



1 - February 2023

WORLD ECONOMIC SITUATION AND PROSPECTS

This article covers “Daily current events “and the topic is “World Economic Situation and Prospects” which is in news, it covers the “World Economy” In GS-3, and the following content has relevance for UPSC.

For Prelims: About GDP, SDG, Inflation

For Mains: GS-3, world economic situation and prospects

Why in news:

In a recent research titled World Economic Situation and Prospects 2023, the United Nations predicted that the global gross domestic product (GDP) will likely decline from 3% in 2022 to 1.9% in 2023.

A series of devastating and overlapping shocks, including the CoVid-19 pandemic, the conflict in Ukraine and the ensuing food and energy crisis, skyrocketing inflation, tightening credit, and the climate emergency.

KEY FINDINGS OF WORLD ECONOMIC SITUATION AND PROSPECTS

Inflation: In 2022, the global average inflation rate was 9%, which caused fiscal restrictions in both developed and developing nations.

Recession: The current slump has hampered the pace of the Covid-19 crisis economic recovery, putting numerous nations at risk of experiencing one in 2023.

In 2022, job growth was generally slower in developing nations.

The pandemic’s initial phase saw disproportionate losses in women’s employment, which have not yet fully recovered.

Slight Increase in Global Output: In 2024, the global output growth rate may increase to 2.7%, depending on how the conflict scenario develops and how supply networks are affected.

China's growth is anticipated to be 4.8% in 2023 and 4.5% in 2024.

According to projections, the US economy would rise by 0.4% this year and 1.7% in 2024.

Russian Export: In 2022, Russian exports rose as trade with Turkey, China, and India expanded.

South Asia's economic outlook has drastically worsened as a result of elevated prices for food and energy, tighter monetary policy, and fiscal vulnerabilities.

From 5.6% in 2022 to 4.8% in 2023, the average GDP growth is anticipated to moderate.

A challenging year for economies like Bangladesh, Pakistan, and Sri Lanka who have asked the International Monetary Fund (IMF) for financial support.

INDIAN PROSPECTS

Growth Rate: The country's growth rate is predicted to stay robust at 5.8%, albeit it will be slightly lower than the predicted 6.4% in 2022 as higher interest rates and a slowing global economy weigh on investment and exports.

India's food and energy subsidies averted a serious catastrophe.

The world's fastest-growing major economy in 2024 will be India, whose GDP will increase by 6.7%.

Inflation: Inflation is predicted to be 7.1% per year in 2022. As global commodity prices moderate and India's economy grows, inflation is anticipated to slow to 5.5% in 2023.

Inflation from imports is reduced by slower currency depreciation.

Unemployment: Increased employment in urban and rural areas in 2022 caused the unemployment rate to fall to pre-pandemic levels, showing robust domestic demand. Youth employment, particularly among young women, remained below pre-pandemic levels.

KEY RECOMMENDATIONS

Macroeconomic policies should be calibrated: To establish a balance between boosting output and reining in inflation, macroeconomic policies must be precisely calibrated.

In order to manage and temper inflationary expectations, better coordination between the main central banks will be needed, underpinned by unambiguous policy communications.

De-anchoring of Inflation Expectations: While updating current policies may have a positive impact, central banks must also take a careful and thorough approach to prevent credibility erosion and de-anchoring of inflation expectations.

Reprioritize Public Expenditures: In order to support vulnerable groups through direct policy interventions, governments will need to reallocate and reprioritize public expenditures.

To achieve this, social protection systems must be strengthened, and ongoing assistance must be provided through temporary and targeted financial aid, cash transfers, and utility bill discounts.

Expanding access to emergency financial aid and scaling up SDG financing are urgently needed. These goals include: Strengthening social protection systems and ensuring ongoing support through targeted and temporary subsidies, cash transfers, and discounts on utility bills, which can be complemented with lower consumption taxes or customs duties.

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