetings.

This lower projection is due to lower global expansion in the second half of 2018 caused by U.S.-China trade tensions, macroeconomic stress in Turkey and Argentina, tighter credit policies in China and financial tightening plus a normalisation of monetary policy in advanced economies.

'Robust consumption'

India's growth is projected to pick up (from 7.1% in 2018) to 7.3% in 2019 and 7.5% in 2020, "supported by the continued recovery of investment and robust consumption amid a more expansionary stance of monetary policy and some expected impetus from fiscal policy," the report said. These forecasts are nevertheless less by 10 and 20 basis points from the January and October forecasts.

"Nevertheless, reflecting the recent revision to the national account statistics that indicated somewhat softer underlying momentum, growth forecasts have been revised downward compared with October 2018 WEO by 0.1 percentage point for 2019 and 0.2 percentage point for 2020, respectively," the IMF said.

The IMF expects growth to pick up in the second half of the year driven by an accommodative policy stance in advanced economies, the prospects of easing of trade tensions between the U.S. and China and ramped up fiscal and monetary stimulus by China to counter the trade war's effects.

Global growth is therefore expected to return to 3.6%, but this is subject to a rebound in Argentina and Turkey and certain emerging market risks not manifesting. Brexit uncertainties and China's growth not being as high as expected (down from 6.6% in 2018 to 6.3% and 6.1% in 2019 and 2020 respectively) are risks that will impact these projections.

Moderation in expansion

Beyond 2020, global growth is expected to level out at 3.6% over the medium term, driven by a moderation in expansion in advanced countries (caused by weak productivity growth and slow labour force growth) and the stabilisation of emerging market expansion at 2020 levels.

Advanced economies are expected to slow down to 1.6% growth by 2022 and remain at that rate thereafter.

For emerging markets and developing countries, growth is expected to steady at 4.8% over the medium term and given that these groups are growing faster than advanced economies, their contribution to global growth is expected to increase from 76% to 85% over the next five years. However, there are "important differences" within emerging markets and developing economies.

For instance, China is expected to slow down to 5.5% by 2024 as it moves towards increasing private consumption and services and regulatory tightening. India's growth is expected to stabilise at 7.75% over the medium term, driven by structural reforms and the easing of infrastructure bottlenecks.

In terms of policy priorities, the IMF has called for a "continued implementation of structural and financial sector reforms" in order to lower public debt and aid growth.

Specifically, it says a continued fiscal consolidation is needed to bring down public debt, strengthening goods and services tax compliance and lowering subsidies.

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