World Economic Outlook

Why in news?

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International Monetary Fund's (IMF) recently released World Economic Outlook.

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What is secular stagnation?

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- Many economists believe that the world economy was in the grip of 'secular stagnation'
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- It is an expression coined by the economist **Alvin Hansen** in the 1930s.
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- Hansen argued that **where savings substantially exceed investment, the real interest rate tends to drop to a very low level.**
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- Conventional monetary policy operates by reducing nominal interest rates in order to stimulate growth.
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- Where the nominal interest rate is already close to zero, there isn't much scope for cutting interest rates.
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- In conditions of 'secular stagnation', **conventional monetary policy is doomed to be ineffective.**
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- The burden of reviving growth in such a situation falls on fiscal policy.
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- This means running up large government deficits and increasing public debt.
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- But markets will finance government borrowings only up to a point.
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- There is also resistance among policymakers to increased government

spending.
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What is the present world economic scenario?

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- This seemed to be an accurate description of the world economy in recent years.
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- The real interest rate had been falling for several years.
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- This was because savings were rising and investment was falling.
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- Higher savings flowed from factors such as **greater inequality, greater life expectancy and reduced post-retirement benefits.**
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- Investment had fallen because **capital goods had become cheaper.**
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- With decreased spending, inflation rates also fell in the advanced world.
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What are the findings of IMF?

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- The prospects for the world economy have improved.
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- The world economic growth accelerates from 3.1% in 2016 to 3.5% in 2017, and 3.6% in 2018.
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- Growth in advanced economies is projected to rise from 1.7% in 2016 to 2% in 2017 and 2018.
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- Emerging markets will grow at 4.5% in 2017, and 4.8% in 2018, compared with growth of 4.1% in 2016.
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- China will see growth decelerating from 6.7% in 2016 to 6.6% and 6.2% in 2017 and 2018, respectively.
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- India’s growth, in contrast, will accelerate from 6.8% in 2016 to 7.2% and 7.7% over the next two years.

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- The IMF also warns that high income inequality is likely to persist.
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- The IMF warns that emerging markets, including India, will find the external conditions for growth less supportive than in the post-2000 period.
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- Tightening monetary conditions in the advanced world spell lower capital flows.
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Source: The Hindu

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