IMF trims India's growth forecast to 7.2 % for 2017

IMF in its latest update on World Economic Outlook has anticipated global growth to increase from 3.1 % in 2016 to 3.5 % in 2017 and 3.6 % in 2018, with optimistic financial markets and a longed-for cyclical recovery in manufacturing and trade under way. However, the Report has trimmed India's annual growth forecast by 0.4 percentage points (from 7.6 % as per WEO,October-2016) to 7.2 % for 2017, citing the impact of demonetisation.

The pressures for inward-looking policies , with structural problems such as low productivity growth and high income inequality, are escalating in advanced economies. Here, the economic policies have a key role to play in staving off downside risks and securing the recovery.

Adjusting to lower commodity revenues and addressing financial vulnerabilities remain key challenges for many emerging market and developing economies. A renewed multilateral effort is required to deal with common challenges in an integrated global economy.

The activity is estimated to pick up noticeably in emerging market and developing economies as the conditions in commodity exporters experiencing macroeconomic strains are likely to improve gradually, supported by the partial recovery in commodity prices. The downward revisions to growth forecasts for emerging market and developing economies result from a weaker outlook in several large economies, especially in **Latin America and the Middle East**, shimmering continued adjustment to the decline in their terms of trade, oil production cuts, and distinctive factors.

The pickup in advanced economies is primarily driven by higher expected growth in the United States, where activity was held back in 2016 by inventory adjustment and weak investment. For **Europe and Japan,** the outlook has improved based on a cyclical recovery in global manufacturing and trade that started in the second half of 2016.

Market sentiment has generally been strong, with prominent gains in equity markets in both advanced and emerging market economies. Expectations of looser fiscal policy in the United States have contributed to a stronger dollar and higher U.S. Treasury interest rates, pushing up yields elsewhere as well. Stronger activity and expectations of more robust global demand going forward, coupled with agreed restrictions on oil supply, have helped commodity prices recover from their troughs of early 2016.

Headline inflation has been picking up in **advanced economies, many emerging market and developing economies** due to higher commodity prices , but core inflation dynamics in advanced economies remain passive and heterogeneous (consistent with diversity in output gaps). Core inflation has improved little where it had been the weakest (for instance, in Japan and parts of the euro area).

Risks to the Global Growth Outlook

Risks remain skewed to the downside, however, especially over the medium term, with pervasive uncertainty surrounding policies. Optimistic market sentiment implies that there is now more concrete upside potential for the near term, but in light of the sources of suspicions, a sharp increase in risk aversion is possible. Risks to medium-term growth appear more clearly negative, also because policy support in the **United States and China** will have to be unwound or reversed down the road to avoid invalid fiscal dynamics.

Therefore,the Policy choices are crucial in shaping the outlook and reducing risks. In economies with slack and steadily weak core inflation, cyclical demand support remains necessary, including to stave off harmful hysteresis effects. In economies where output is close to or above potential, fiscal policy should aim at intensifying safety nets and escalating potential output. At the same time, credible strategies are needed in many countries to place public debt on a sustainable path. Actions to shore up potential output are indeed urgent given continual headwinds from population aging in advanced economies, the ongoing adjustment to lower terms of trade and the need to address financial vulnerabilities in emerging market and developing economies, as well as sluggish total factor productivity growth in both groups.

Trade openness, exchange rate flexibility, and strong institutions help emerging market and developing economies augment the growth urge from external conditions. The analysis suggests that technological change (in advanced economies) and trade integration (in emerging market economies)have likely contributed to the decline. These findings highlight the need to make growth more inclusive with possible policy levers including more progressive taxation; investments in skills, lifelong learning, and high-quality education; and other efforts to enhance the occupational and geographical mobility of workers to ease and hasten labor market adjustments to structural transformations.

Many of the challenges that the global economy confronts call for individual country actions to be supported by multilateral cooperation. The Key areas for collective action include preserving an open trading system, safeguarding global financial stability, achieving equitable tax systems, continuing to support low income countries as they pursue their development goals, and mitigating and adapting to climate change.

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