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# Warnings From The IMF

## One-third of the world economy faces the threat of recession.

By Vaibhav Tandon

There is a growing consensus among observers and policymakers that a soft landing could elude the global economy. The International Monetary Fund (IMF) is the latest addition to those expressing recession concerns, in its latest **World Economic Outlook**.
Global growth is being hindered by efforts to tame inflation, damage from the Ukraine war and China's economic slowdown. The world's largest economies are struggling: the IMF expects the eurozone's gross domestic product to contract in the second half of this year, with

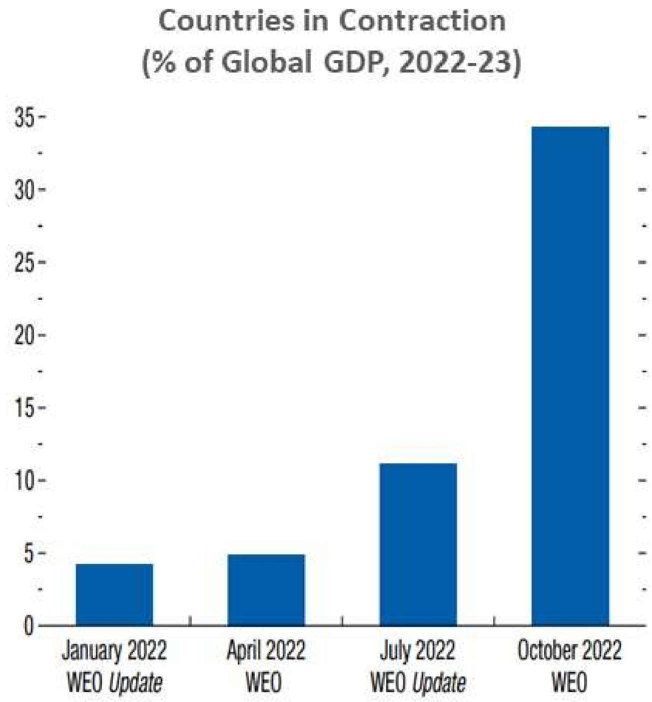
the U.S. falling into recession after the first of the year. The outlook for China is clouded by its growing property sector crisis, among other things.

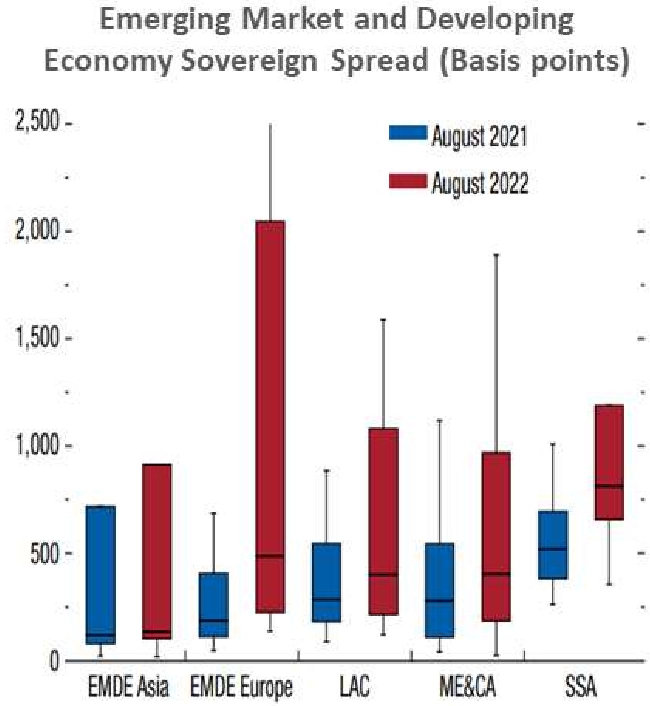
The deteriorating economic conditions prompted the Fund to warn that "the worst is yet to come." The IMF expects the global economy to slow from 6.0% real growth in 2021 to 3.2% in 2022 and 2.7% the next year. This would be the weakest performance since 2001, excluding the periods surrounding the 2008 financial crisis and the vilest phase of the pandemic. About one-third of the global economy may face a technical recession during 2022-23, compared to less than 5% in the January 2022 forecast.

Despite the slowdown, global inflation is projected to rise from 4.7% to 8.8% in 2022. Although that should be the peak, inflation will remain well above the target range of most central banks for the following two years. Encouragingly, the IMF sees the risk of a persistent wage-price spiral as largely contained.

As the pain piles up across developed and developing markets, policymakers are under pressure to blunt the fallout. Amid this clamor, the IMF stressed the need to have coordinated monetary and fiscal policy responses. Governments were encouraged to avoid enacting fiscal policies that would make inflation worse. This is a timely reminder for policymakers, especially the British.

The Fund did call for targeted near-term support of vulnerable groups burdened with the greatest cost-of-living pressures. The consequences of rising inflation and slowing economic activity will be disproportionately felt by those who have modest incomes and meager savings. While some emerging markets (EM) might avoid a recession, it is going to feel like one in many places. Quite a few EMs will face difficult policy choices as they balance the need to support their recoveries and the imperative of restoring fiscal discipline. The slowdown in advanced economies is putting pressure on EMs, many of which were already fragile and facing worsening fiscal balances from dealing with the pandemic.




*Source: IMF*

**The risk of default is rising among EMs hit hardest by energy and food price shocks.**

With financial conditions expected to continue to tighten, those vulnerabilities will be laid bare. The average yield on EM local-currency bonds has already risen to the highest level since June 2015.

The strong dollar also presents a headwind to EMs, raising the cost of their imports and their debt service payments. Emerging and developing economies are burning through large amounts of foreign exchange reserves to prevent a free-fall of their currencies. EMs like India are a ray of hope in the otherwise gloomy outlook, with the economy expected to register healthy growth this year and next. That said, a growth rate of around 6% for a nation like India is not enough to meet the **needs** of over a billion people.

The global economy is experiencing a number of turbulent trials, and the risks are clearly tilted to the downside. The IMF cannot be accused of sugar-coating the situation; we can only hope that the Fund will have the means to keep it from souring further.

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