

## IMF's World Economic Outlook - October 2021

### Why in news?

The IMF (International Monetary Fund) unveiled its 2nd World Economic Outlook (WEO) for 2021.

### What does the World Economic Outlook address?

- Analyzes key parts of the IMF's surveillance of economic developments and policies in its member countries.
- Projects developments in the global financial markets and economic systems.
- Highlights the risks and uncertainty that could threaten growth.

The IMF comes out with the WEO report twice every year - April and October.

### What are the key takeaways from the recent WEO?

#### Economic recovery

- The global economic recovery momentum had weakened due to the pandemic-induced supply disruptions.

#### Inequality

- There is an increasing inequality among nations, with divergence in economic prospects across countries.
- Aggregate output for the advanced economy group is expected to regain its pre-pandemic trend path in 2022 and exceed it by 0.9% in 2024.
- But aggregate output for the emerging market and developing economy group (excluding China) is expected to remain 5.5% below the pre-pandemic forecast in 2024.
- This is likely to result in a larger setback to improvements in living standards in those economies.
- **Reasons** - Two key reasons for the economic divergences:
  1. large disparities in vaccine access
  2. differences in policy support

#### Employment

- Employment growth is likely to lag the output recovery.
- Employment around the world remains below its pre-pandemic levels, reflecting the following -
  1. negative output gaps
  2. worker fears of on-the-job infection in contact-intensive occupations
  3. childcare constraints
  4. labour demand changes as automation picks up in some sectors

5. replacement income through furlough schemes or unemployment benefits helping to cushion income losses
6. frictions in job searches and matching

Furloughs are temporary cessations of work characterized by employees retaining their jobs but not getting paid.

- Worryingly, the gap between recovery in output and employment is likely to be larger in emerging markets and developing economies than in advanced economies.
- Also, young and low-skilled workers are likely to be worse off than prime-age and high-skilled workers, respectively.

## **What does this mean for India?**

- As far as GDP is concerned, India's growth rate hasn't been tweaked for the worse, and India's economic recovery is gaining ground.
- However, the IMF projection that the recovery in unemployment is lagging the recovery in output (or GDP) is a concern for India.
- This could mean large population being excluded from the GDP growth and its benefits.
- Lack of adequate employment levels would affect overall demand and thus impede India's growth momentum.

The total number of employed people in the Indian economy as of May-August 2021 was 394 million which is 11 million below the level set in May-August 2019.

Notably, India was already facing a deep employment crisis before Covid, and it became much worse after it.

## **Why could employment lag output growth in India?**

- India already had a massive unemployment crisis.
- India is witnessing a K-shaped recovery - Different sectors are recovering at significantly different rates.
- This holds true for both between the organised sector and unorganised sector, and within the organised sector.
- Another reason is that the bulk of India's employment is in the informal or unorganised sectors.
- So, a weak recovery for the informal/unorganised sectors implies a drag on the economy's ability to create new jobs or revive old ones.

Informal worker - A worker with no written contract, paid leave, health benefits or social security. The share of informal/unorganised sector GVA is more than 50% at the all-India level, and is even higher in certain sectors.

The organised sector refers to firms that are registered and that which provide formal employment.

Source: The Indian Express

