IMF: World Economic Outlook

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Global growth is projected to rise from 3.1% in 2016 to 3.5% in 2017 and 3.6% in 2018. As usual, the emerging economies are expected to do better than the advanced ones with India expected to register the highest growth rates in both 2017 and 2018.

GDP Forecasts (%)

Region/country	2016	2017	2018
World	**3.1**	**3.5**	**3.6**
Advanced economies	***1.7***	***2.0***	***2.0***
USA	1.6	2.3	2.5
Euro	1.7	1.7	1.6
Japan	1.0	1.2	0.6
UK	1.8	2.0	1.5
Emerging economies	***4.1***	***4.5***	***4.8***
China	6.7	6.6	6.2
India	6.8	7.2	7.7
Brazil	-3.6	0.2	1.7

Source: IMF

According to the IMF structural impediments continue to hold back a stronger recovery. Hence, the balance of risks remains tilted to the downside, especially over the medium term. Some of them are:

- Low productivity growth
- High income inequality
- Pressures for inward-looking policies.

The IMF believes that policies have an important role to play in staving off downside risks and securing the recovery. Policies should be in the following areas.

- Support demand and repair balance sheets where necessary and feasible
- Boost productivity, labour supply, and investment and supply-friendly fiscal measures
- Upgrade public infrastructure
- Support those displaced by structural transformations such as technological change and globalization.
- Place public debt on a sustainable path.
- Adjust to lower commodity revenues
- Address financial vulnerabilities

Some global winds to watch out for

a. 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.

b. Market sentiment has generally been strong, with notable gains in equity markets in both advanced and emerging market economies.

c. 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.

d. Headline inflation has been picking up in advanced economies due to higher commodity prices, but core inflation dynamics remain subdued. It has also picked up in many emerging market and developing economies due to higher commodity prices, but in a number of cases it has receded as pass-through from the sharp currency depreciations in 2015 and early 2016 continues to fade

What are the risks?

- An inward shift in policies such as protectionism leading to lower global growth caused by reduced trade and cross-border investment flows.
- A faster-than-expected pace of interest rate hikes in the United States leading to sharp dollar appreciation with adverse repercussions for vulnerable economies.
- An aggressive rollback of financial regulation can could spur excessive risk taking and increase the likelihood of future financial crises
- Financial tightening in emerging market economies especially in China's financial system associated with fast credit growth and continued balance sheet weaknesses in other emerging market economies.
- Weak demand, low inflation, weak balance sheets, and anemic productivity growth in some advanced economies operating with high levels of excess capacity.

What will drive economies?

USA: The stronger near term outlook reflects the momentum from the second half of 2016, driven by a cyclical recovery in inventory accumulation, consumption growth, and the assumption of a looser fiscal policy stance. The anticipated shift in the policy mix so far has buoyed financial markets and strengthened business confidence, which could further fuel the current momentum.

Euro region: The modest recovery is projected to be supported by a mildly expansionary fiscal stance, accommodative financial conditions, a weaker euro, and beneficial spill overs from a likely U.S. fiscal stimulus, political uncertainty as elections approach in several countries, coupled with uncertainty about the European Union's future relationship with the United Kingdom.

UK: There has been stronger-than-expected performance of the U.K. economy since the June Brexit vote which points to a more gradual materialization of the negative effects of the United Kingdom's decision to leave the European Union. These effects include reduced consumer purchasing power following the pound's depreciation and its gradual pass-through to prices and the impact of uncertainty on private investment. Medium-term growth prospects have also diminished in the aftermath of the Brexit vote because of the expected increase in barriers to trade and migration, as well as a potential downsizing of the financial services sector amid possible barriers to cross-border financial activity.

Japan: A comprehensive revision of the national accounts led to an upward revision of historical growth rates and placed the 2016 growth estimate at 1.0%. The pace of expansion is expected to weaken thereafter with the assumed withdrawal of fiscal support and a recovery of imports offsetting the impact of stronger anticipated foreign demand and Tokyo Olympics–related private investment. Over the medium term, a shrinking labour force will weigh on Japan's growth prospects, although its per capita income growth rates are projected to remain near the levels seen over the past several years.

China: The medium-term outlook continues to be clouded by increasing resource misallocation and growing vulnerabilities associated with the reliance on near term policy easing and credit-financed investment.

India: The growth forecast for 2017 has been trimmed to 7.2% primarily because of the temporary negative consumption shock induced by cash shortages and payment disruptions from the recent currency exchange initiative. Medium-term growth prospects are favourable, with growth forecast to rise to about 8% over the medium term due to the implementation of key reforms, loosening of supply-side bottlenecks, and appropriate fiscal and monetary policies.

- One of the major challenges for India would be replacing currency in circulation following the November 2016 currency exchange initiative.
- Policy actions should focus on reducing labor and product market rigidities to ease firm entry and exit, expand the manufacturing base, and gainfully employ the abundant pool of labour.
- Need to boost financial stability through full recognition of nonperforming loans and raising public sector banks' capital buffers
- Secure the public finances through continued reduction of poorly targeted subsidies and structural tax reforms, including implementation of the recently approved nationwide goods and services tax.

The IMF expects inflation to be between 4.8-5.1% and CAD at 1.5% of GDP.

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