July 26 2023

IMF more bullish now?

According to the IMF, Global growth is projected to decline from an estimated 3.5% in 2022 to 3.0% in both 2023 and 2024. However the forecast for 2023 is modestly higher than predicted in the April 2023 which was 2.8%.

The Global Economic Outlook released yesterday points to the following:

- The rise in central bank policy rates to fight inflation continues to weigh on economic activity.
- Global headline inflation is expected to fall from 8.7% in 2022 to 6.8% in 2023 and 5.2% in 2024. Underlying core inflation is projected to decline more gradually, and forecasts for inflation in 2024 have been revised upward.
- The recent resolution of the US debt ceiling standoff and strong action by authorities to contain turbulence in US and Swiss banking reduced the immediate risks of financial sector turmoil.
- The balance of risks to global growth however, remains tilted to the downside.
    - Inflation could remain high and even rise if further shocks occur, including those from an intensification of the war in Ukraine and extreme weather-related events, triggering more restrictive monetary policy.
    - Financial sector turbulence could resume as markets adjust to further policy tightening by central banks.
    - China's recovery could slow, in part as a result of unresolved real estate problems, with negative cross-border spill overs.
    - Sovereign debt distress could spread to a wider group of economies.
- On the upside, inflation could fall faster than expected, reducing the need for tight monetary policy, and domestic demand could again prove more resilient.

	Estimate	Projections		Variation from April forecast
	2022	2023	2024	2023
World Output	**3.5**	**3.0**	**3.0**	**0.2**
Advanced Economies	**2.7**	**1.5**	**1.4**	**0.2**
United States	2.1	1.8	1.0	0.2
Euro Area	3.5	0.9	1.5	0.1
Germany	1.8	–0.3	1.3	–0.2
France	2.5	0.8	1.3	0.1
Italy	3.7	1.1	0.9	0.4
Spain	5.5	2.5	2.0	1.0
Japan	1.0	1.4	1.0	0.1
United Kingdom	4.1	0.4	1.0	0.7
Canada	3.4	1.7	1.4	0.2
Emerging Markets	**4.0**	**4.0**	**4.1**	**0.1**
China	3.0	5.2	4.5	0.0
India	7.2	6.1	6.3	0.2
Russia	–2.1	1.5	1.3	0.8
Brazil	2.9	2.1	1.2	1.2
Mexico	3.0	2.6	1.5	0.8
South Africa	1.9	0.3	1.7	0.2

The Forecasts have been revised upwards from April for the world economy and all major economies, except Germany, which is expected to witness further decline in growth. In fact it is the only country to witness negative growth in 2023 within this set.

India's GDP growth has been pushed up by 20 bps, while the highest is 120 bps for Brazil followed by 100 bps for Spain. In case of Mexico and Russia it is 80 bps while it is 70 bps for UK. For Italy it is 40 bps. USA shares the same upward revision as India at 20 bps. Therefore there are sharp upgrades for several economies.

Some macro pointers

In most economies, the priority remains achieving sustained disinflation while ensuring financial stability. Therefore, central banks should remain focused on restoring price stability and strengthen financial supervision and risk monitoring. The IMF asserts that should market strains materialize, countries should provide liquidity promptly while mitigating the possibility of moral hazard. They should also build fiscal buffers, with the composition of fiscal adjustment ensuring targeted support for the most vulnerable. Improvements to the supply side of the economy would facilitate fiscal consolidation and a smoother decline of inflation toward target levels.

The Federal Reserve paused rate hikes at its June meeting but signalled further ones ahead, and the Reserve Bank of Australia, Bank of Canada, Bank of England, and European Central Bank have continued to raise rates. At the same time, in some other economies, particularly in East Asia, where mobility curbs during the pandemic restricted demand for services longer than elsewhere, core inflation has remained low. In China, where inflation is well below target, the central bank recently cut policy interest rates. The Bank of Japan has kept interest rates near zero under the quantitative and qualitative monetary easing with yield curve control policy.

Manufacturing activity and consumption of services in China rebounded at the beginning of the year when Chinese authorities abandoned their strict lockdown policies; net exports contributed strongly to sequential growth in February and March as supply chains normalized and firms swiftly put backlogs of orders into production. Nonetheless, continued weakness in the real estate sector is weighing on investment, foreign demand remains weak, and rising and elevated youth unemployment (at 20.8% in May 2023) indicates labour market weakness. High-frequency data through June confirm a softening in momentum into the second quarter of 2023.

World trade

World trade growth is expected to decline from 5.2% in 2022 to 2.0% in 2023, before rising to 3.7% in 2024, well below the 2000–19 average of 4.9%. The decline in 2023 reflects not only the path of global demand, but also shifts in its composition toward domestic services, lagged effects of US dollar appreciation—which slows trade owing to the widespread invoicing of products in US dollars—and rising trade barriers. This means that Indian exports would face headwinds if demand is to remain low.

Main priorities according to the IMF

a. Conquer inflation. Central banks in economies with elevated and persistent core inflation should continue to clearly signal their commitment to reducing inflation. A restrictive stance—with real rates above neutral—is needed until there are clear signs that underlying inflation is cooling.

b. Maintain financial stability and prepare for stress. *The fast pace of monetary policy tightening continues to put the financial sector under pressure.* Strengthened supervision and monitoring risks to anticipate further episodes of banking sector stress is warranted. The intensity of supervision must be commensurate with banks' risks and systemic importance, and it is essential to address oversight gaps in the non-bank financial sector.

c. Rebuild fiscal buffers while protecting the vulnerable. With fiscal deficits and government debt above pre-pandemic levels, credible medium-term fiscal consolidation is in many cases needed to restore budgetary room for manoeuvre and ensure debt sustainability.

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