

All Members,

IMF forecasts India's GDP growth to improve from 6.7% in FY2018 to 7.4% in FY2019 : World Economic Outlook

International monetary fund (IMF) in its latest update on World Economic Outlook (WEO) has anticipated the global economy to grow 3.7% in 2017 (0.1 percentage point higher than projected in the October Outlook) and 3.9% in 2018. Global growth forecasts for 2018 and 2019 have been revised upward by 0.2 percentage point to 3.9 percent. The revision reflects increased global growth momentum and the expected impact of the recently approved U.S. tax policy changes. The pickup in growth has been broad based, with notable upside surprises in Europe and Asia.

Growth Outlook

- The cyclical upswing underway since mid-2016 has continued to strengthen. Some 120 economies, accounting for three quarters of world GDP, have seen a pickup in growth in year-on-year terms in 2017, the broadest synchronized global growth upsurge since 2010.
- Among advanced economies, growth in the third quarter of 2017 was higher than projected in the October outlook, notably in Germany, Japan, Korea, and the United States.
- Key emerging market and developing economies, including Brazil, China, and South Africa, also posted third-quarter growth stronger than the fall forecasts. High-frequency hard data and sentiment indicators point to a continuation of strong momentum in the fourth quarter.
- World trade has grown strongly in recent months, supported by a pickup in investment, particularly among advanced economies, and increased manufacturing output in Asia in the run up to the launch of new smartphone models.

Purchasing managers' indices indicate firm manufacturing activity ahead, consistent with strong consumer confidence pointing to healthy final demand.

a) Advanced economies

The advanced economies are expected to grow at 2.3% in both 2017 and 2018 and 2.2% in 2019. The growth forecast for 2018 and 2019 has also been revised up for other advanced economies, reflecting in particular stronger growth in advanced Asian economies, which are especially sensitive to the outlook for global trade and investment. The growth forecast for Japan has been revised up for 2018 and 2019, reflecting upward revisions to external demand, the supplementary budget for 2018, and carryover from stronger-than-expected recent activity.

- The growth forecast for the United States has been revised up given stronger than expected activity in 2017, higher projected external demand, and the expected macroeconomic impact of the tax reform, in particular the reduction in corporate tax rates and the temporary allowance for full expensing of investment.
- Growth rates for many of the euro area economies have been marked up, especially for Germany, Italy, and the Netherlands, reflecting the stronger momentum in domestic demand and higher external demand. Growth in Spain, which has been well above potential, has been marked down slightly for 2018, reflecting the effects of increased political uncertainty on confidence and demand.

b) Emerging and developing economies

The aggregate growth forecast for the emerging markets and developing economies for 2018 and 2019 is unchanged, with marked differences in the outlook across regions.

- Emerging and developing Asia will grow at around 6.5 percent over 2018–19, broadly the same pace as in 2017. The region continues to account for over half of world growth. Growth is expected to moderate gradually in China (though with a slight upward revision to the forecast for 2018 and 2019 relative to the fall forecasts, reflecting stronger external demand), pick up in India, and remain broadly stable in the ASEAN-5 region.
- In emerging and developing Europe, where growth in 2017 is now estimated to have exceeded 5 percent, activity in 2018 and 2019 is projected to remain stronger than previously anticipated, lifted by a higher growth forecast for Poland and especially Turkey.

- In Latin America, the recovery is expected to strengthen, with growth of 1.9 percent in 2018 (as projected in the fall) and 2.6 percent in 2019 (a 0.2 percentage point upward revision).
- Growth in the Middle East, North Africa, Afghanistan, and Pakistan region is also expected to pick up in 2018 and 2019, but remains subdued at around 3½ percent.
- The growth pickup in Sub-Saharan Africa (from 2.7 percent in 2017 to 3.3 percent in 2018 and 3.5 percent in 2019) is broadly as anticipated in the fall, with a modest upgrade to the growth forecast for Nigeria
- Growth this year and next is projected to remain above 2 percent in the Commonwealth of Independent States, supported by a slight upward revision to growth prospects for Russia in 2018.

Risks to the global growth

Risks to the global growth forecast appear broadly balanced in the near term, but remain skewed to the downside over the medium term. On the upside, the cyclical rebound could prove stronger in the near term as the pickup in activity and easier financial conditions reinforce each other. On the downside, rich asset valuations and very compressed term premiums raise the possibility of a financial market correction, which could dampen growth and confidence. A possible trigger is a faster-than-expected increase in advanced economy core inflation and interest rates as demand accelerates. If global sentiment remains strong and inflation muted, then financial conditions could remain loose into the medium term, leading to a buildup of financial vulnerabilities in advanced and emerging market economies alike. Inward-looking policies, geopolitical tensions, and political uncertainty in some countries also pose downside risks.

Opportunity for reforms

The current cyclical upswing provides an ideal opportunity for reforms. Shared priorities across all economies include implementing structural reforms to boost potential output and making growth more inclusive. In an environment of financial market optimism, ensuring financial resilience is imperative. Weak inflation suggests that slack remains in many advanced economies and monetary policy should continue to remain accommodative. However, the improved growth momentum means that fiscal policy should increasingly be designed with an eye on medium-term goals—ensuring fiscal sustainability and bolstering potential output. Multilateral cooperation remains vital for securing the global recovery.

Summary of World Output

(Annual Percentage Change)

	Year over Year						Q4 over Q4 2/		
	Estimate		Projections		Difference from October 2017 WEO Projections 1/		Estimate	Projections	
	2016	2017	2018	2019	2018	2019	2017	2018	2019
World Output	3.2	3.7	3.9	3.9	0.2	0.2	3.9	3.9	3.8
Advanced Economies	1.7	2.3	2.3	2.2	0.3	0.4	2.4	2.3	2.0
United States	1.5	2.3	2.7	2.5	0.4	0.6	2.5	2.7	2.4
Euro Area	1.8	2.4	2.2	2.0	0.3	0.3	2.4	2.1	2.0
Germany	1.9	2.5	2.3	2.0	0.5	0.5	2.8	2.1	2.1
France	1.2	1.8	1.9	1.9	0.1	0.0	2.2	1.8	1.9
Italy	0.9	1.6	1.4	1.1	0.3	0.2	1.5	1.4	0.9
Spain	3.3	3.1	2.4	2.1	-0.1	0.1	3.0	2.2	2.0
Japan	0.9	1.8	1.2	0.9	0.5	0.1	2.0	0.9	-0.3
United Kingdom	1.9	1.7	1.5	1.5	0.0	-0.1	1.3	1.5	1.5
Canada	1.4	3.0	2.3	2.0	0.2	0.3	3.0	2.2	1.9
Other Advanced Economies 3/	2.3	2.7	2.6	2.6	0.1	0.1	2.7	2.5	2.9
Emerging Market and Developing Economies	4.4	4.7	4.9	5.0	0.0	0.0	5.2	5.3	5.3
Commonwealth of Independent States	0.4	2.2	2.2	2.1	0.1	0.0	2.2	2.1	1.7
Russia	-0.2	1.8	1.7	1.5	0.1	0.0	2.3	1.9	1.6
Excluding Russia	1.9	3.1	3.4	3.5	0.1	0.0	...	...	...
Emerging and Developing Asia	6.4	6.5	6.5	6.6	0.0	0.1	6.8	6.5	6.5
China	6.7	6.8	6.6	6.4	0.1	0.1	6.7	6.5	6.4
India 4/	7.1	6.7	7.4	7.8	0.0	0.0	7.9	7.4	7.8
ASEAN-5 5/	4.9	5.3	5.3	5.3	0.1	0.0	5.4	5.4	5.3
Emerging and Developing Europe	3.2	5.2	4.0	3.8	0.5	0.5	4.0	4.8	3.7
Latin America and the Caribbean	-0.7	1.3	1.9	2.6	0.0	0.2	2.2	2.3	2.6
Brazil	-3.5	1.1	1.9	2.1	0.4	0.1	2.5	2.2	2.0
Mexico	2.9	2.0	2.3	3.0	0.4	0.7	1.4	2.9	2.8
Middle East, North Africa, Afghanistan, and Pakistan	4.9	2.5	3.6	3.5	0.1	0.0	...	...	...
Saudi Arabia	1.7	-0.7	1.6	2.2	0.5	0.6	-1.4	2.5	2.2
Sub-Saharan Africa	1.4	2.7	3.3	3.5	-0.1	0.1	...	...	...
Nigeria	-1.6	0.8	2.1	1.9	0.2	0.2	...	...	...
South Africa	0.3	0.9	0.9	0.9	-0.2	-0.7	1.2	0.5	1.1
Memorandum									
Low-Income Developing Countries	3.6	4.7	5.2	5.3	0.0	0.1	...	...	...
World Growth Based on Market Exchange Rates	2.5	3.2	3.3	3.2	0.2	0.2	3.3	3.3	3.0
World Trade Volume (goods and services) 6/	2.5	4.7	4.6	4.4	0.6	0.5	...	...	...
Advanced Economies	2.6	4.1	4.3	4.2	0.6	0.7	...	...	...
Emerging Market and Developing Economies	2.3	5.9	5.1	4.8	0.4	0.2	...	...	...
Commodity Prices (U.S. dollars)									
Oil 7/	-15.7	23.1	11.7	-4.3	11.9	-5.0	19.0	-0.9	-3.9
Nonfuel (average based on world commodity export weights)	-1.6	6.5	-0.5	1.0	-1.0	1.5	1.2	1.2	1.0
Consumer Prices									
Advanced Economies	0.8	1.7	1.9	2.1	0.2	0.1	1.6	2.1	2.1
Emerging Market and Developing Economies 8/	4.3	4.1	4.5	4.3	0.1	0.2	3.7	3.9	3.6
London Interbank Offered Rate (percent)									
On U.S. Dollar Deposits (six month)	1.1	1.5	2.3	3.4	0.4	0.5	...	...	...
On Euro Deposits (three month)	-0.3	-0.3	-0.3	-0.1	0.0	-0.1	...	...	...
On Japanese Yen Deposits (six month)	0.0	0.0	0.0	0.1	-0.2	-0.1	...	...	...

Source: PHD Research Bureau, compiled from IMF

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during November 13, 2017-December 11, 2017. Economies are listed on the basis of economic size. The aggregated quarterly data are seasonally adjusted. 1/ Difference based on rounded figures for both the current and October 2017 World Economic Outlook forecasts. Countries whose forecasts have been updated relative to October 2017 World Economic Outlook forecasts account for 94 percent of world GDP measured at purchasing power parity.2/ For World Output, the quarterly estimates and projections account for approximately 90 percent of annual world output at purchasing-power-parity weights. For Emerging Market and Developing Economies, the quarterly

estimates and projections account for approximately 80 percent of annual emerging market and developing economies' output at purchasing-power-parity weights.^{3/} Excludes the G7 (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.^{4/} For India, data and forecasts are presented on a fiscal year basis and GDP from 2011 onward is based on GDP at market prices with FY2011/12 as a base year. ^{5/} Indonesia, Malaysia, Philippines, Thailand, Vietnam.^{6/} Simple average of growth rates for export and import volumes (goods and services).^{7/} Simple average of prices of U.K. Brent, Dubai Fateh, and West Texas Intermediate crude oil. The average price of oil in U.S. dollars a barrel was \$52.7 in 2017; the assumed price based on futures markets (as of December 11, 2017) is \$59.9 in 2018 and \$56.4 in 2019.^{8/} Excludes Argentina and Venezuela.

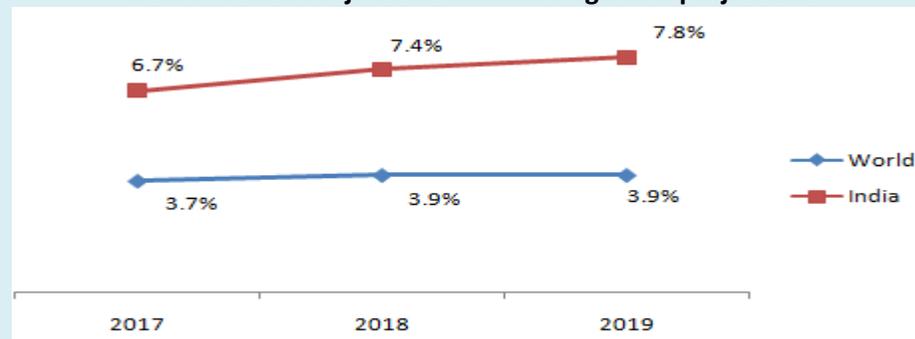
Policies

Two common policy objectives tie advanced, emerging, and developing economies together. First, the need to raise potential output growth—through structural reforms to lift productivity and, especially in advanced economies with aging populations, enhance labor force participation rates—while making sure that the gains from growth are shared widely. Second, the imperative to increase resilience, including through proactive financial regulation and, where needed, balance sheet repair and strengthening fiscal buffers. Action is particularly important in a low-interest-rate, low-volatility environment with potential for disruptive portfolio adjustments and capital flow reversals. The current cyclical upswing provides a unique opportunity for structural and governance reforms.

Outlook for India

According to IMF, India is projected to grow at 6.7 in FY2018, 7.4% in FY2019 and FY2020. Global output is estimated to have grown by 3.7 percent in 2017, which is 0.1 percentage point faster than projected in the October and ½ percentage point higher than in 2016. However, India's growth remains unchanged from the October forecast at 6.7%

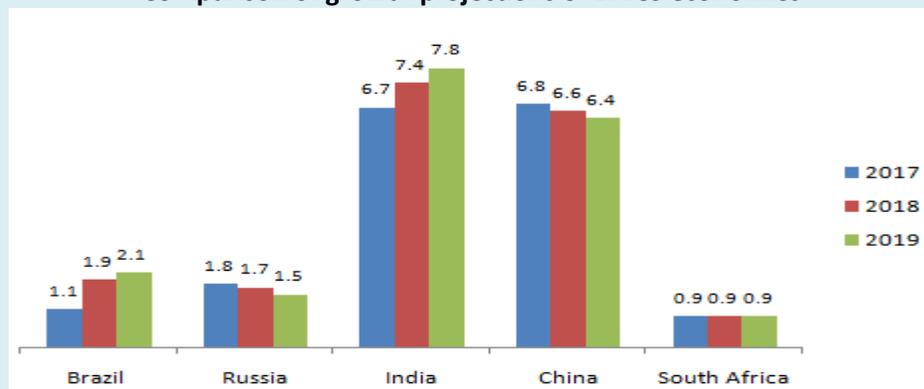
World Growth Projections and India's growth projections



Source: PHD Research Bureau, compiled from IMF

Among the BRICS economies, India's growth rate has slipped behind China (6.8%) in 2017 owing to the disruption caused by demonetization and the imposition of GST. However, India is projected to grow at a much faster rate of 7.4% in 2018 in comparison to China's growth rate of 6.6%.

Comparison of growth projections of BRICS economies



Source: PHD Research Bureau, compiled from IMF

Please contact for any query related to this mail to Ms. Areesha, Research Associate at areesha@phdcci.in with a cc to Dr. S P Sharma, Chief Economist at spsharma@phdcci.in and Ms. Megha Kaul, Associate Economist, megha@phdcci.in, PHD Chamber of Commerce & Industry.

Warm regards,

Dr. S P Sharma
Chief Economist

PHD Chamber of Commerce and Industry
PHD House, 4/2 Siri Institutional Area
August Kranti Marg, New Delhi-110016
Ph.: + 91-11-26863801-04, 49545454
Fax: +91- 26855450, 49545451
Email: spsharma@phdcci.in
Website: www.phdcci.in