



# ***WORLD ECONOMIC OUTLOOK AND IMPLICATIONS FOR INDIA***

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# Main activities of the IMF



## Lending



## Capacity Building



## Surveillance



Bilateral



Multilateral

# Global Outlook

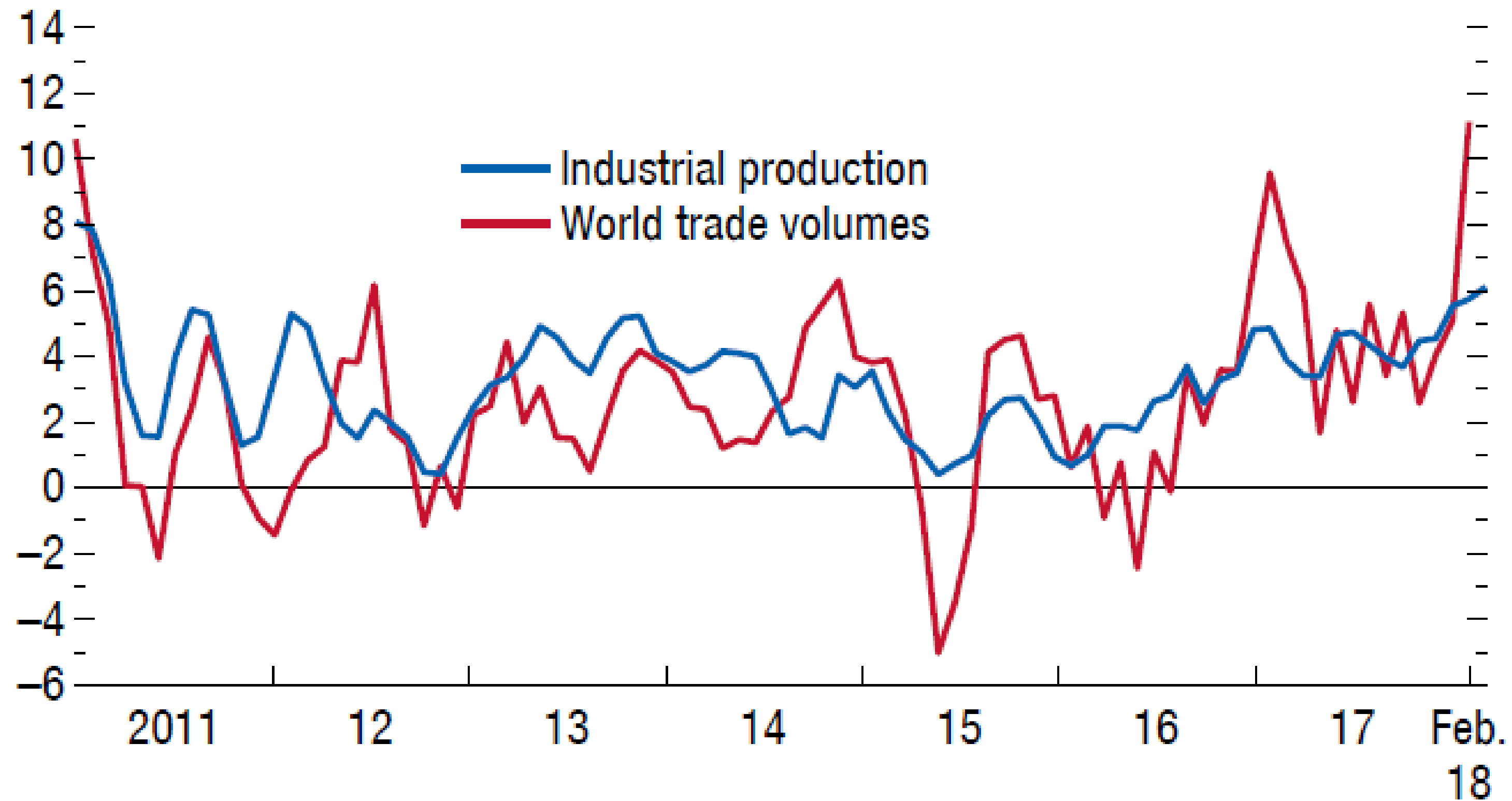
# World Economic Outlook — Big picture

- **Global growth** picked up further in 2017, strongest since 2011
- **Outlook** is for higher annual growth in 2018 and 2019
  - **Advanced Economies**: faster closing of output gaps than expected, but still subdued potential growth in medium term
  - **Emerging Market and Developing Economies**: divergence in growth rates of commodity exporters and commodity importers
- **Risks** to the outlook are balanced in the short term but skewed to the downside in the medium term
- **Policy priorities** are to address remaining vulnerabilities and advance reforms that boost the potential for higher and more inclusive growth

# Growth momentum has remained strong into early 2018

## World Trade and Industrial Production

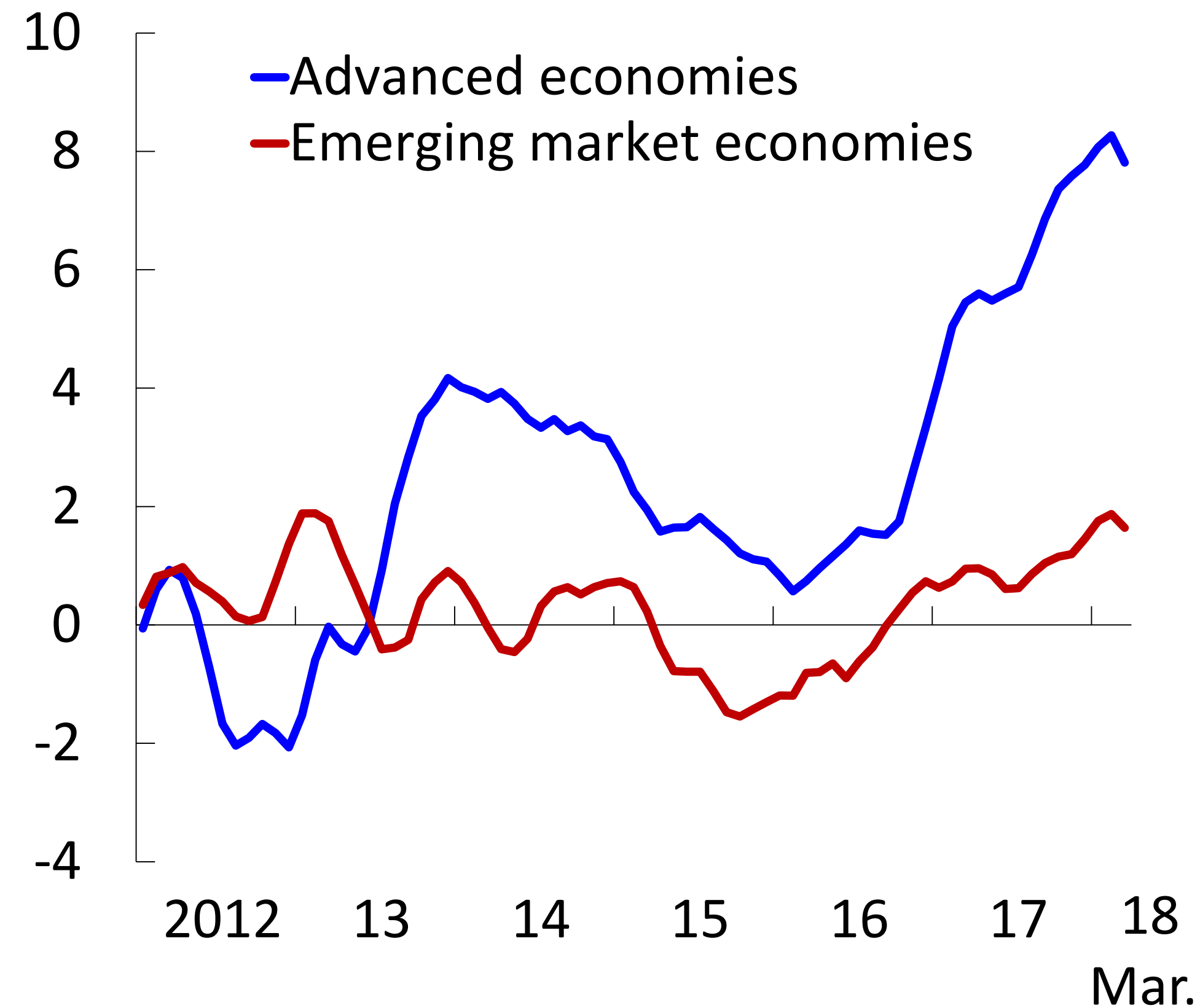
(3-month moving average; annualized percentage change)



# High frequency indicators point to continued near-term momentum

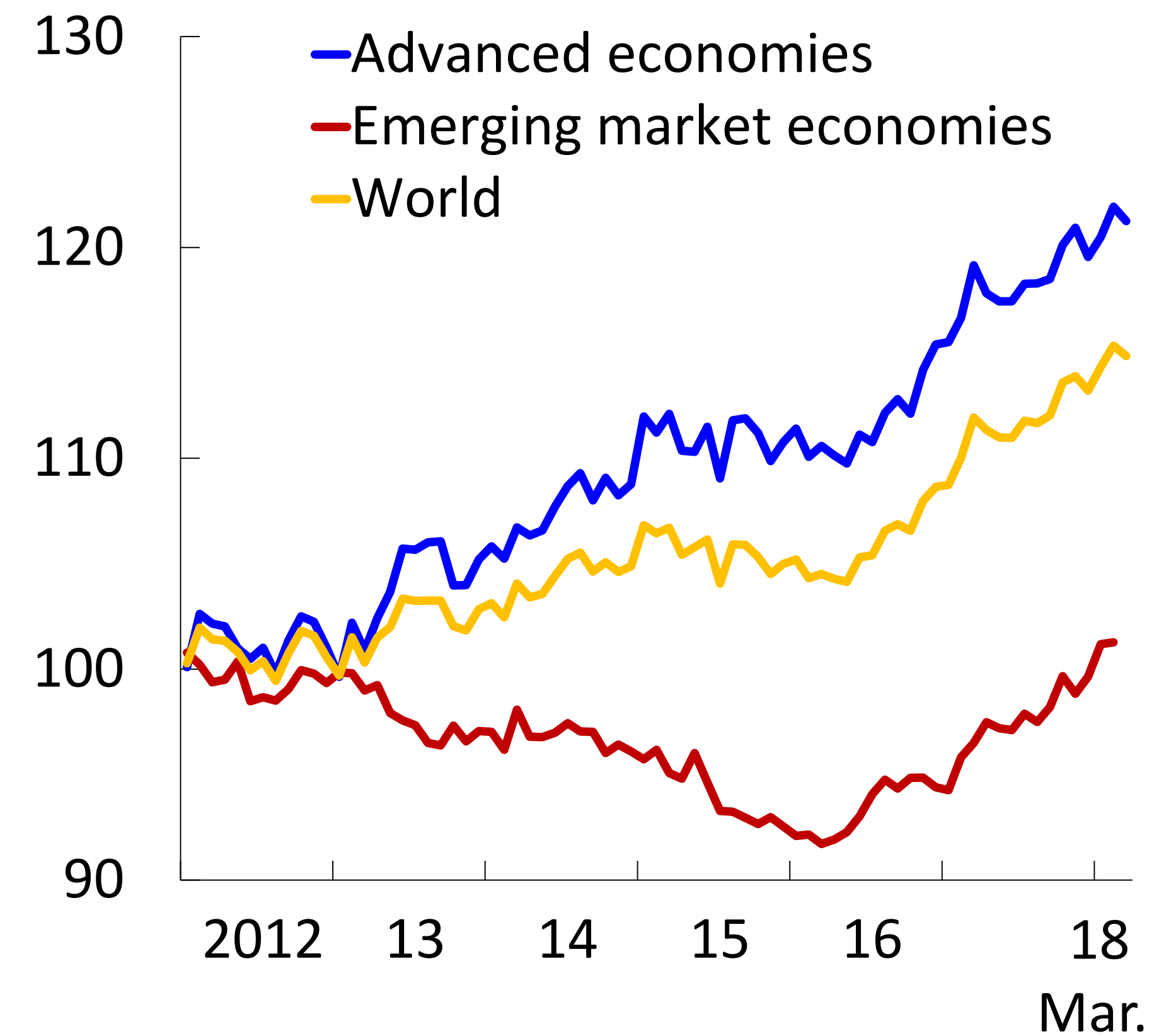
## Manufacturing PMI

*(three-month moving average; deviations from 50)*



## Consumer Confidence

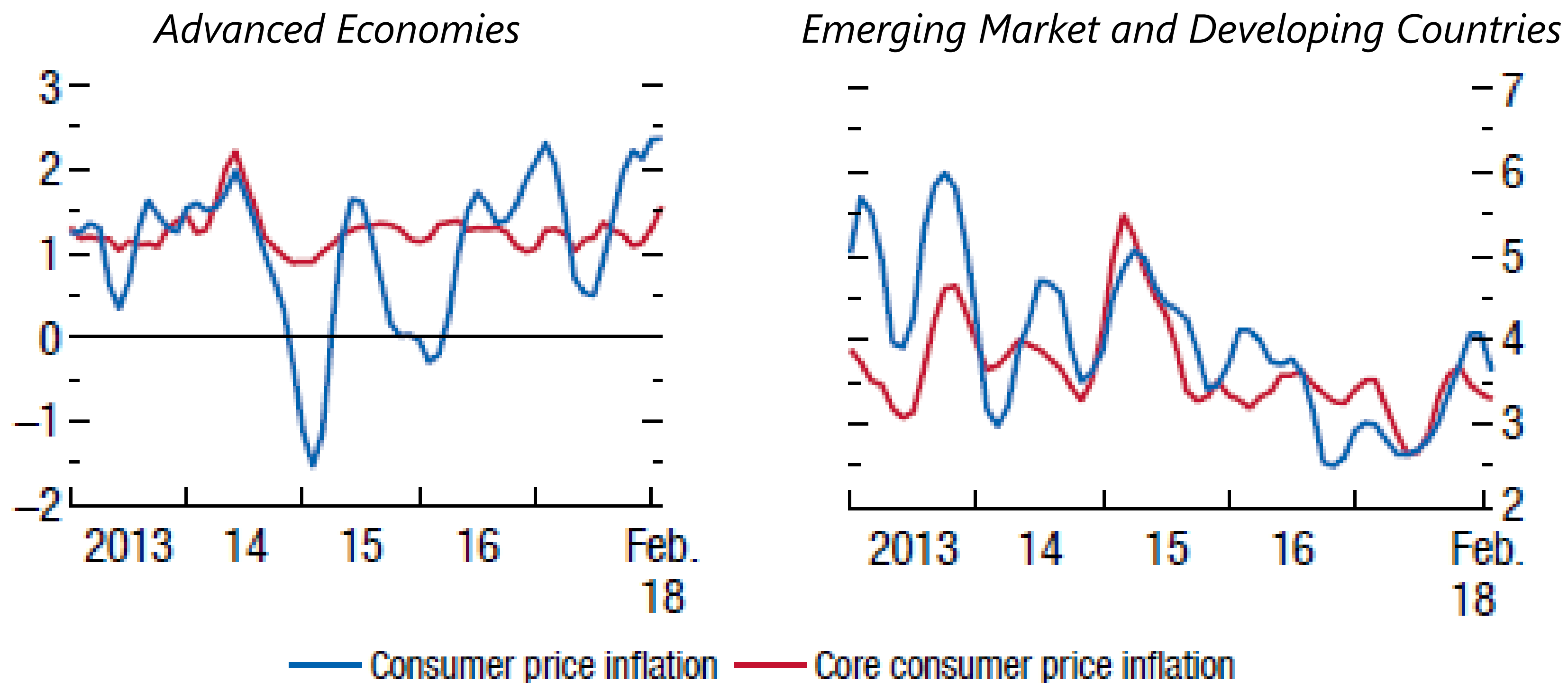
*(index; 2010 = 100)*



# Headline inflation has picked up but core remains soft

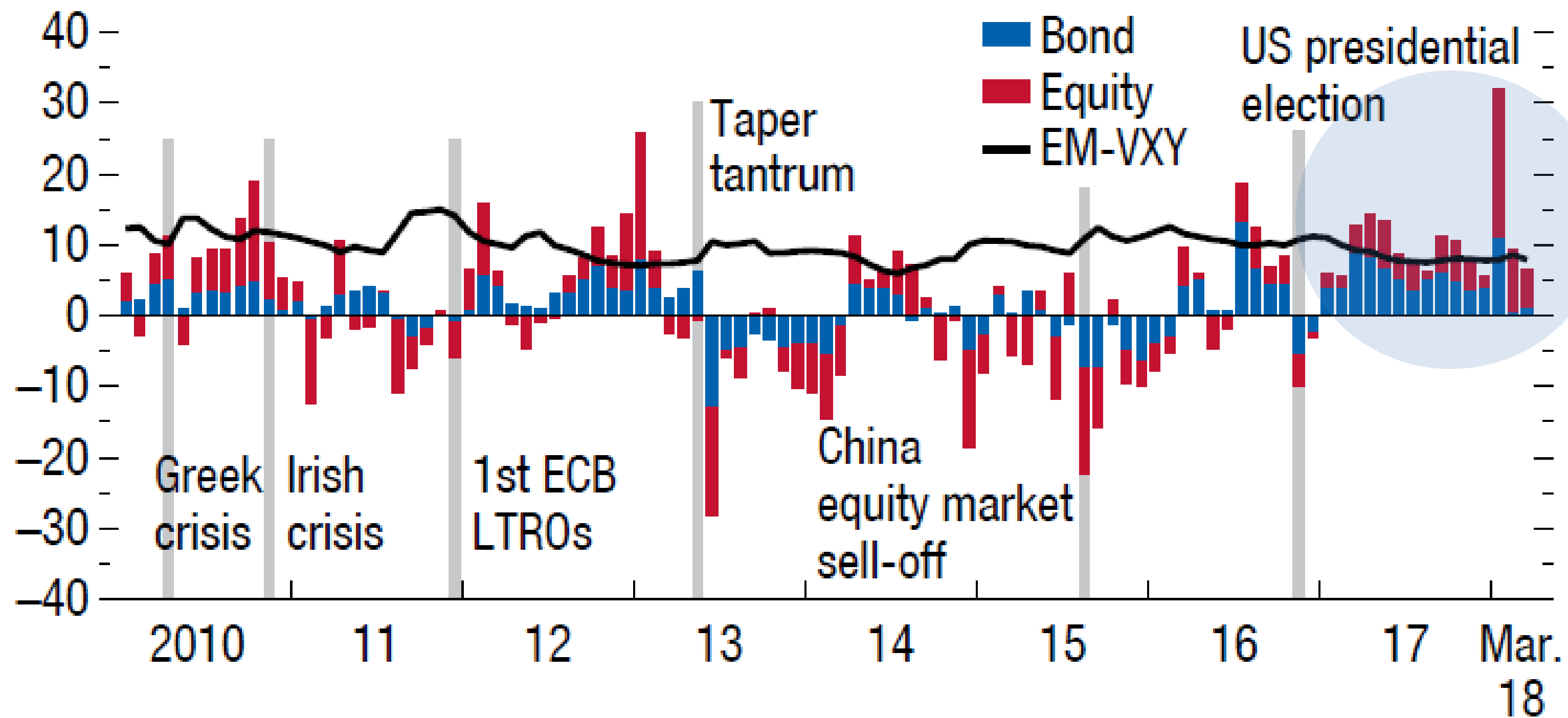
## Global Inflation

(3-month moving average; annualized percentage change)



# Global financial conditions have remained loose

**Net Flows into Emerging Market Funds**  
(Billions of US\$)





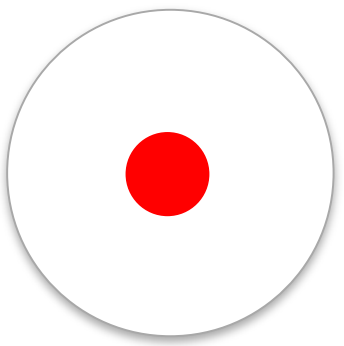





Note: EM-VXY=JP Morgan Emerging Market Volatility Index





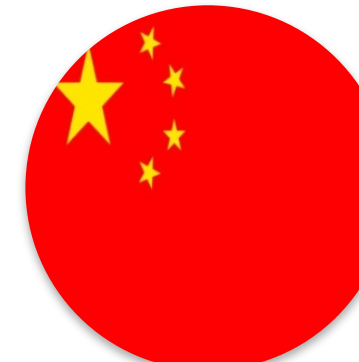


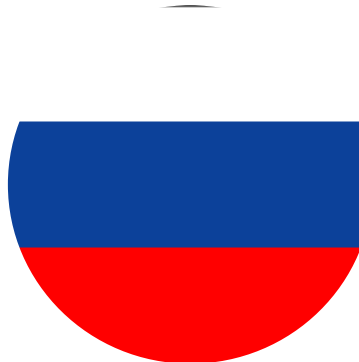

# Growth projections: Advanced economies

(percent change from a year earlier)

	 World	 Advanced Economies	 U.S.	 U.K.	 Japan	 Euro Area	 Germany	 Canada
2016	3.2	1.7	1.5	1.8	1.0	1.8	1.9	1.5
2017e	3.8	2.3	2.3	1.8	1.7	2.3	2.5	3.0
2018f	3.9	2.5	2.9	1.6	1.2	2.4	2.5	2.1
2019f	3.9	2.2	2.7	1.5	0.9	2.0	2.0	2.0

# Growth projections: Emerging markets and LIDCs

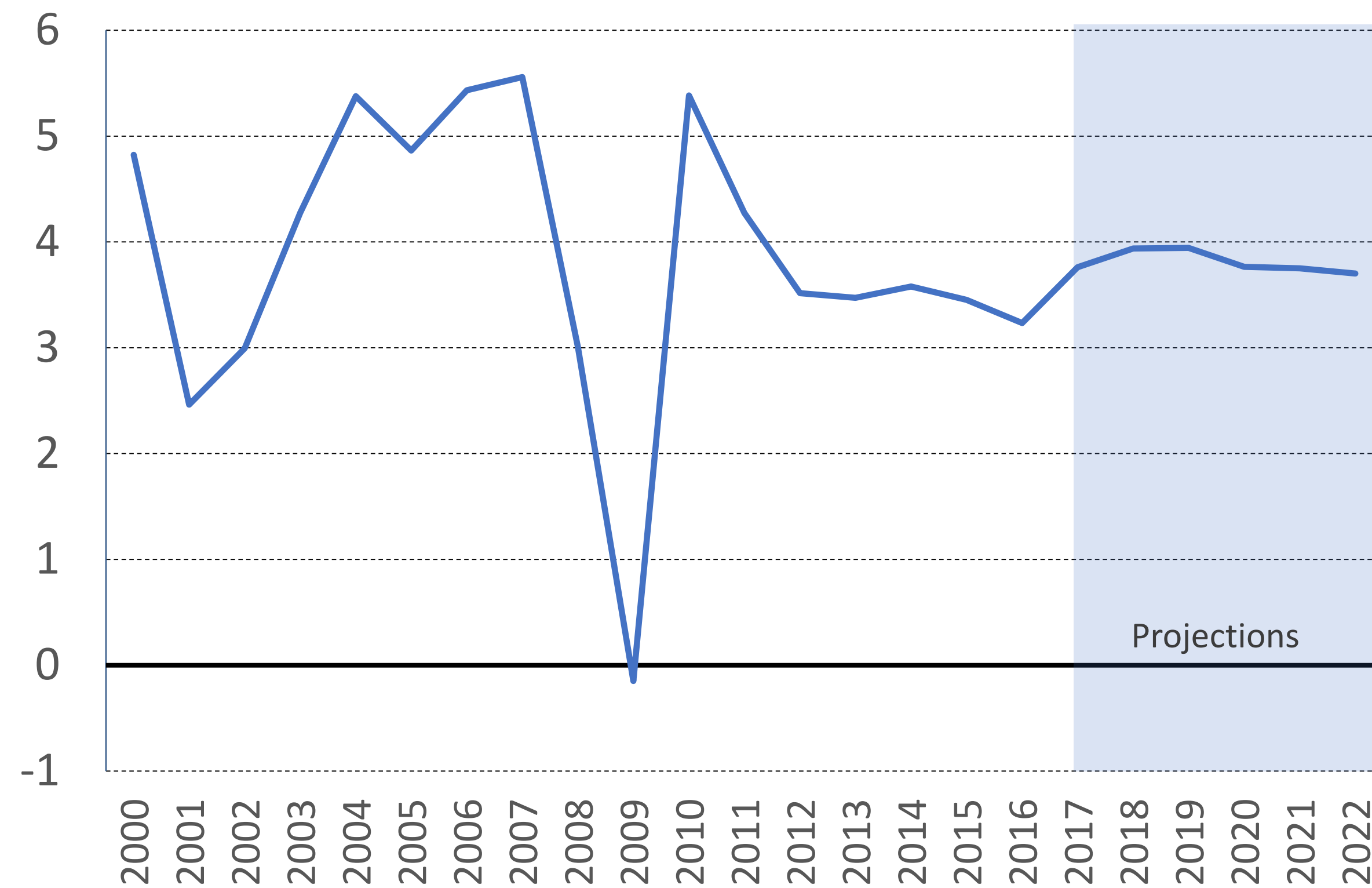
(percent change from a year earlier)

	 World	 Emerging Market and Developing Economies	 China	 India	 Brazil	 Russia	 Low Income Developing Countries
<b>2016</b>	<b>3.2</b>	<b>4.3</b>	<b>6.7</b>	<b>7.1</b>	<b>-3.6</b>	<b>-0.2</b>	<b>3.6</b>
<b>2017e</b>	<b>3.8</b>	<b>4.8</b>	<b>6.9</b>	<b>6.7</b>	<b>1.0</b>	<b>1.5</b>	<b>4.7</b>
<b>2018f</b>	<b>3.9</b>	<b>4.9</b>	<b>6.6</b>	<b>7.4</b>	<b>2.3</b>	<b>1.7</b>	<b>5.0</b>
<b>2019f</b>	<b>3.9</b>	<b>5.1</b>	<b>6.4</b>	<b>7.8</b>	<b>2.5</b>	<b>1.5</b>	<b>5.3</b>

# Medium term outlook less buoyant

## World Real GDP Growth

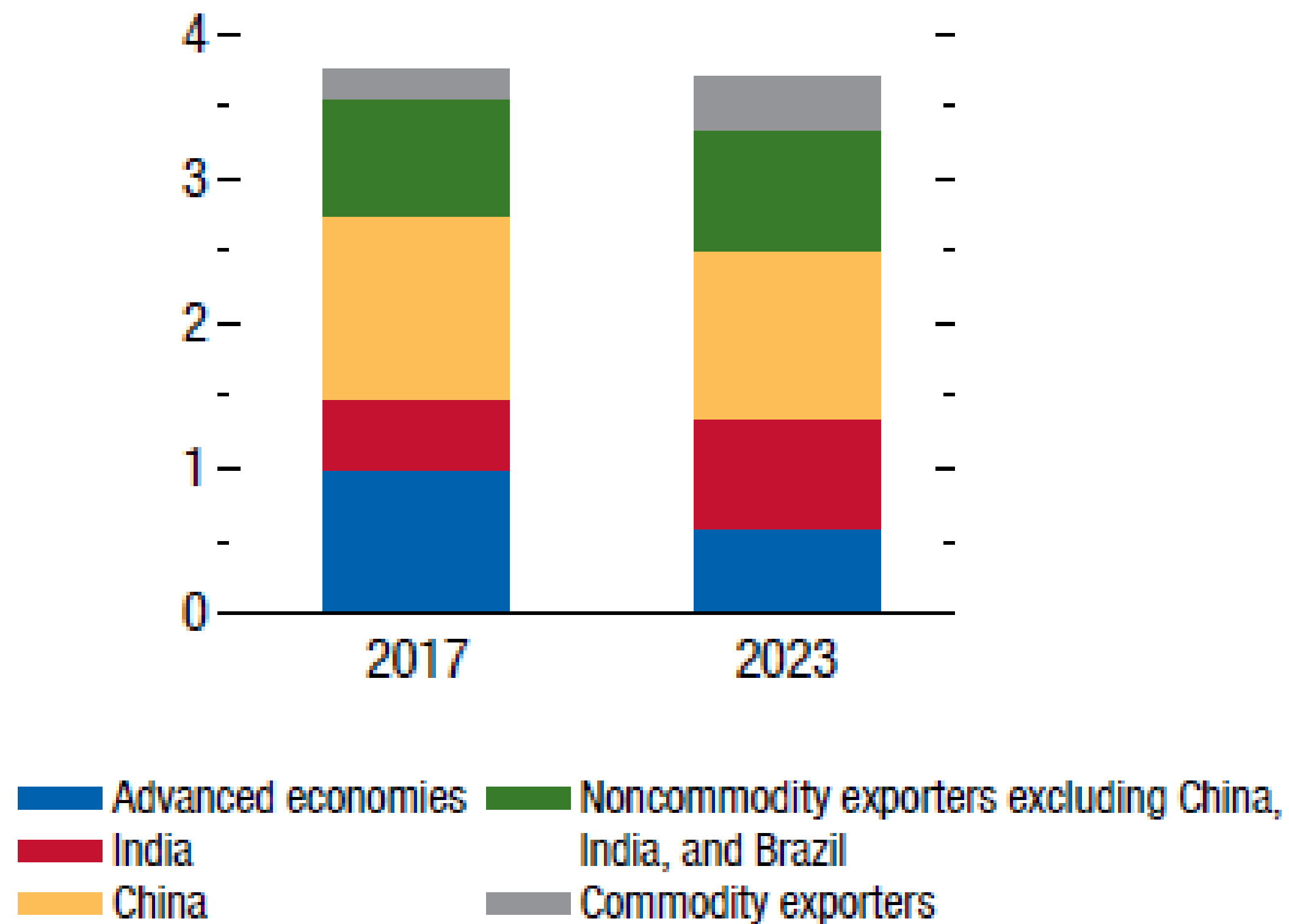
(in percent)



# Changing global growth engines over the medium term

## Contributions to World Real GDP Growth

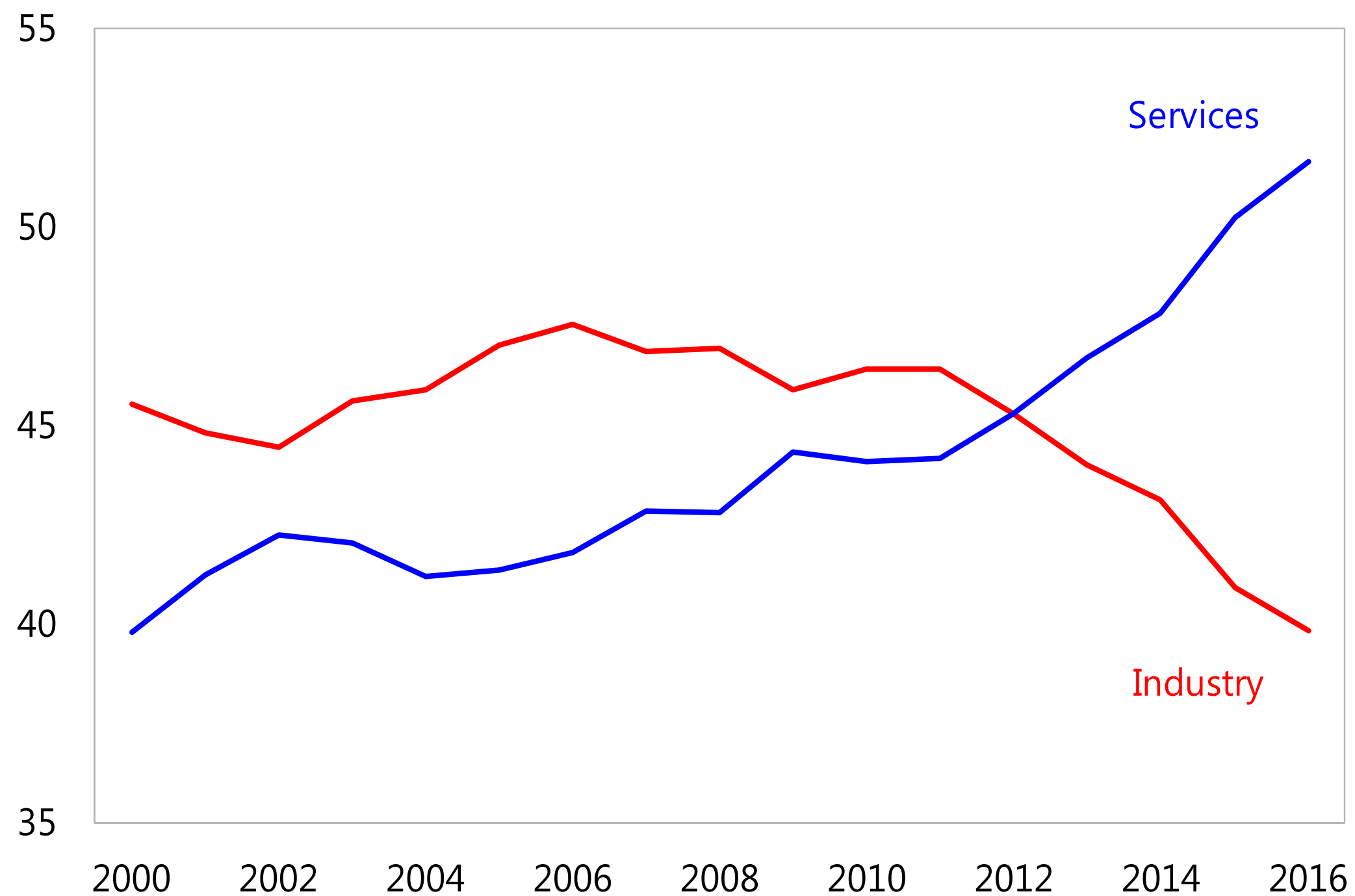
(in percentage points, PPP weights)



# China is making progress in rebalancing economy but rising non-financial debt weighs on the medium-term outlook

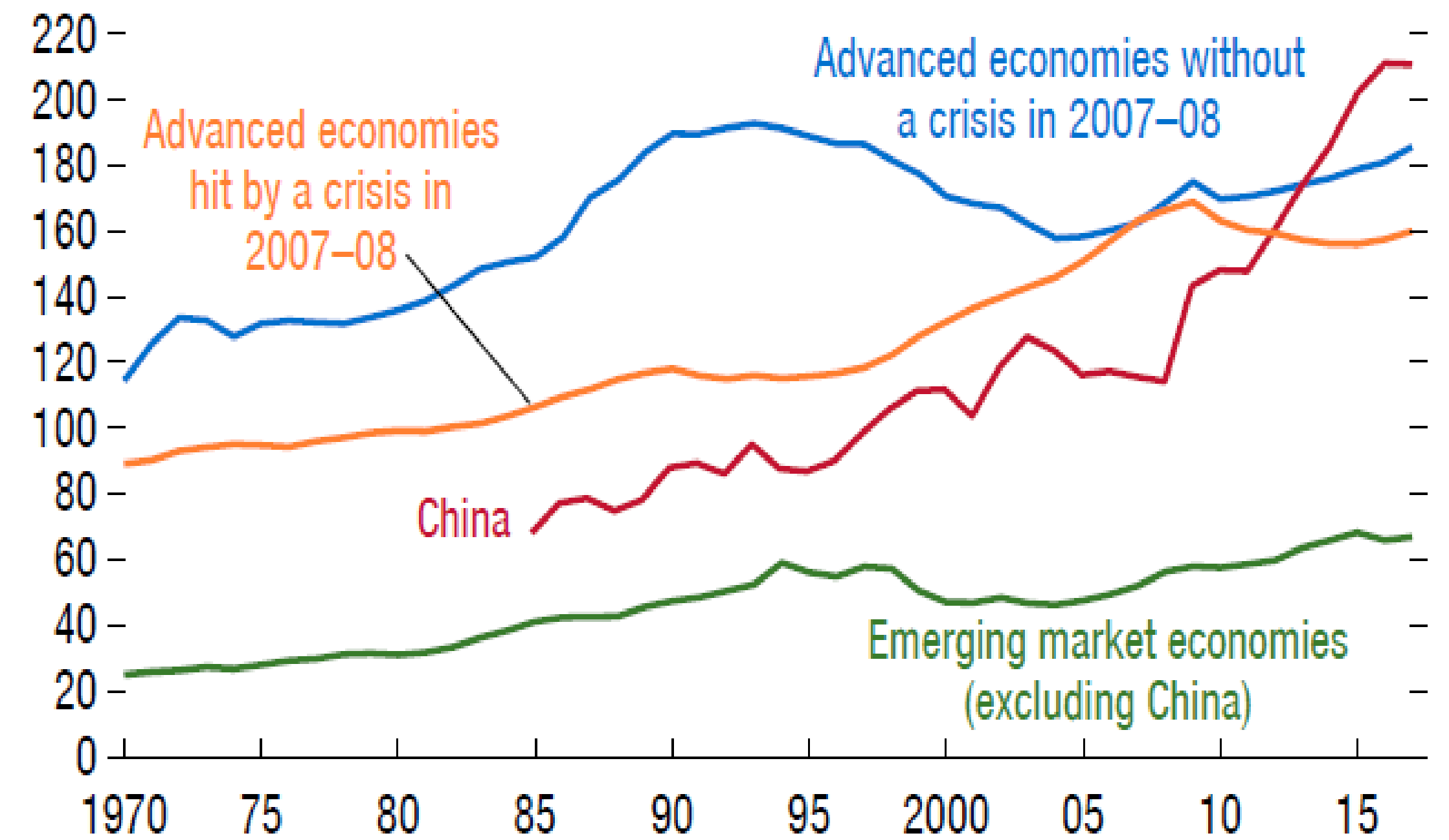
## China: Sectoral Production Shares

(percent of nominal GDP)



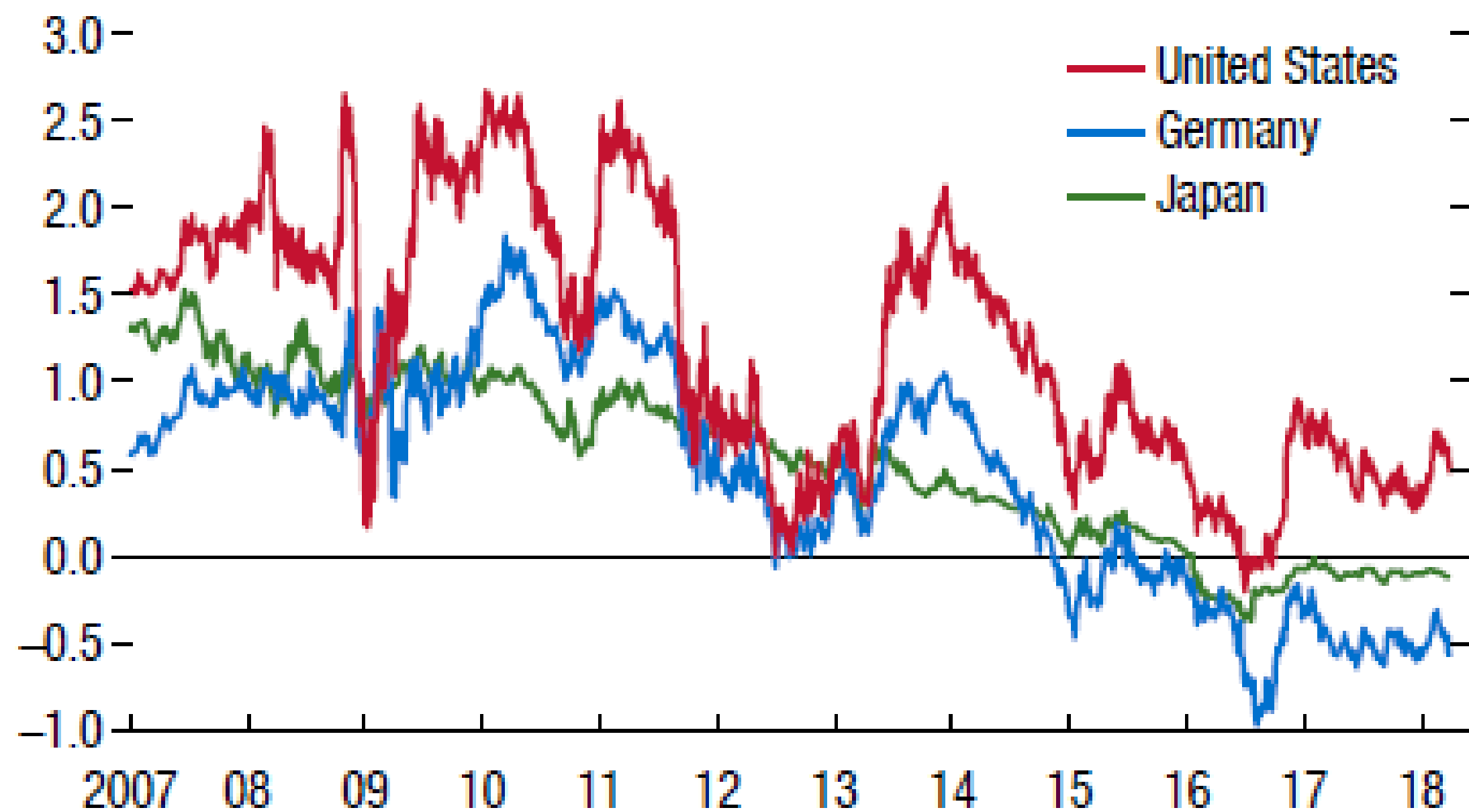
## Nonfinancial Private Sector Debt

(percent of GDP)



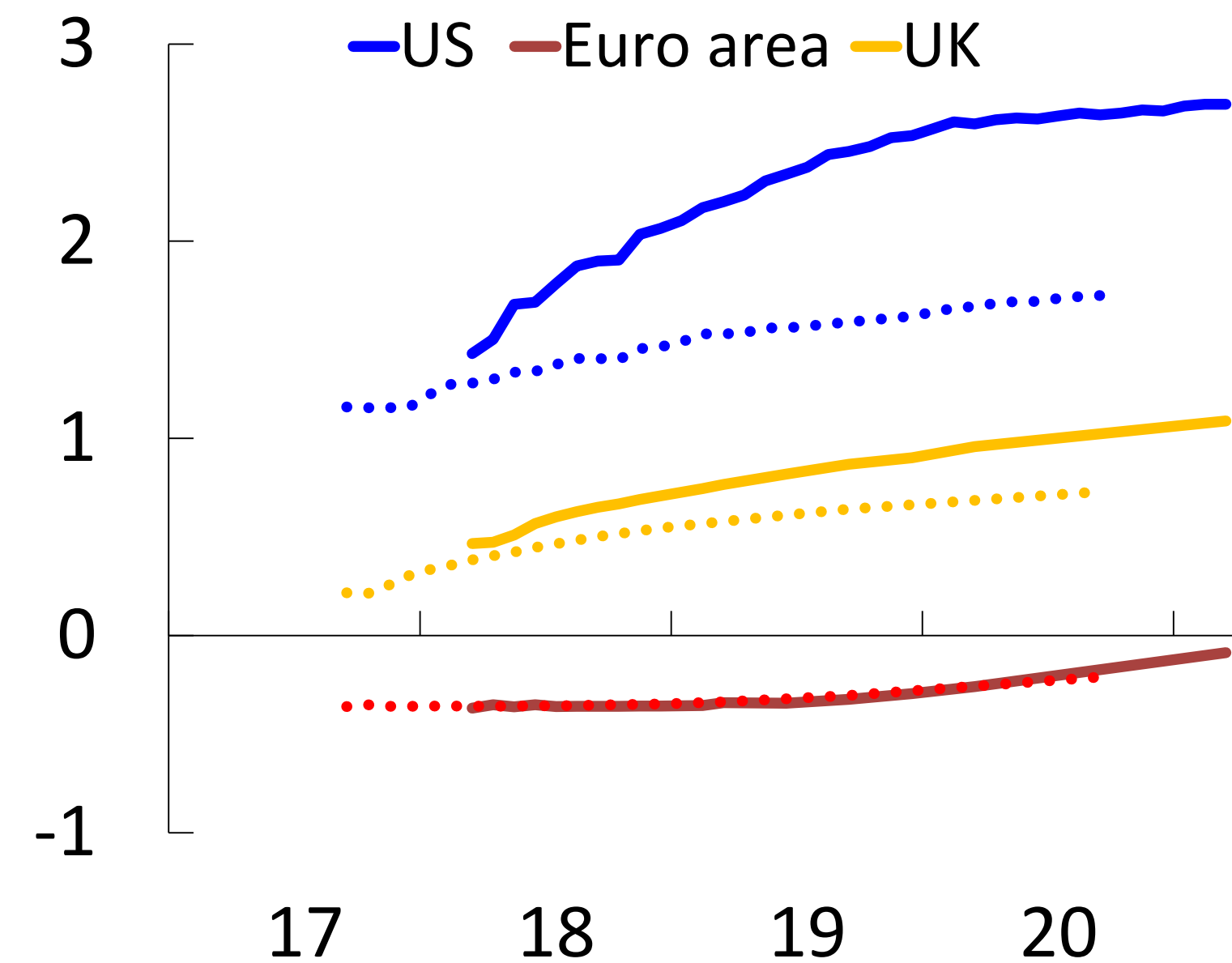
# Financing conditions expected to remain generally accommodative but there are volatility risks

**Estimated 10-Year Term Premiums**  
(in percent)



**Policy Rate Expectations**

(In percent, dashed lines are Oct 2017 WEO)

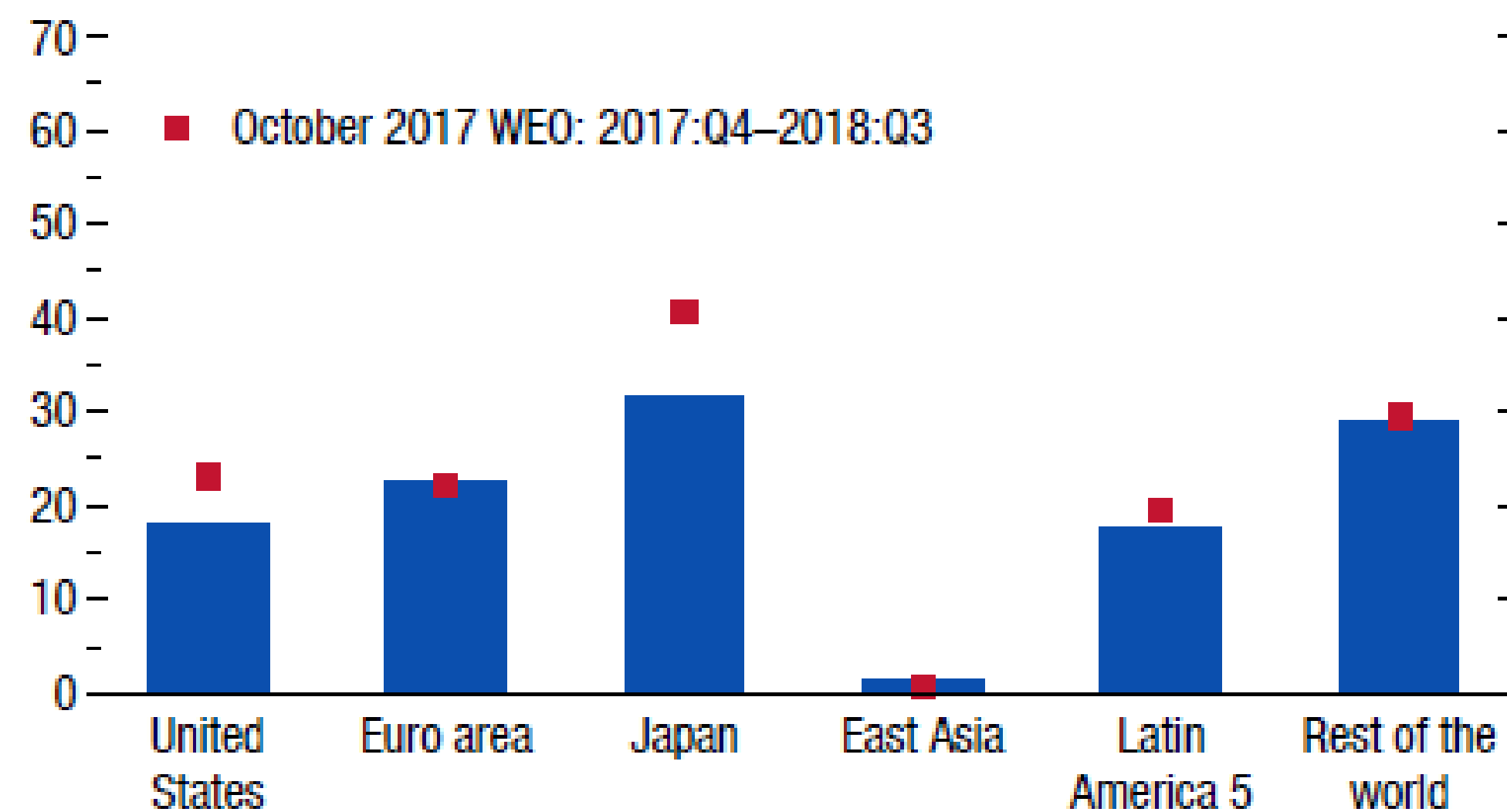


# Risks: Balanced in near term; skewed to downside in medium term

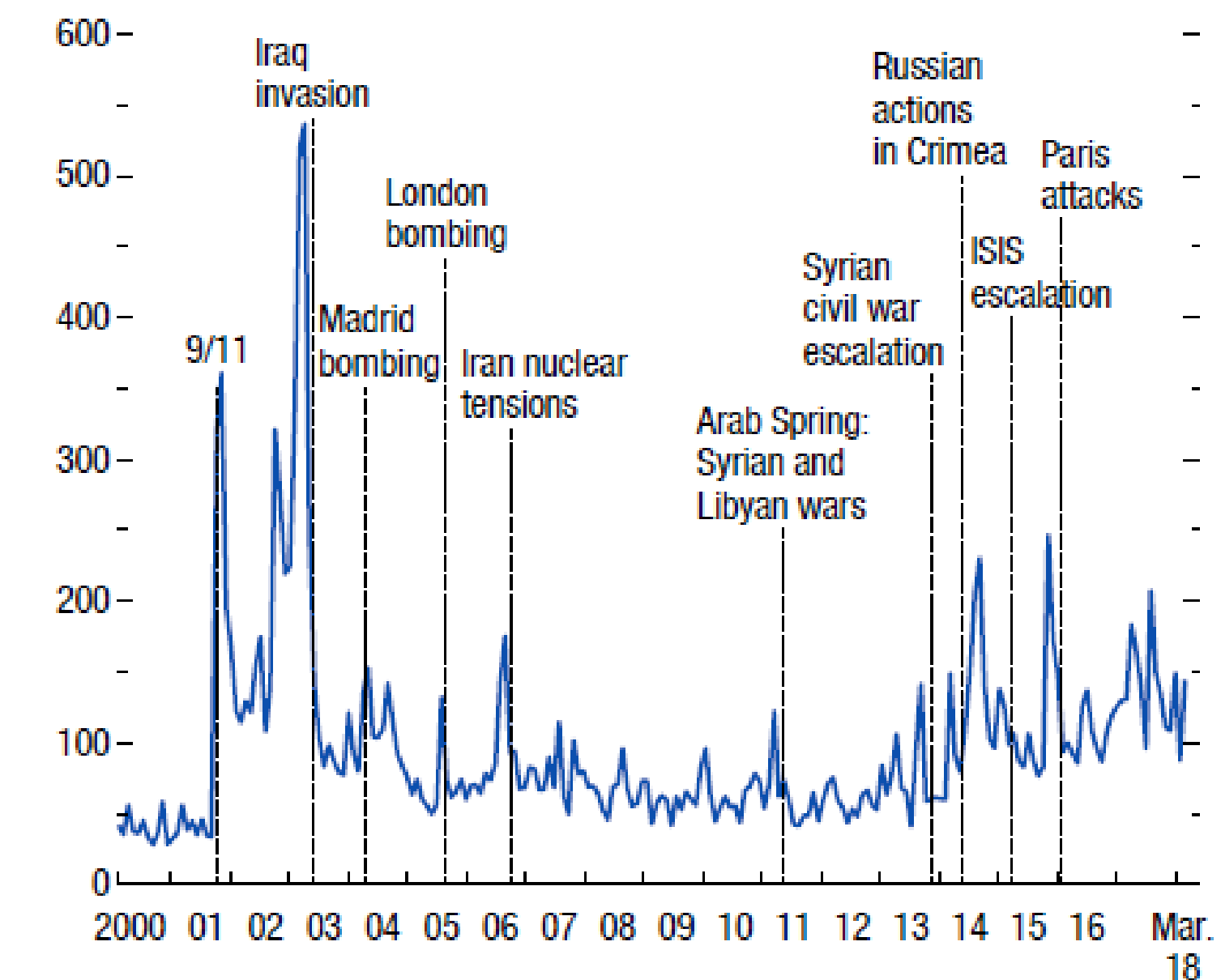
- **Upside:** more slack than registered in unemployment rates; recovery could run longer without triggering price pressures
- **Downside:** financial conditions, which have remained easy despite onset of monetary policy normalization in some AEs, could tighten sharply and expose financial vulnerabilities accumulated over the years
- **Tariff actions:** market sentiment and business confidence could be adversely affected, with a rapid impact on real activity
- **Further downside risks** related to
  - Geopolitical strains
  - Political discord
  - Climate shocks
- **Interlinked risks could exacerbate effects:** materialization of one could trigger realization of others

# Risks: balanced in near term; skewed to downside in medium term

## Probability of Recession 2018:Q2-2019:Q1



## Geopolitical Risk Index



Source: Caldara and Iacoviello (2017).  
Note: ISIS = Islamic State.



# Window of opportunity to undertake structural reforms in order to bolster potential growth and reduce risks

## Advanced economies

- **Monetary policy:** support closing of output gaps where needed; gradually normalize where inflation is rising toward target
- Orient **fiscal policy** more toward medium-term goals
  - Start rebuilding buffers where needed
  - Shift budget composition to lifting potential growth and enhancing inclusiveness (infrastructure, workforce skills, participation rates)
- **Structural reform policies** to boost potential and ensure benefits shared widely

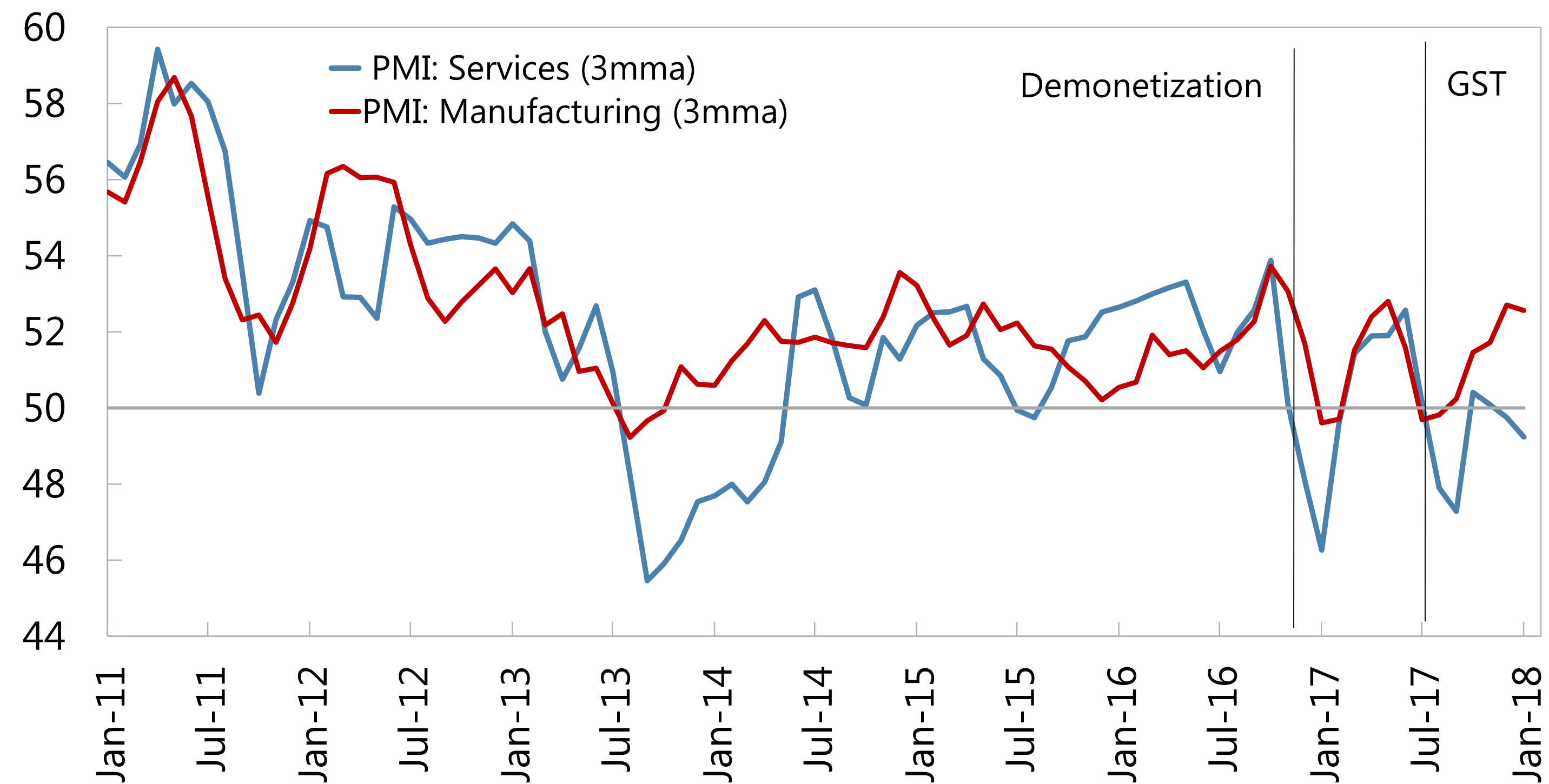
## Emerging market and developing economies

- Priorities differ based on **diverse cyclical positions** and country-specific vulnerabilities
- **Common objectives:** boost potential growth and enhance inclusiveness, bolster financial resilience
- **Strengthen fiscal positions where needed** (particularly LIDCs, commodity-dependent economies), focusing on revenue mobilization, limiting recurrent expenditure, and curbing poorly-targeted subsidies
- **Promote economic diversification** (commodity exporters, countries particularly vulnerable to climate events) – judicious macro management, improving access to credit, investing in infrastructure and workforce skills

# Key Implications for India

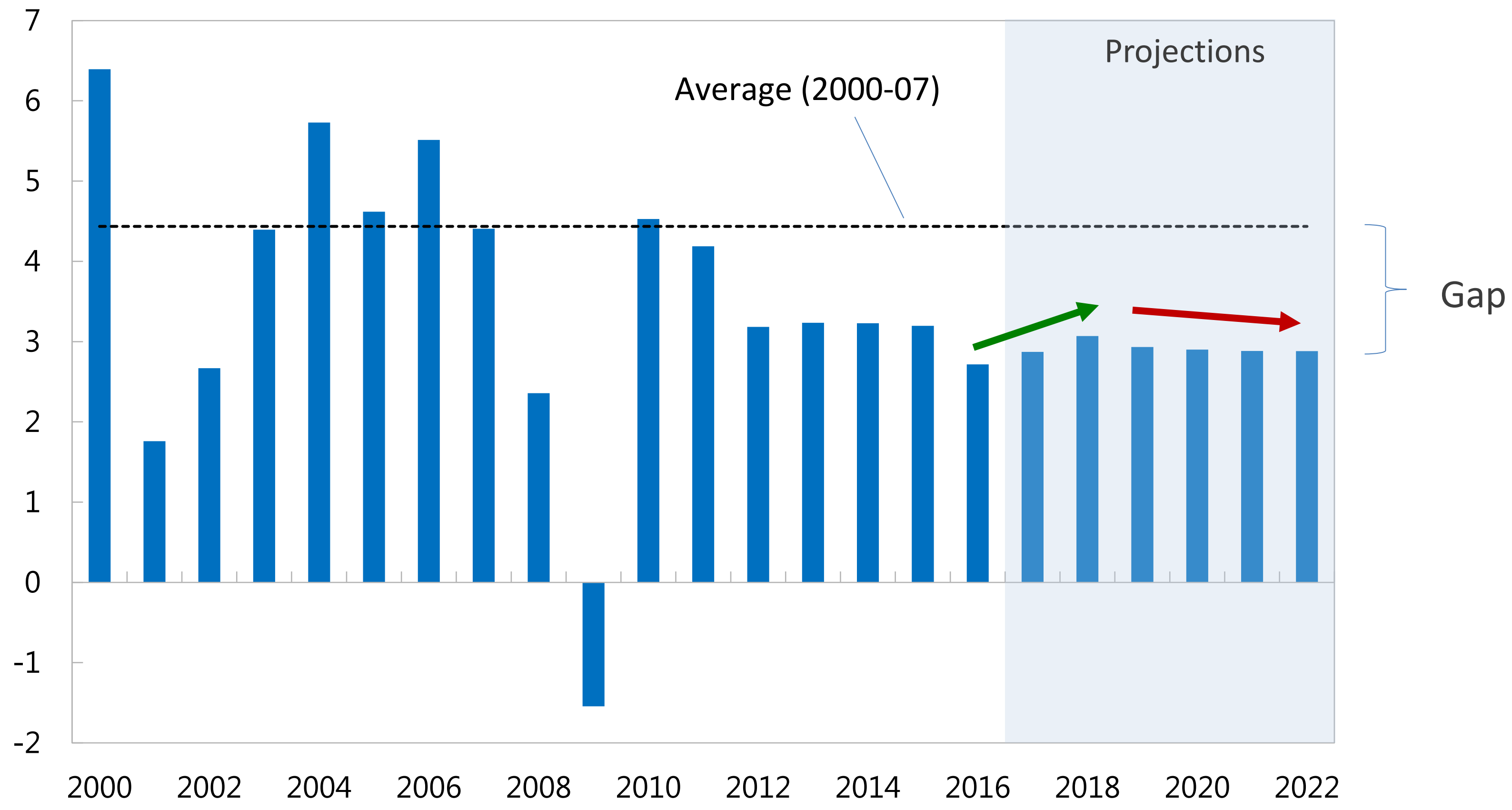
# India: Impact of transitory shocks is gradually receding

**Purchasing Managers Indices: Manufacturing and Services**  
(50+ = expansion)



# Export demand: Better in short term but lackluster in medium term

**Real GDP Growth of India's Export Partners**  
(in percent)

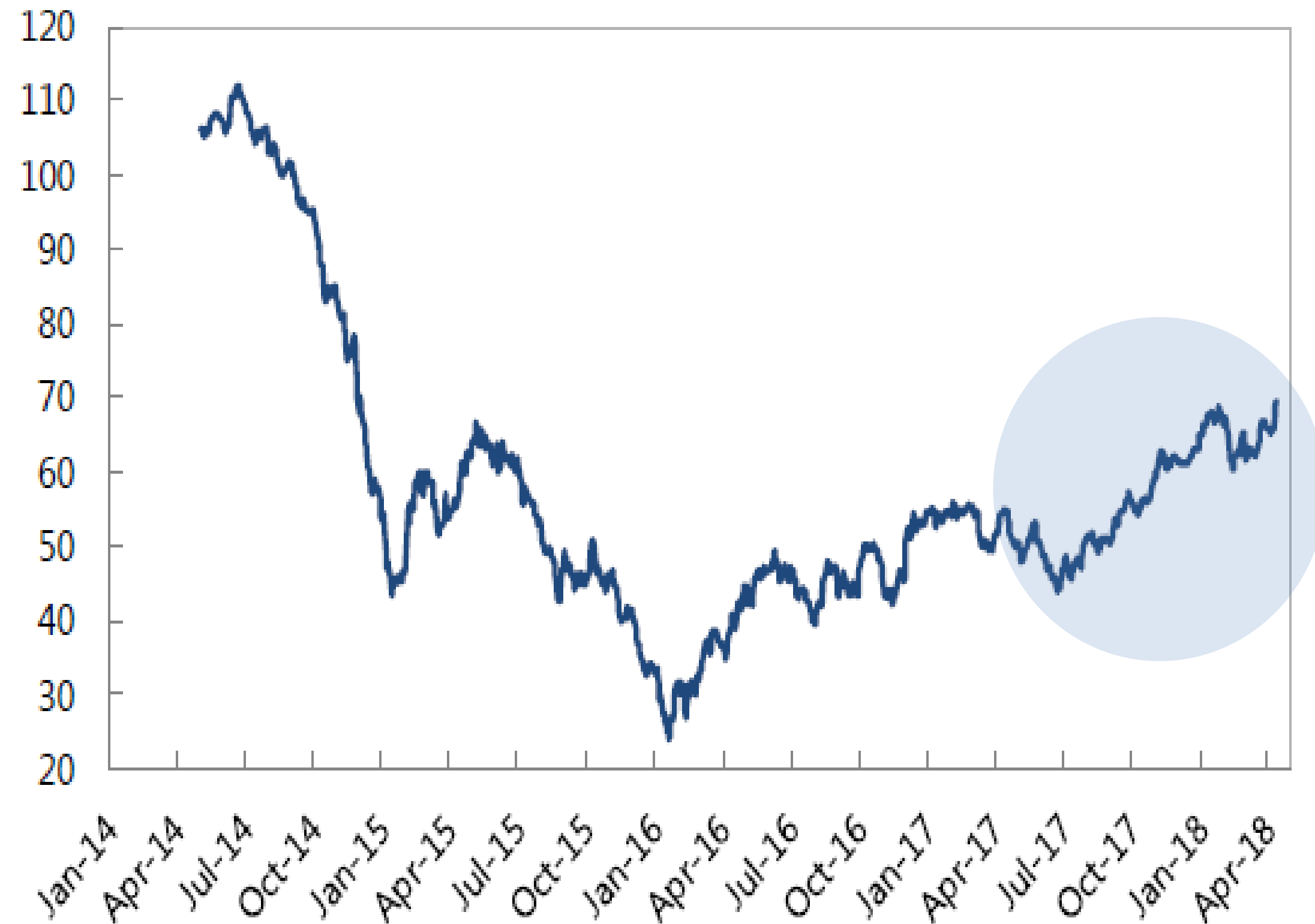


Sources: IMF WEO database

# Commodities outlook broadly stable but ... recent oil price spike a reminder of risks

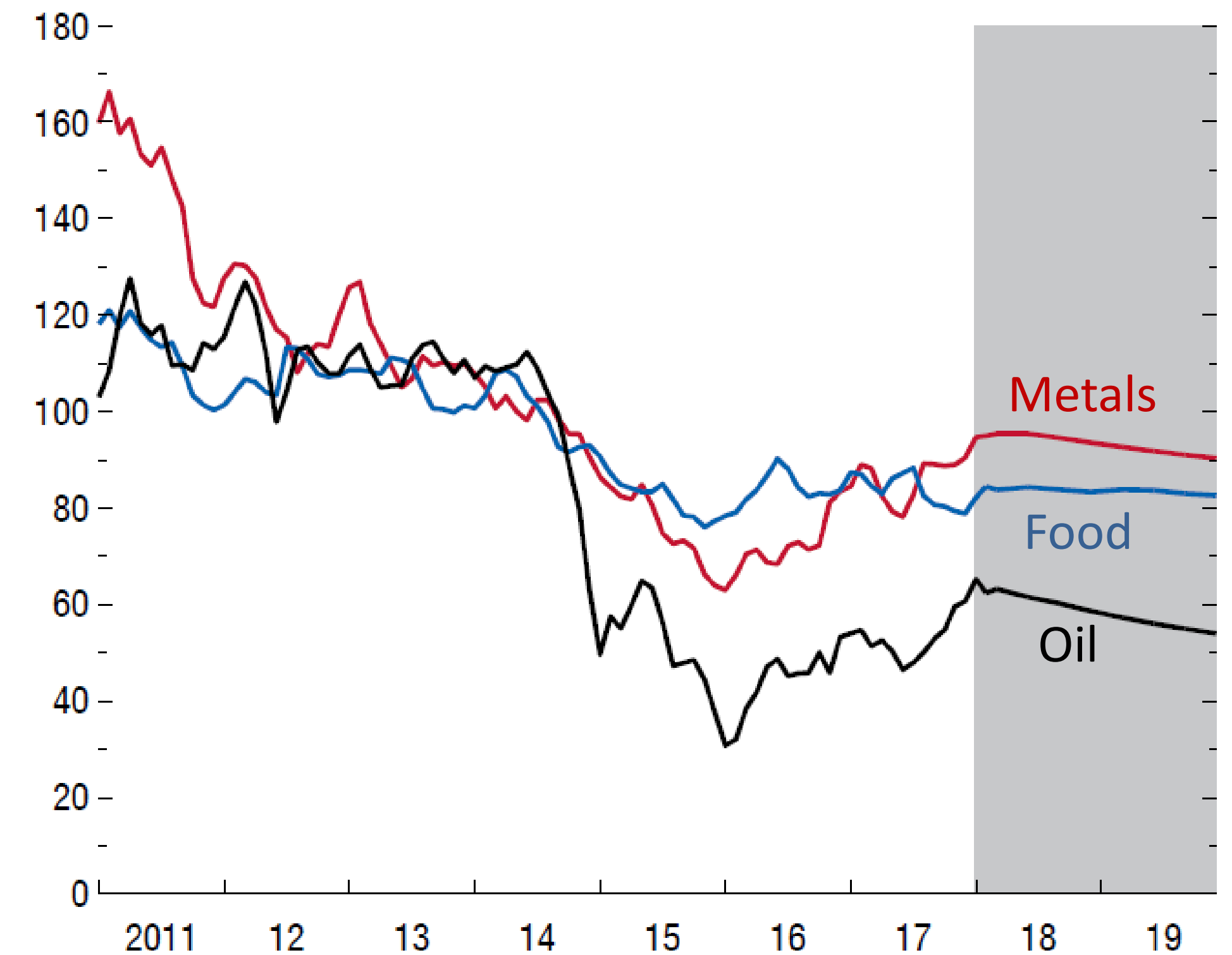
## Crude Oil Prices for Indian Basket

(U.S. \$ per barrel)



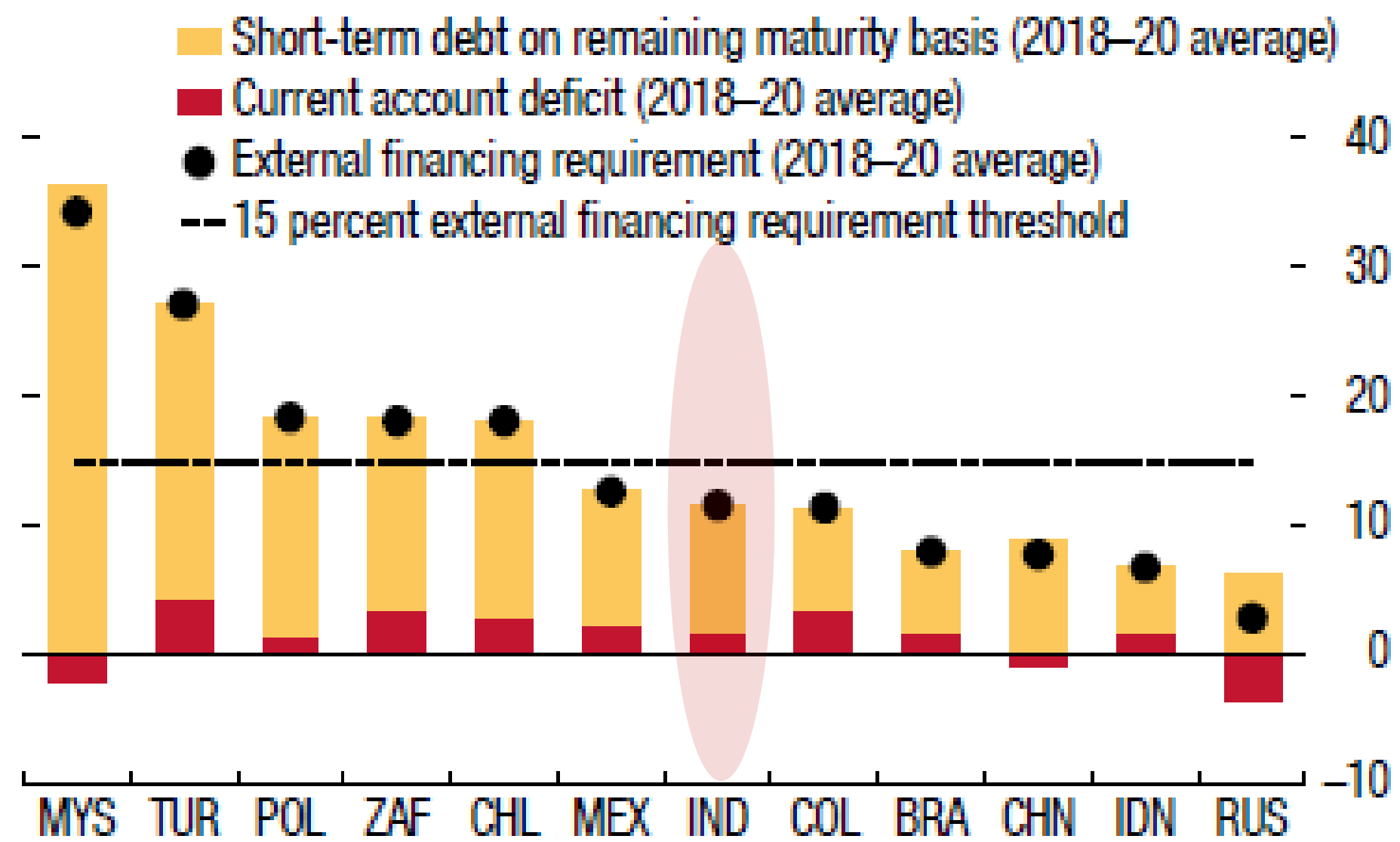
## Real Commodity Price Indices

(Deflated using U.S. consumer price index; Index, 2014 = 100)



# How prepared is India to deal with global financial volatility?

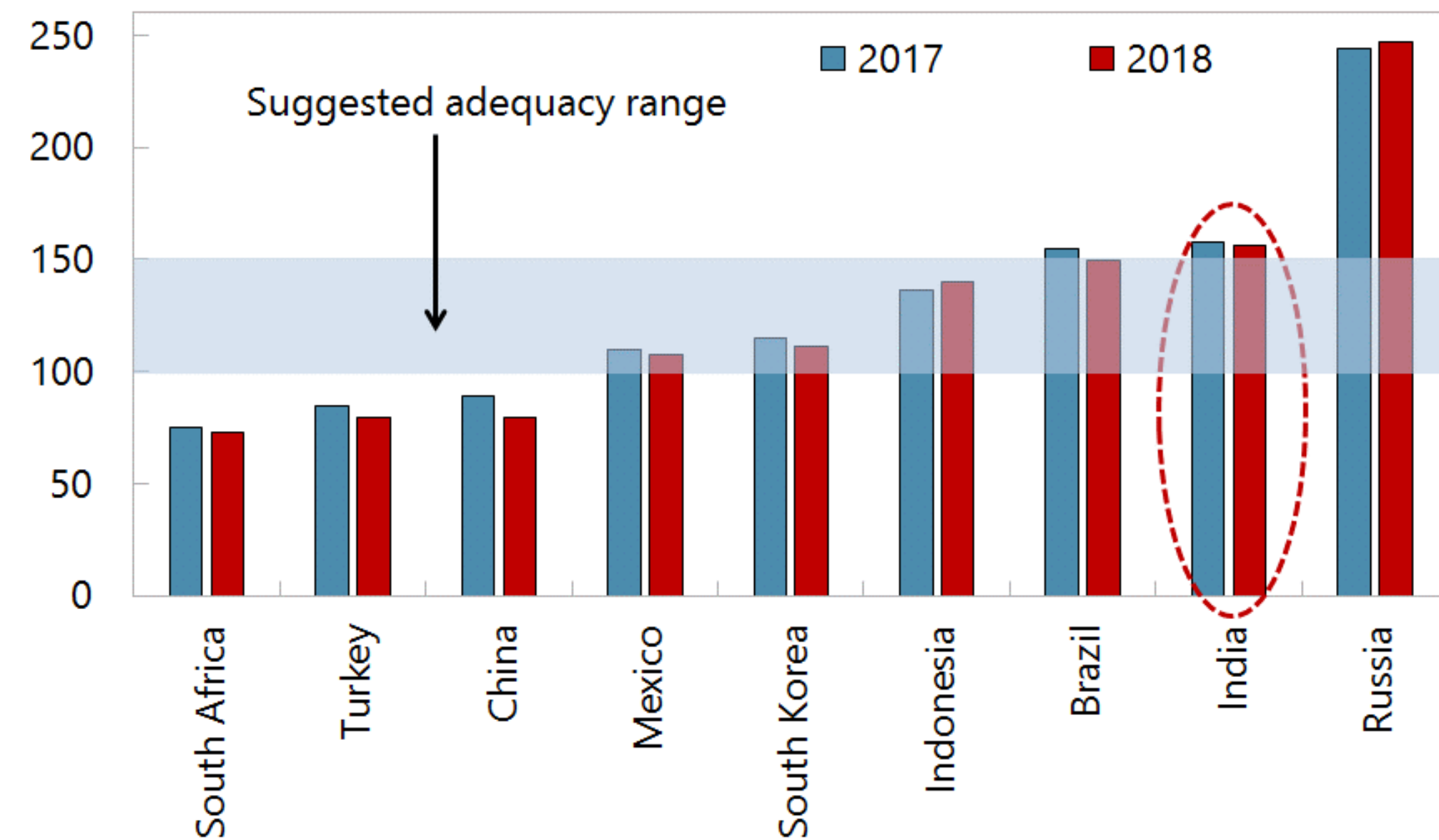
## External Financial Requirements (in percent of GDP)



Source: IMF, Global Financial Stability Report, October 2017

## Estimated Reserve Adequacy

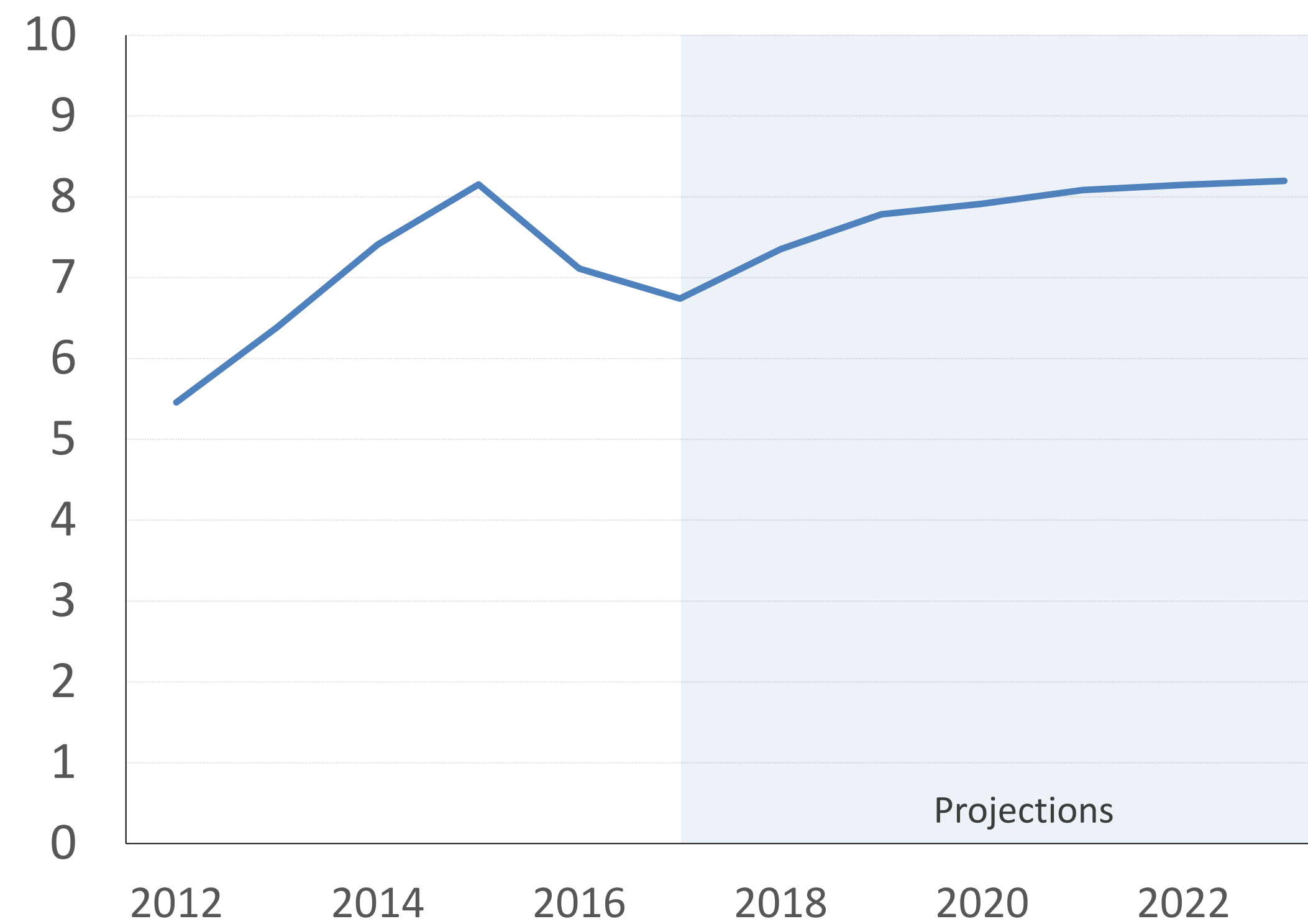
(Official reserves in percent of IMF country-specific metric)



Sources: IMF, *International Financial Statistics*; and IMF staff calculations.

# India: Growth expected to rebound gradually from FY2017/18

**Real GDP growth**  
(percent, market prices)



## Summary: Domestic reforms will be key

- **Export demand** to strengthen in 2018, but subsequently expected to lose steam
- **Commodity prices** will provide some drag on growth in the short term but should be broadly stable thereafter
- **External financing conditions** somewhat less buoyant going forward but generally supportive, although with high volatility risks

Implication: With external demand, terms of trade, and financing conditions only providing limited support... **domestic policies and reforms will be key for India's medium-term growth outlook!**



**Thank you**

# Information sources

Data, publications, and general information about the IMF at [www.imf.org](http://www.imf.org)



The screenshot shows the IMF website's Publications section. At the top left is the IMF logo and the text "INTERNATIONAL MONETARY FUND". To the right is a search bar labeled "Search IMF" and a "Send us your Feedback" button. Below the header is a navigation menu with links for HOME, ABOUT THE IMF, RESEARCH, COUNTRIES, CAPACITY DEVELOPMENT, NEWS, VIDEOS, DATA, and PUBLICATIONS. The main content area is titled "PUBLICATIONS" and features a large featured book titled "IMF Book: Women, Work, and Economic Growth: Leveling the Playing Field". To the right of this is an "Essential Reading" section with a grid of smaller publication covers, including "World Economic Outlook", "Regional Economic Reports", "Global Financial Stability Report", "Staff Discussion Notes", "Fiscal Monitor", and "F&D".

# Information Sources



@IMF\_India

India Office Website

<http://www.imf.org/external/country/ind/rr/>

# Free online courses

The screenshot shows the International Monetary Fund's (IMF) online learning platform. At the top, the IMF logo and name are displayed alongside a search bar and a 'Send us your feedback' button. A navigation menu includes links for HOME, ABOUT THE IMF, RESEARCH, COUNTRIES, CAPACITY DEVELOPMENT (highlighted), NEWS, VIDEOS, DATA, and PUBLICATIONS. Below the navigation is a blue banner with the text 'IMF ONLINE LEARNING'. Three course cards are featured below the banner:

- Financial Programming and Policies, Part 1:** An archived course that started on May 11, 2016. The card features a background image of a pen and a document.
- Financial Market Analysis:** A current course that started on January 25, 2017. The card features a background image of a world map with financial data points.
- Energy Subsidy Reform:** A course starting soon, beginning on March 29, 2017. The card features a background image of an industrial power plant with smokestacks.

Online courses

<http://www.imf.org/external/np/ins/english/learning.htm>