

## IMF's view on Global economy

The IMF, in its latest outlook on the global economy, believes that there has been limited progress made in the overall prospects which remain subdued.

### Highlights

- Global growth to be sub-par at 3.1% in 2016, with slight increase to 3.4% next year.
  - Global economic growth will remain subdued this year following a slowdown in the United States and Britain's vote to leave the European Union
- There is a specter of persistent stagnation, particularly in advanced economies, which can fuel populist calls for restrictions on trade and immigration thus stifling growth
- Countries need to rely on all policy levers—monetary, fiscal and structural—to lift growth prospects
  - To support growth in the near term, the central banks in advanced economies should maintain easy monetary policies
  - But monetary policy alone won't restore vigor to economies dogged by slowing productivity growth and aging populations
  - Where possible, governments should spend more on education, technology, and infrastructure to expand productive capacity while taking steps to alleviate inequality.
- Many countries also need to counteract waning potential growth through structural reforms to boost labor force participation, better match skills to jobs, and reduce barriers to market entry.

### Advanced economies Overview

- Advanced economies are to expand just 1.6% in 2016, less than last year's 2.1% and down from the July forecast of 1.8%.
- United States growth will be down to 1.6%, from 2.2% projected in July, following a disappointing first half caused by weak business investment and diminishing pace of stockpiles of goods. U.S. growth is likely to pick up to 2.2% next year as the drag from lower energy prices and dollar strength fades.
  - As a corollary, further increases in the Federal Reserve's policy rate 'should be gradual and tied to clear signs that wages and prices are firming durably'
- Uncertainty following the "Brexit" referendum in June will take a toll on the confidence of investors. U.K. growth is predicted to slow to 1.8% this year and to 1.1% in 2017, down from 2.2% last year.
- The euro area will expand 1.7% this year and 1.5% next year, compared with 2% growth in 2015.
  - The European Central Bank should maintain its current appropriately accommodative stance and additional easing through expanded asset purchases may be needed if inflation fails to pick up
- Growth in Japan, the world's number 3 economy, is expected to remain subdued at 0.5% this year and 0.6% in 2017.
  - In the near term, government spending and easy monetary policy will support growth; in the medium term, Japan's economy will be hampered by a shrinking population.

## Emerging markets

- In emerging market and developing economies, growth will accelerate for the first time in six years, to 4.2%, slightly higher than the July forecast of 4.1%. Next year, they are expected to grow 4.6%.
- China's economy, the world's second largest, is forecast to expand 6.6% this year and 6.2% in 2017, down from growth of 6.9% last year.
  - Policymakers will continue to shift the economy away from its reliance on investment and industry toward consumption and services, a policy that is expected to slow growth in the short term while building the foundations for a more sustainable long-term expansion.
  - China should take steps to rein in credit that is "increasing at a dangerous pace" and cut off support to unviable state-owned enterprises, "accepting the associated slower GDP growth"
- Growth in emerging Asia, and especially India, continues to be resilient.
  - India's GDP is projected to expand 7.6% this year and next, the fastest pace among the world's major economies.
  - The IMF urged India to continue reform of its tax system and eliminate subsidies to provide more resources for investments in infrastructure, education, and health care.
- Economic activity slowed in Latin America, as several countries are mired in recession, with recovery expected to take hold in 2017.
  - Venezuela's output is forecast to fall 10% this year and shrink another 4.5% in 2017.
  - Brazil will see a contraction of 3.3% this year, but is expected to grow at 0.5% in 2017, on the assumption of declining political and policy uncertainty and the waning effects of past economic shocks.
- Countries in the Middle East are still confronting challenging conditions from subdued oil prices, as well as civil conflict and terrorism.

## Our comments

1. India will be the leading economy this year, and the recommendations that the IMF has made are already on their way.
2. The picture of the US economy does not indicate that the Fed may lower rates in December, as the IMF is not convinced that the economy has turned around to pose a potential inflation threat.
3. The recommendation for proactive government spending and structural reform could also be a hint for us to be flexible on the fiscal front which will help in accelerating demand and growth.
4. The indication is also that crude oil prices will remain steady for some time.

**Latest growth projections**

Growth in 2016 is projected to remain modest, with a pick-up in 2017, primarily driven by emerging markets

(Percent change)

|  | 2015       | Projections |            |
|--|------------|-------------|------------|
|  |            | 2016        | 2017       |
| <b>World Output</b>                                  | <b>3.2</b> | <b>3.1</b>  | <b>3.4</b> |
| <b>Advanced Economies</b>                            | <b>2.1</b> | <b>1.6</b>  | <b>1.8</b> |
| United States  | 2.6        | 1.6         | 2.2        |
| Euro Area  | 2.0        | 1.7         | 1.5        |
| Germany  | 1.5        | 1.7         | 1.4        |
| France   | 1.3        | 1.3         | 1.3        |
| Italy  | 0.8        | 0.8         | 0.9        |
| Spain  | 3.2        | 3.1         | 2.2        |
| Japan  | 0.5        | 0.5         | 0.6        |
| United Kingdom                                       | 2.2        | 1.8         | 1.1        |
| Canada   | 1.1        | 1.2         | 1.9        |
| Other Advanced Economies 1/                          | 2.0        | 2.0         | 2.3        |
| <b>Emerging Market and Developing Economies</b>      | <b>4.0</b> | <b>4.2</b>  | <b>4.6</b> |
| Commonwealth of Independent States                   | -2.8       | -0.3        | 1.4        |
| Russia   | -3.7       | -0.8        | 1.1        |
| Excluding Russia                                     | -0.5       | 0.9         | 2.3        |
| Emerging and Developing Asia                         | 6.6        | 6.5         | 6.3        |
| China  | 6.9        | 6.6         | 6.2        |
| India 2/   | 7.6        | 7.6         | 7.6        |
| ASEAN-5 3/   | 4.8        | 4.8         | 5.1        |
| Emerging and Developing Europe                       | 3.6        | 3.3         | 3.1        |
| Latin America and the Caribbean                      | 0.0        | -0.6        | 1.6        |
| Brazil   | -3.8       | -3.3        | 0.5        |
| Mexico   | 2.5        | 2.1         | 2.3        |
| Middle East, North Africa, Afghanistan, and Pakistan | 2.3        | 3.4         | 3.4        |
| Saudi Arabia   | 3.5        | 1.2         | 2.0        |
| Sub-Saharan Africa                                   | 3.4        | 1.4         | 2.9        |
| Nigeria  | 2.7        | -1.7        | 0.6        |
| South Africa   | 1.3        | 0.1         | 0.8        |
| Low-Income Developing Countries                      | 4.6        | 3.7         | 4.9        |

Source: IMF, October 2016 *World Economic Outlook*.

1/ Excludes the G7 (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.

2/ 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.

3/ Indonesia, Malaysia, Philippines, Thailand, Vietnam.

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