

Latest Update of World Economic Outlook (WEO)

The International Monetary Fund (IMF) released its World Economic Outlook (WEO) update on July 29th, revising India's growth forecast upward for fiscal years 2026 and 2027 to 6.4%. The IMF maintained its 6.5% growth estimate for India for fiscal year 2025. These projections position India as the fastest-growing major economy globally.

The upward revision reflects a more favourable external environment and improved global financial conditions compared to the April forecast. Globally, the IMF also raised its growth outlook to 3.0% for 2025 and 3.1% for 2026.

Key Highlights

- **Global growth revised upwards:** The IMF projects global growth of 3.0% for 2025 and 3.1% for 2026. This is a modest improvement from the 2.8% forecast for 2025 in the April 2025 WEO.
- **Trade tensions hurt overall growth:** Despite the upward revision, the IMF noted that the new projections remain 0.2 percentage points below pre-April forecasts, a decline attributed to ongoing trade tensions that are "hurting the global economy".
- **Upward drivers of growth:** The forecast's upward revision was influenced by several factors:
 - **Front-loading ahead of tariffs:** A surge in exports to the U.S. occurred in the first quarter of 2025, driven by fears of future tariff increases.
 - **Financial conditions:** Better financial conditions and a weaker U.S. dollar contributed to the slightly improved outlook.
 - **Fiscal expansion:** Increased fiscal spending in certain major economies also boosted near-term prospects.
- **Persistent risks remain:** The IMF stressed that risks are still tilted to the downside. These include potential reversals in financial conditions, geopolitical instability, and threats to the independence of central banks.

Noteworthy country-specific forecasts

- **India:** Continues to be a bright spot in the global economy, with an expected growth rate of 6.4% in 2025. This strong performance stands out when compared to slower growth rates in other major economies.
- **United States:** The U.S. growth forecast for 2025 was nudged up to 1.9% but the IMF warned that the impact of tariffs and resulting uncertainty poses a risk.
- **China:** Received a larger upgrade due to stronger-than-expected activity and a temporary reduction in U.S.-China tariffs.
- **Euro Area:** Forecasts were lifted slightly, though the region's overall growth remains weak.
- **Germany:** The largest Euro Area economy is facing economic stagnation.
- **United Kingdom:** Growth is set to improve but is expected to remain weak.
- **Japan and Russia:** The Japanese economy is only expected to improve slightly, while the Russian economy will begin to feel the ill effects of prolonged conflict.

Highlights concerning India

- **India Specific Findings:** The IMF raised India's GDP growth forecast for FY26 to 6.4% from 6.2% (April estimate), and for FY27 to 6.4% from 6.3%.
- **Global Context:** India's growth outpaces the projected global economic growth of 3.0% in 2025 and 3.1% in 2026.
- **Fastest-growing major economy:** India is frequently identified by the WEO as a "bright spot" and is projected to be one of the fastest-growing major economies in the world.
- **Key growth drivers:** The report highlights several drivers of India's economic resilience, including:
 - Strong private consumption, particularly from rural demand.
 - Resilient macroeconomic fundamentals.
 - Government reforms and public investments in infrastructure and digitalization.
 - Technological innovation and a growing startup ecosystem.
- **Challenges and risks:** While projecting a positive outlook, the WEO also points out risks for India, such as:
 - Global trade tensions.

- High informal employment rates.
- Fiscal management issues and potential debt levels.
- Vulnerability to climate change impacts.

Explanation of Exam Oriented Key Terms

01

World Economic Outlook (WEO)

The World Economic Outlook (WEO) is a flagship publication by the International Monetary Fund (IMF) that provides analysis and forecasts for the global economy, focusing on global growth, inflation, trade, and policy recommendations.

About the report

- **Publisher:** The WEO is a flagship publication of the International Monetary Fund (IMF).
- **Frequency:** It is published biannually, typically in April and October, with less comprehensive updates released in January and July.
- **Purpose:** The report provides a detailed analysis of the state of the world economy. It highlights key economic trends, identifies risks to global financial stability, and offers policy recommendations.
- **Coverage:** It includes projections for economic growth (GDP), inflation, unemployment, and other indicators for the IMF's 190 member countries.

Key parameters tracked

- **Global growth forecasts:** Provides estimates and forecasts for global economic output in the near and medium term.
- **Inflation trends:** Reports on global inflation rates and the pace of disinflation.
- **Risk assessment:** Evaluates various risks to the economic outlook, such as geopolitical tensions, financial volatility, and trade tensions.
- **Key drivers:** Discusses major factors influencing global economic activity, including monetary policy, fiscal measures, and structural factors.

Practice Questions:

1. With reference to the IMF's World Economic Outlook (WEO) 2025, consider the following statements:

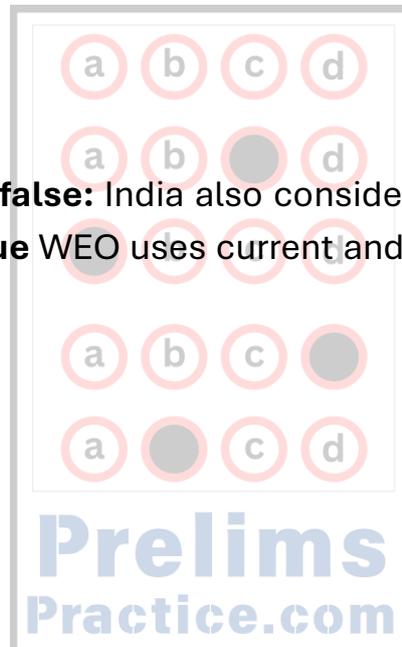
- I. The IMF WEO is the only international report that influences Indian economic decisions.
- II. The IMF's economic outlook is based on both historical data and forward-looking projections.

Which of the statements above is/are correct?

- a) I Only
- b) II Only
- c) Both I and II
- d) Neither I nor II

Answer: b

Explanation: Statement 1 is false: India also considers reports from the World Bank, OECD, etc. **Statement 2 is true** WEO uses current and historical data to project future trends.

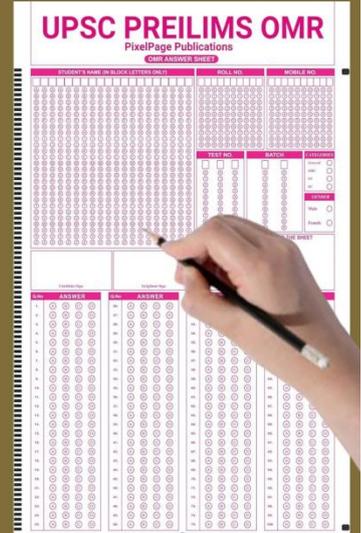


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