

## Global Economic Prospects

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The World Bank in its Global Economic Prospects Report maintained its forecast that global growth will improve to 2.7% in 2017 mainly attributed to the pickup in **manufacturing and trade, improved market confidence and a recovery in commodity prices.**

The advance economies are showing signs of improvement, especially Japan and Europe while the seven largest emerging markets – China, India, Brazil, Mexico, Indonesia, Turkey and Russia will help in driving global growth.

### World Economic Growth

Table 1: GDP (%)

Country	2015	2016(E)	2017 (P)
<b>World</b>	2.7	2.4	2.7
<b>Advanced</b>	2.1	1.7	1.9
United States	2.6	1.6	2.1
Euro Area	2.0	1.8	1.7
Japan	1.1	1.0	1.5
<b>Emerging and Developing Economies</b>	3.6	3.5	4.1
China	6.9	6.7	6.5
India	7.9	6.8	7.2
South Africa	1.3	0.3	0.6
Russia	-2.8	-0.2	1.3
Brazil	-3.8	-3.6	0.3
Mexico	2.6	2.3	1.8

Source: Global Economic Prospects, June 2017

- Advanced economy growth is expected to accelerate to 1.9% in 2017
- Activity in advanced economies is expected to gain momentum in 2017, supported by an upturn in the United States, as previously anticipated.
- In the Euro Area and Japan, growth forecasts have been upgraded reflecting strengthening domestic demand and exports.
- Investment across advanced economies has firmed, while private consumption growth has moderated.
- Against an improving international backdrop, growth in EMDEs has strengthened from a post crisis low of 3.5% in 2016. It is projected to reach 4.1% in 2017

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- Growth in China is expected to moderate from 6.7% to 6.5% in 2017
- For India, the growth is expected to improve from 6.8% in 2016 to 7.2% in 2017

### Recent developments across the world

Advanced economies started the year on a solid note, with investment and exports regaining momentum after subdued growth in 2016. Private consumption decelerated somewhat in early 2017, but has been supported by labor market improvements. Import demand has strengthened, further contributing to a recovery in global trade. ***In 2017, growth is expected to pick up in the United States and Japan, and to remain broadly stable in the Euro Area resulting in an upgrade in forecasts for several major economies.***

Growth in EMDEs reached a post-crisis low of 3.5% in 2016, as commodity exporters continued to stagnate and idiosyncratic factors held back growth in some large commodity importing EMDEs (e.g., India, Turkey). Activity firmed toward the end of 2016 and into 2017, reflecting a recovery in commodity exporters, where the contraction in investment is easing and import growth is bottoming out. Domestic demand is leading the upturn in 2017, amid improving confidence and, in a number of commodity exporters, diminishing drag from earlier policy tightening. This is mirrored in rising import demand, which bottomed out in late 2016. Stronger external demand is also supporting the recent improvement in EMDE conditions, albeit unevenly.

### Global Outlook

Growth in major advanced economies has strengthened, and their short-term outlook has improved, despite elevated policy uncertainty. A modest recovery should continue, with output gaps narrowing and inflation gradually converging toward central bank targets. U.S. monetary policy normalization is expected to proceed at a measured pace.

Emerging & Developing economies (EMDE) growth is projected to strengthen to 4.1% in 2017 and reach an average of 4.6% in 2018-19, reflecting a recovery in commodity exporters and steady growth in commodity importers. Commodity prices are expected to rise moderately from low 2016 levels, although oil prices are projected to rise marginally. A rebound in global trade is expected to offset the negative effects associated with a gradual tightening of global financing conditions.

### Risk to Outlook

Despite the possibility of more expansionary fiscal policies than currently assumed in major economies, the balance of risks remains tilted to the downside, although slightly less so than at the start of the year. The global growth could face the following risks;

- Increased protectionism,
- Persistent policy uncertainty
- Geopolitical risks, or
- Renewed financial market turbulence could derail an incipient recovery.

Financial market stress could be amplified by vulnerabilities in some EMDEs. Over the longer term, a protracted slowdown in productivity and investment growth could further deteriorate the growth potential of advanced economies and EMDEs.

## Policy Challenges

### *Challenges in major economies*

Advanced economies are shifting away from a mix of exceptionally supportive monetary policy and restrictive fiscal policy. Central banks in major advanced economies face the challenge of normalizing monetary policy without disrupting a fragile recovery or triggering financing market disruptions.

Expansionary fiscal policy would be appropriate in a number of economies, provided it is complemented with measures to bolster medium-term fiscal sustainability. Globalization and technological progress have changed the demand for jobs and skills; resulting in a need to support the adjustment process for workers that are adversely affected.

### *Challenges in emerging and developing economies*

Easing inflation is allowing policymakers in some commodity exporters to adopt a more accommodative policy stance. Although the impact of the drop in commodity prices on government revenues in commodity exporters is beginning to diminish which is resulting in constrained fiscal space across EMDEs.

Policies that improve the business climate and support investment are critical to boost long-term growth. In addition, policies that promote trade integration and address structural impediments to trade will help counteract the negative effects of trade policy uncertainty and rising protectionism.

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