



WORLD ECONOMIC OUTLOOK

October 2017

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World Economic Outlook — The big picture

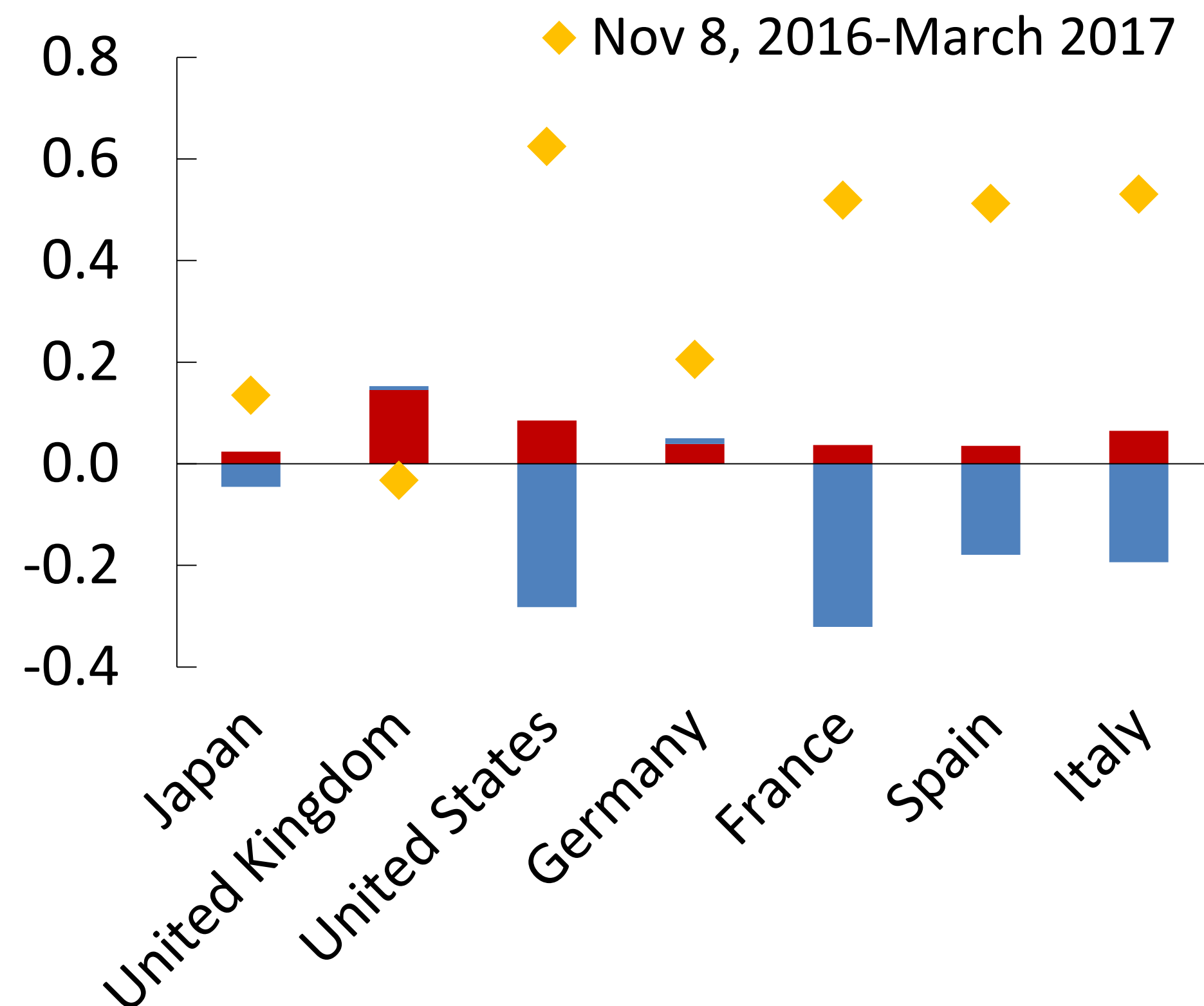
- **Global activity** picked up further in 2017H1 — the outlook is now for higher annual growth in 2017 and 2018
- **Inflation** remains subdued
- **Risks** skewed to the downside, especially in the medium term
- **Policy priorities:** macroeconomic management needs vary; common goal is to boost potential growth

Global Setting

Financial markets buoyant since the spring — Bond yields declining and equity indices rising globally

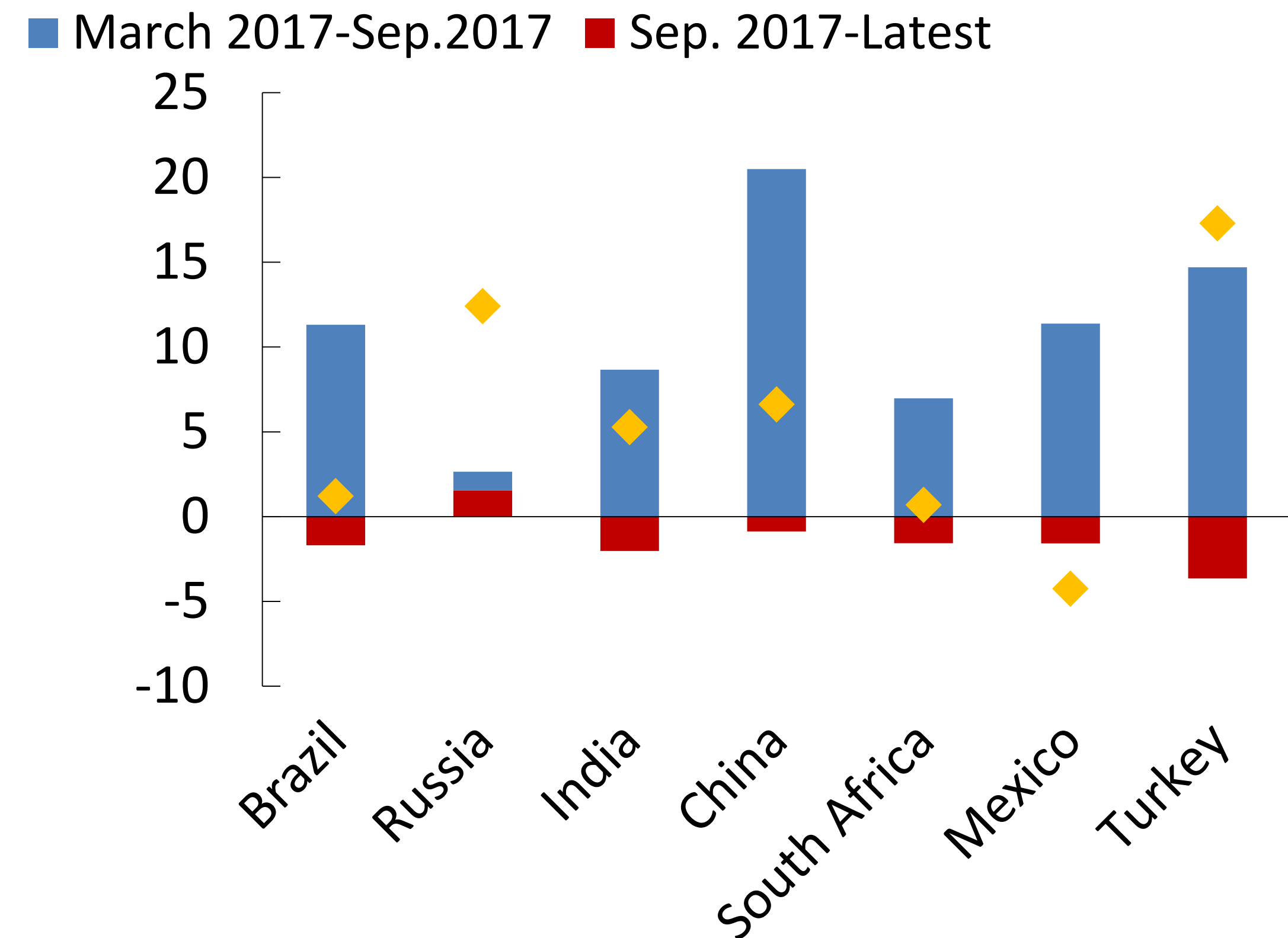
Bond yields--Advanced Economies

(percentage points)



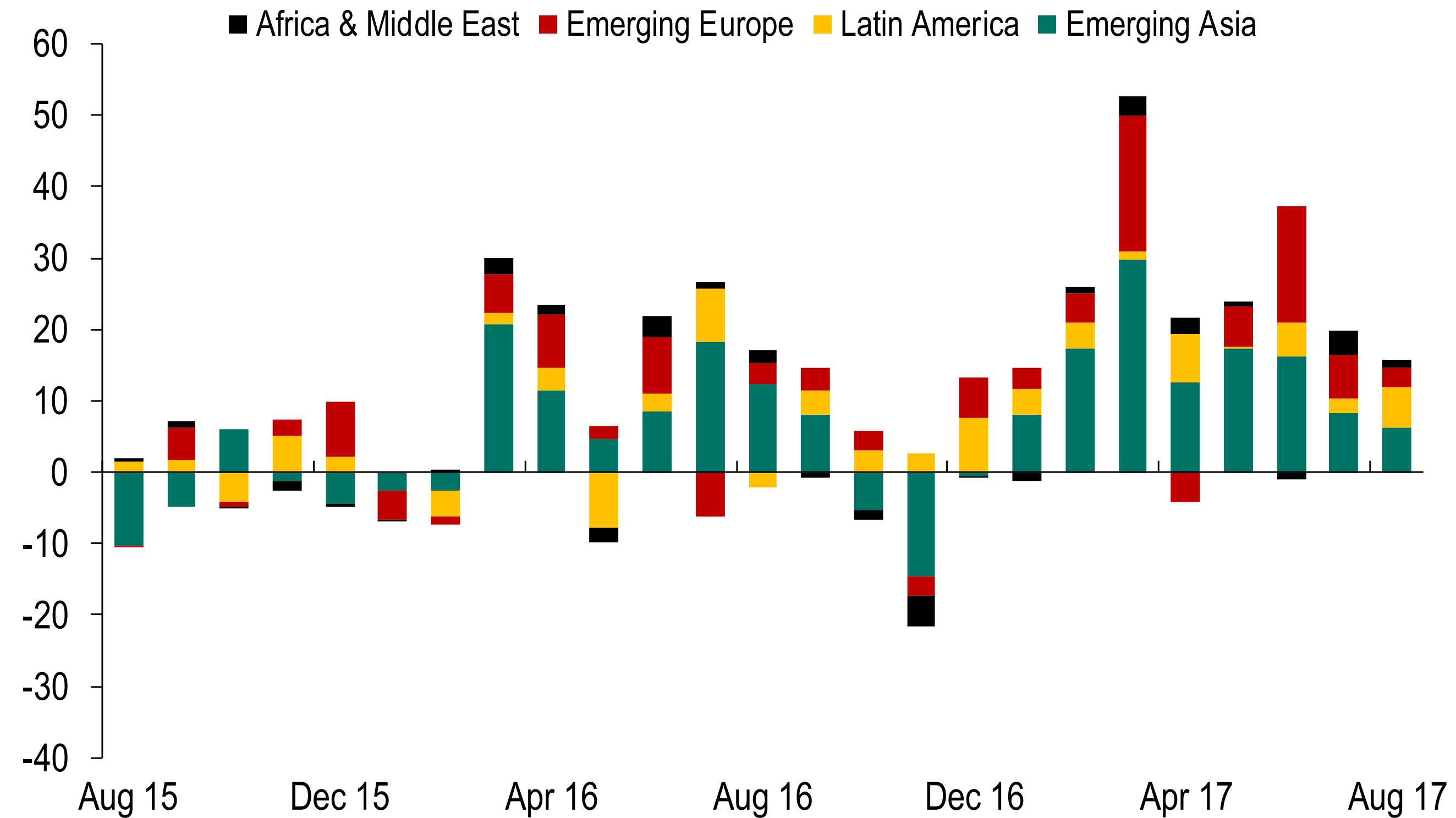
Equity prices- Emerging Markets

(percentage points)



EM Capital flows have been strong

Total portfolio capital flows (billions of dollars)

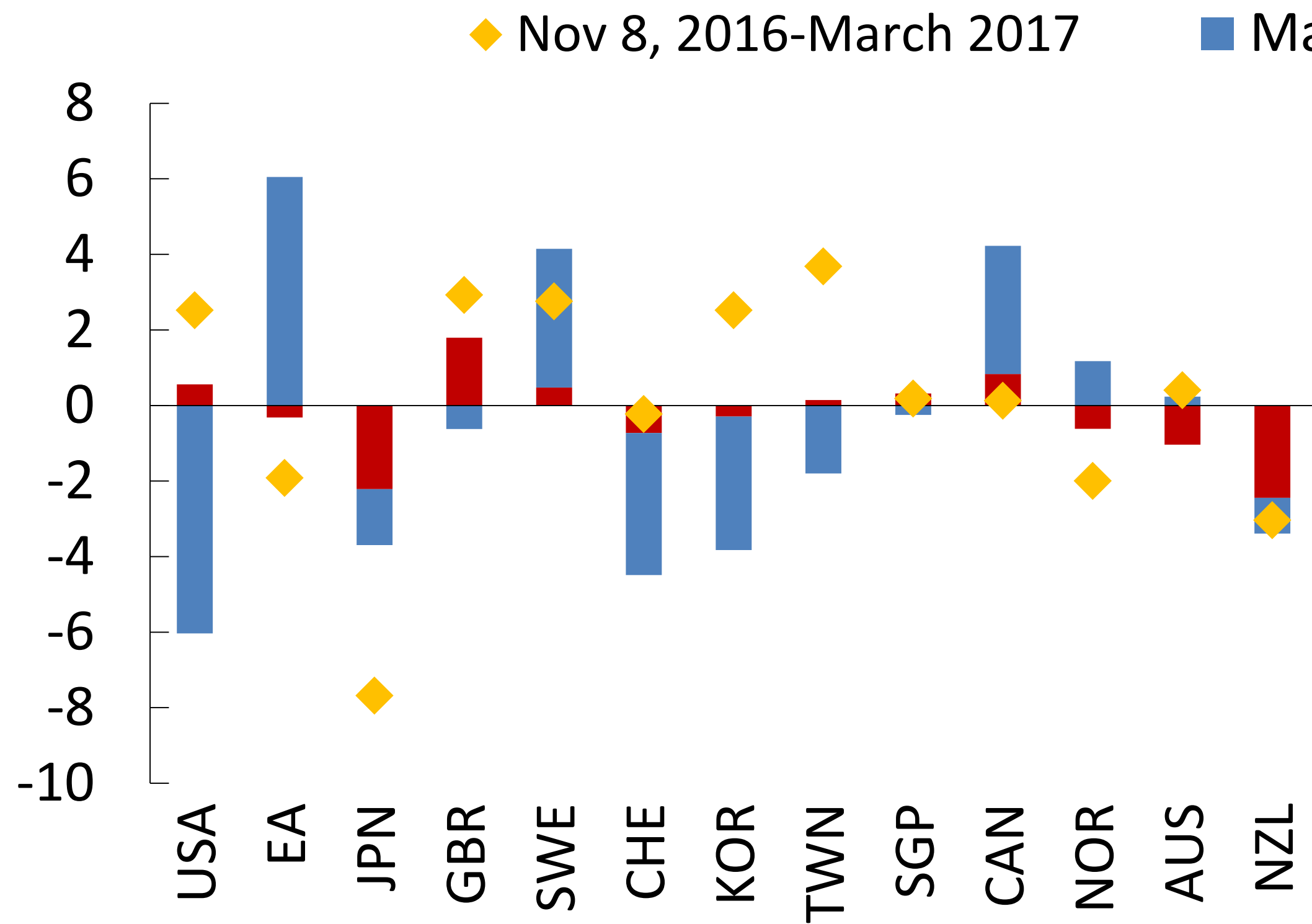


Sources: National Sources; Bloomberg Finance L.P.; and Institute of International Finance.

Real effective exchange rates—Weaker dollar, stronger euro

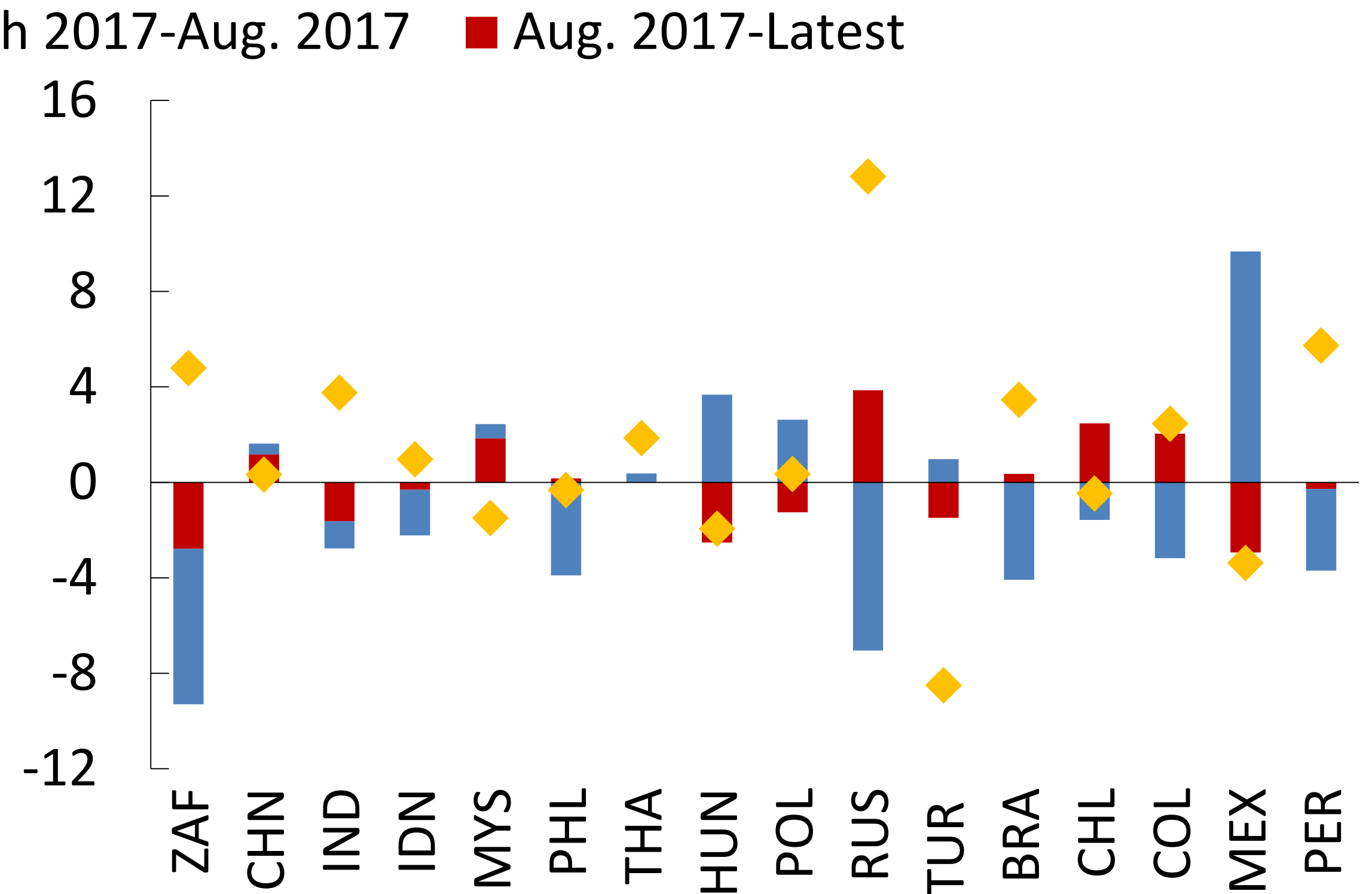
Advanced Economies

(percent)



Emerging Market and Developing Economies

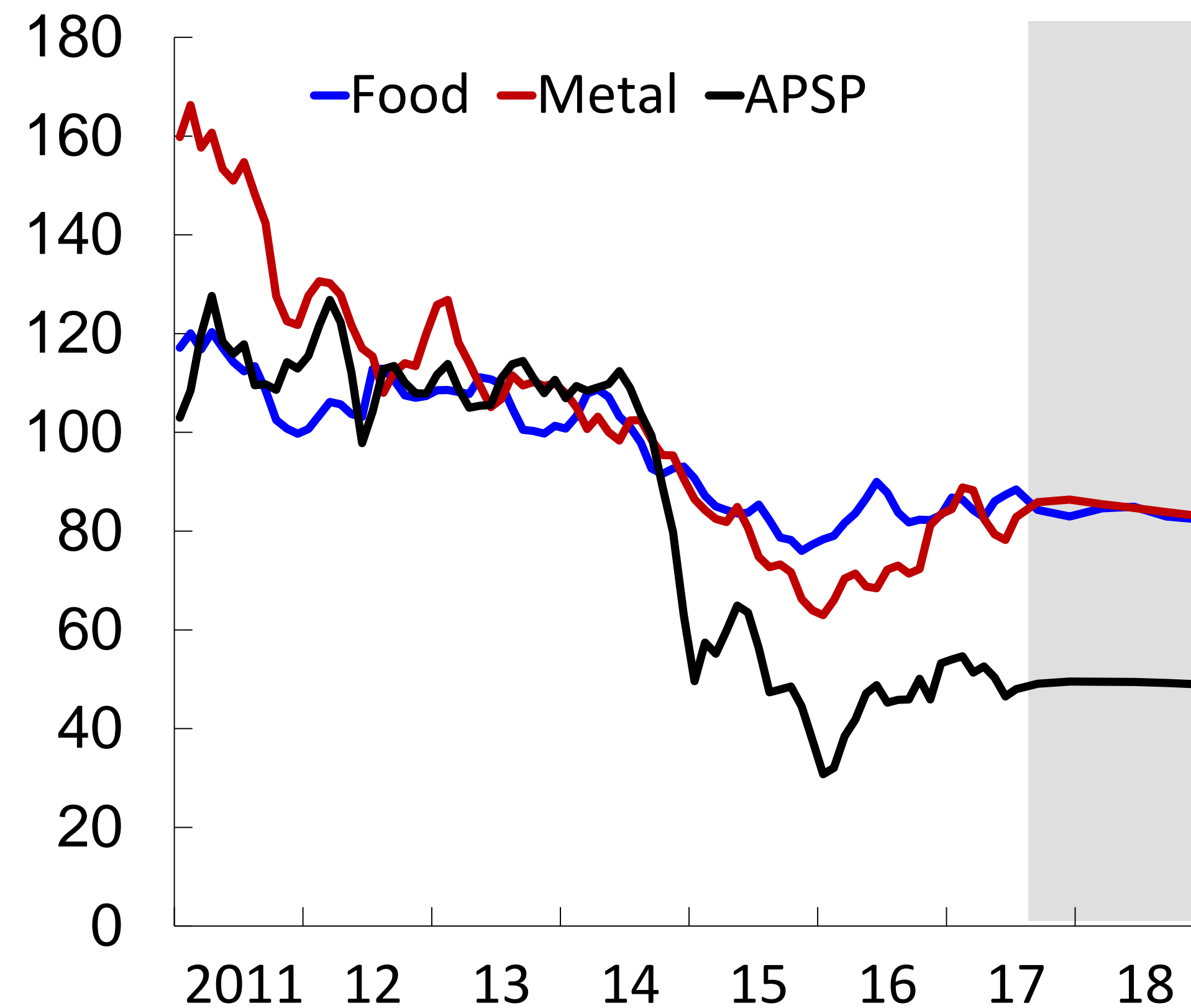
(percent)



Commodity prices—Soft in 1H 2017 but some pick-up more recently

Real Commodity Price Indices

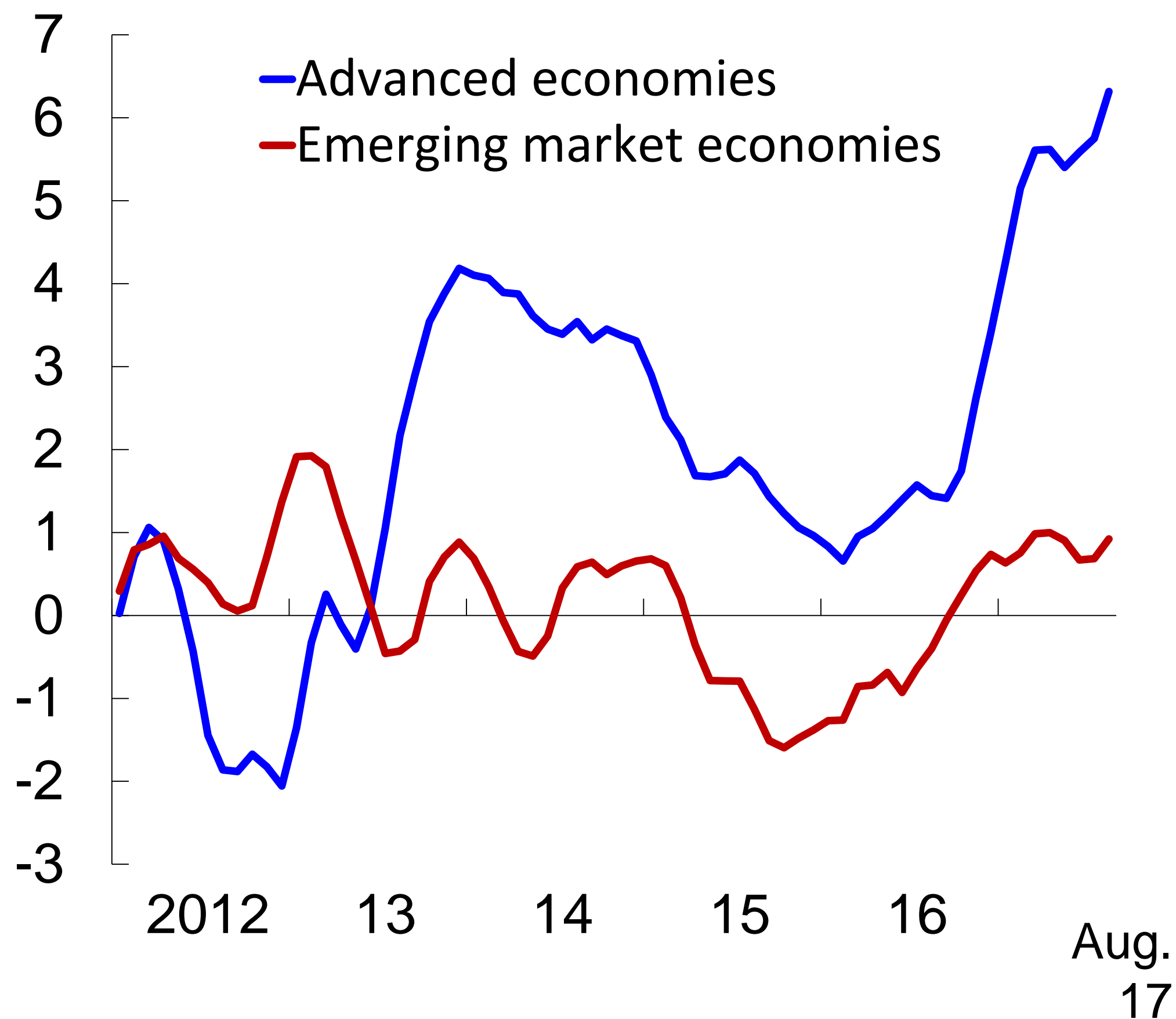
(deflated using U.S. consumer price index;
index, 2014 = 100)



Confidence and PMIs have picked up further

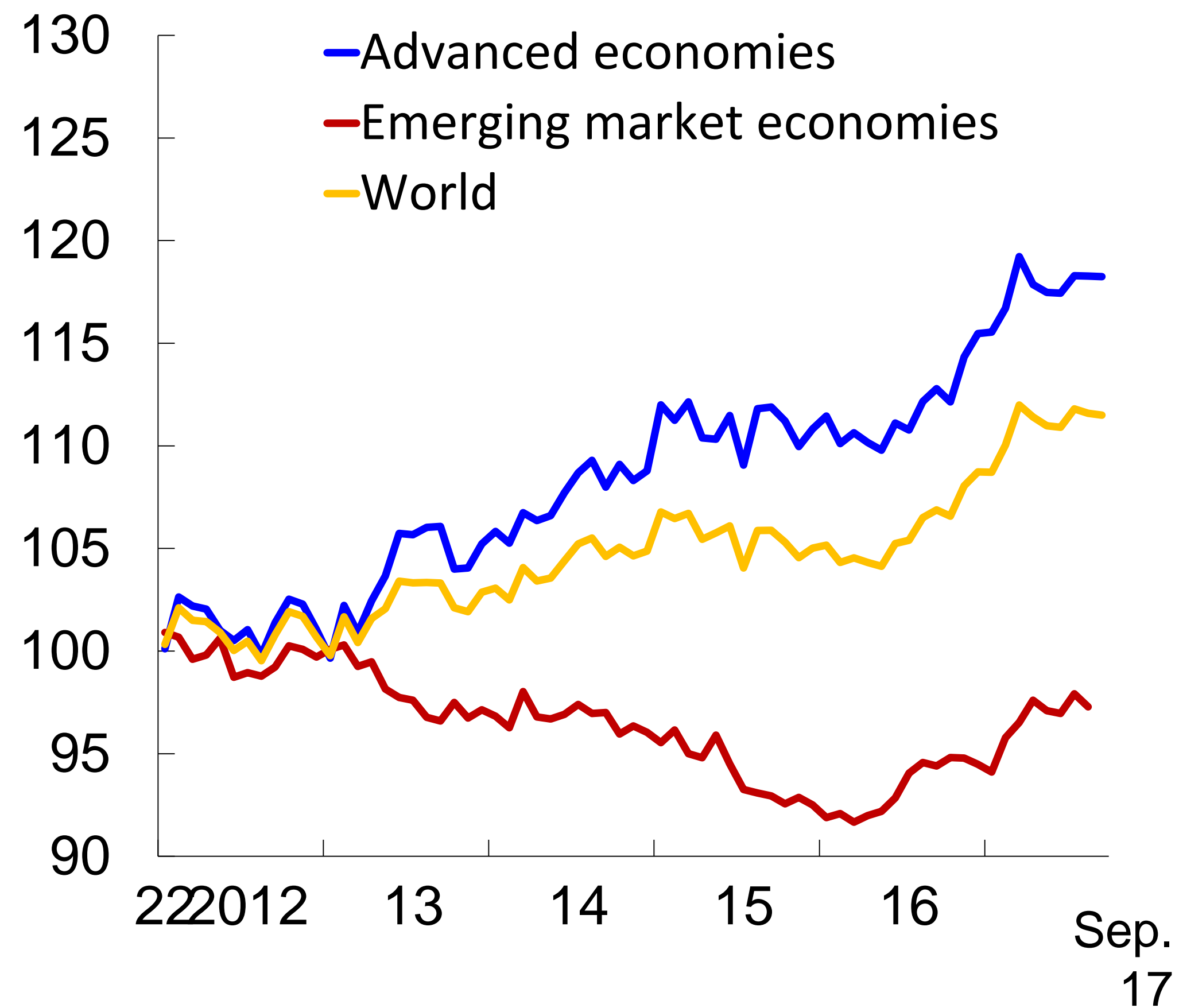
Manufacturing PMI

(three-month moving average; deviations from 50)



Consumer Confidence

(index; 2010 = 100)



The Outlook

Forces shaping the global outlook

Advanced economies

- Cyclical rebound
- Varying degrees of post-crisis repair

Emerging market and developing economies

Ongoing forces...

- Rebalancing in China
- Adjustment to lower commodity prices
- Geopolitical and political factors

...overlaid on...

- Demographic headwinds
- Weak productivity growth

- Demographic trends
- Weak productivity growth

Growth projections: Advanced economies

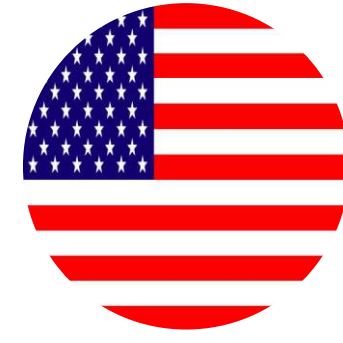
(percent change from a year earlier)



World



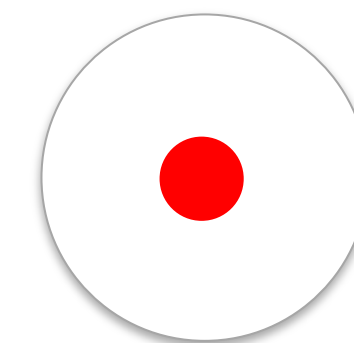
Advanced Economies



U.S.



U.K.



Japan



Euro Area



Germany



Canada



Other
Advanced
Asia

2016

3.2

1.7

1.5

1.8

1.0

1.8

1.9

1.5

2.4

2017

3.6

2.2

2.2

1.7

1.5

2.1

2.0

3.0

2.6

Revision
from Jul.
2017

0.1

0.2

0.1

0.0

0.2

0.2

0.2

0.5

0.1

2018

3.7

2.0

2.3

1.5

0.7

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2017

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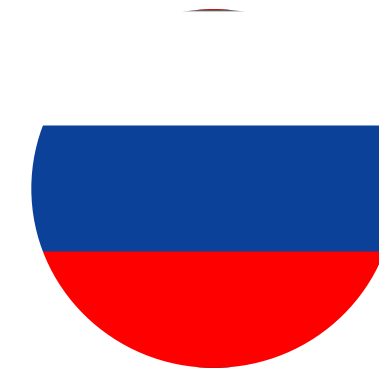
0.2

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Growth projections: Emerging markets and LIDCs

(percent change from a year earlier)



World

Emerging
Market and
Developing
Economies

China

India

Brazil

Russia

Commodity
Exporting
Economies

Low Income
Developing
Countries

2016

3.2

4.3

6.7

7.1

-3.6

-0.2

1.5

3.6

2017

3.6

4.6

6.8

6.7

0.7

1.8

2.3

4.6

Revision from
Jul. 2017

0.1

0.0

0.1

-0.5

0.4

0.4

0.1

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2018

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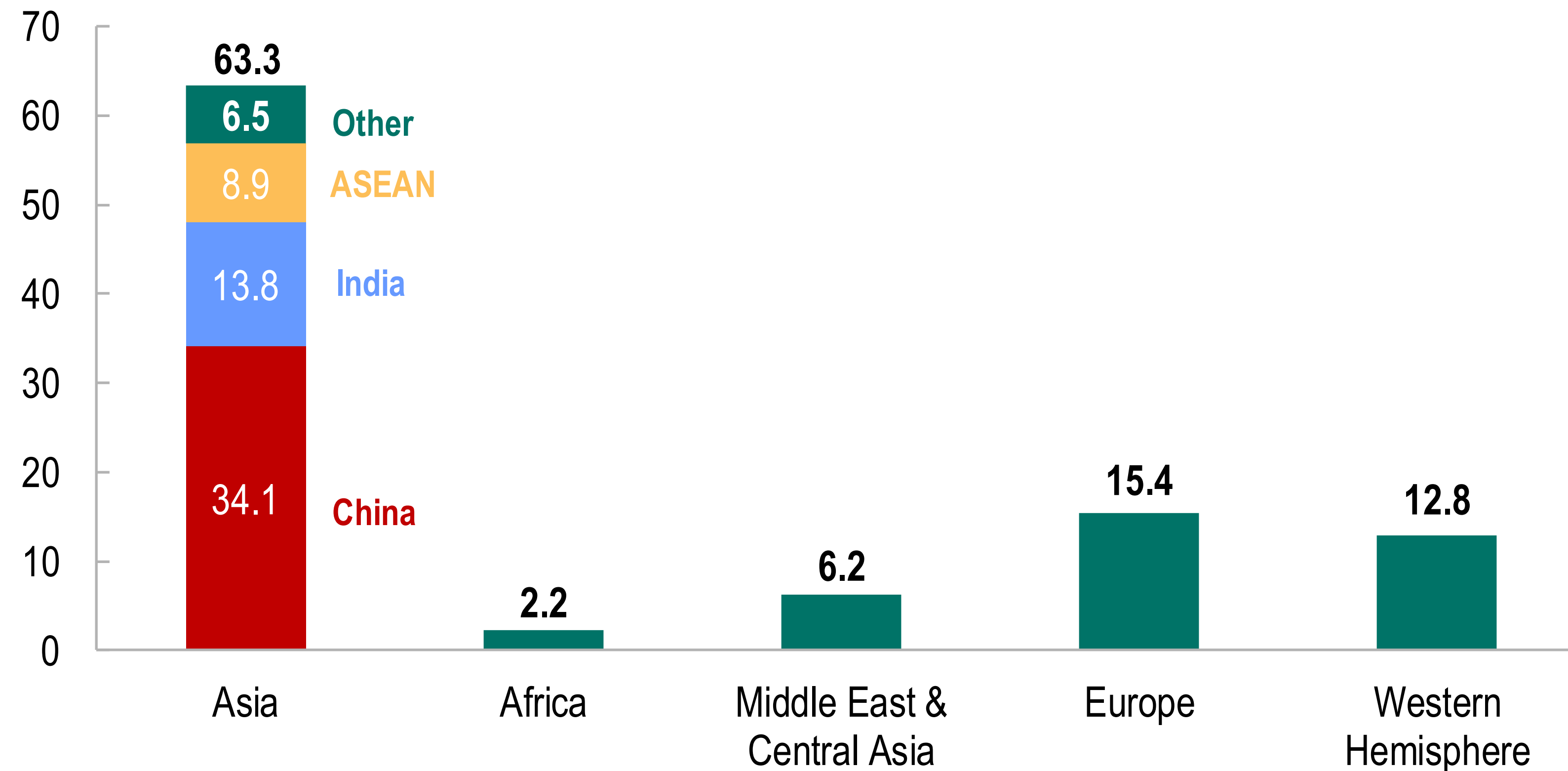
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Asia continues to be the main growth engine of the world

Contribution to Global Growth by Region

(Percent, 2017)



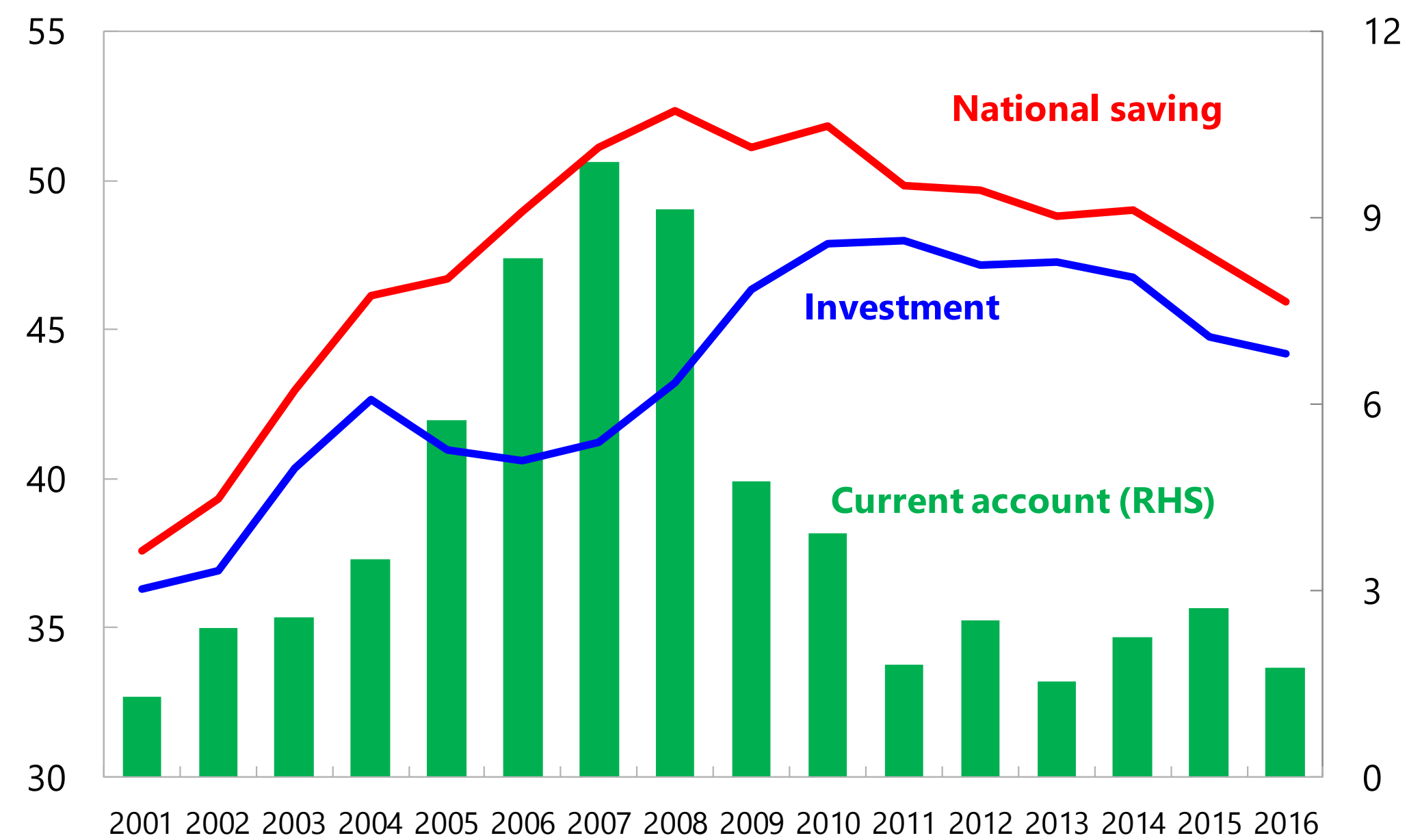
Sources: IMF *World Economic Outlook* and IMF staff estimates.

Note: Regional categories based on IMF classification.

China: Progress visible in rebalancing the economy

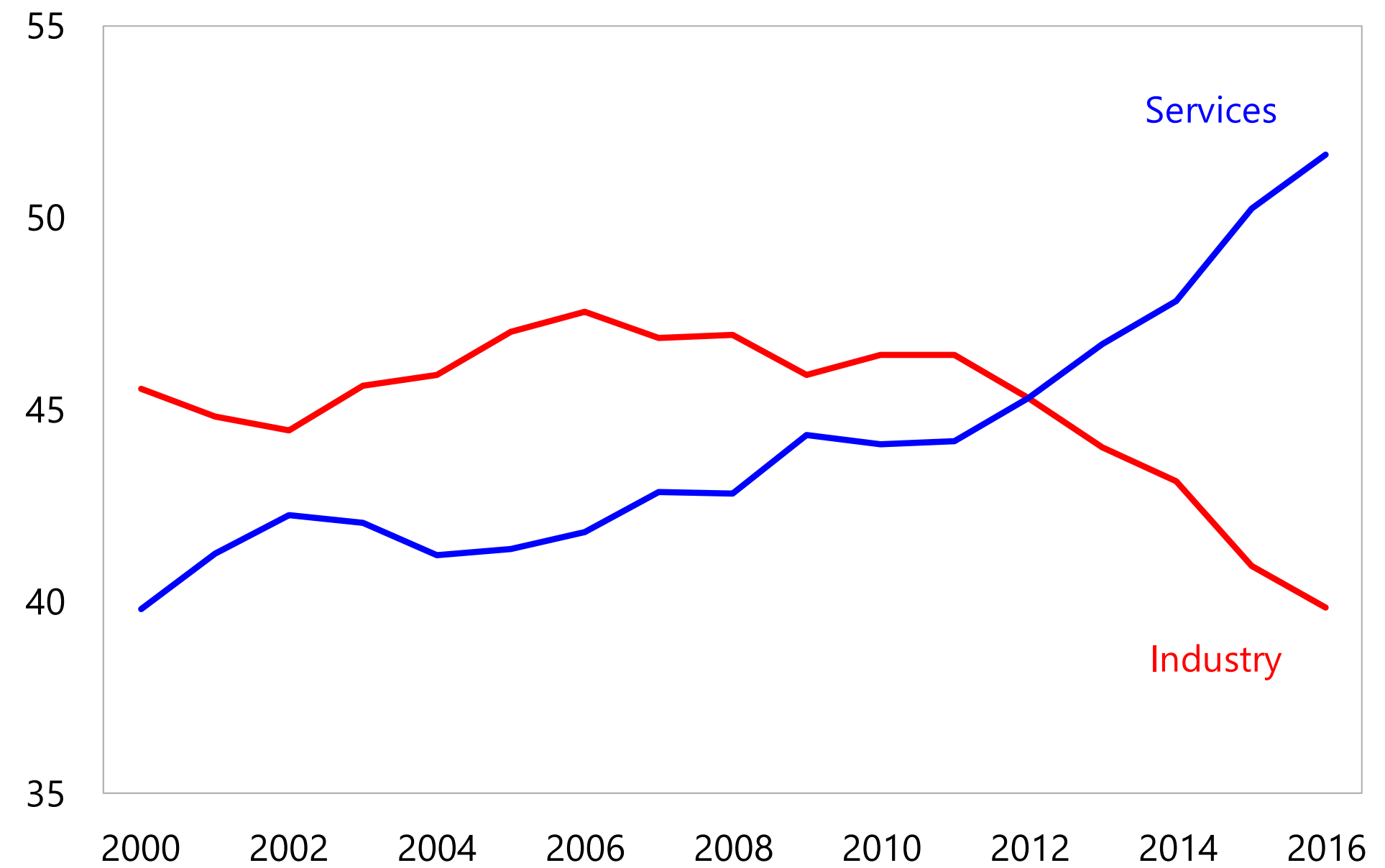
Investment and Saving

(In percent of GDP)



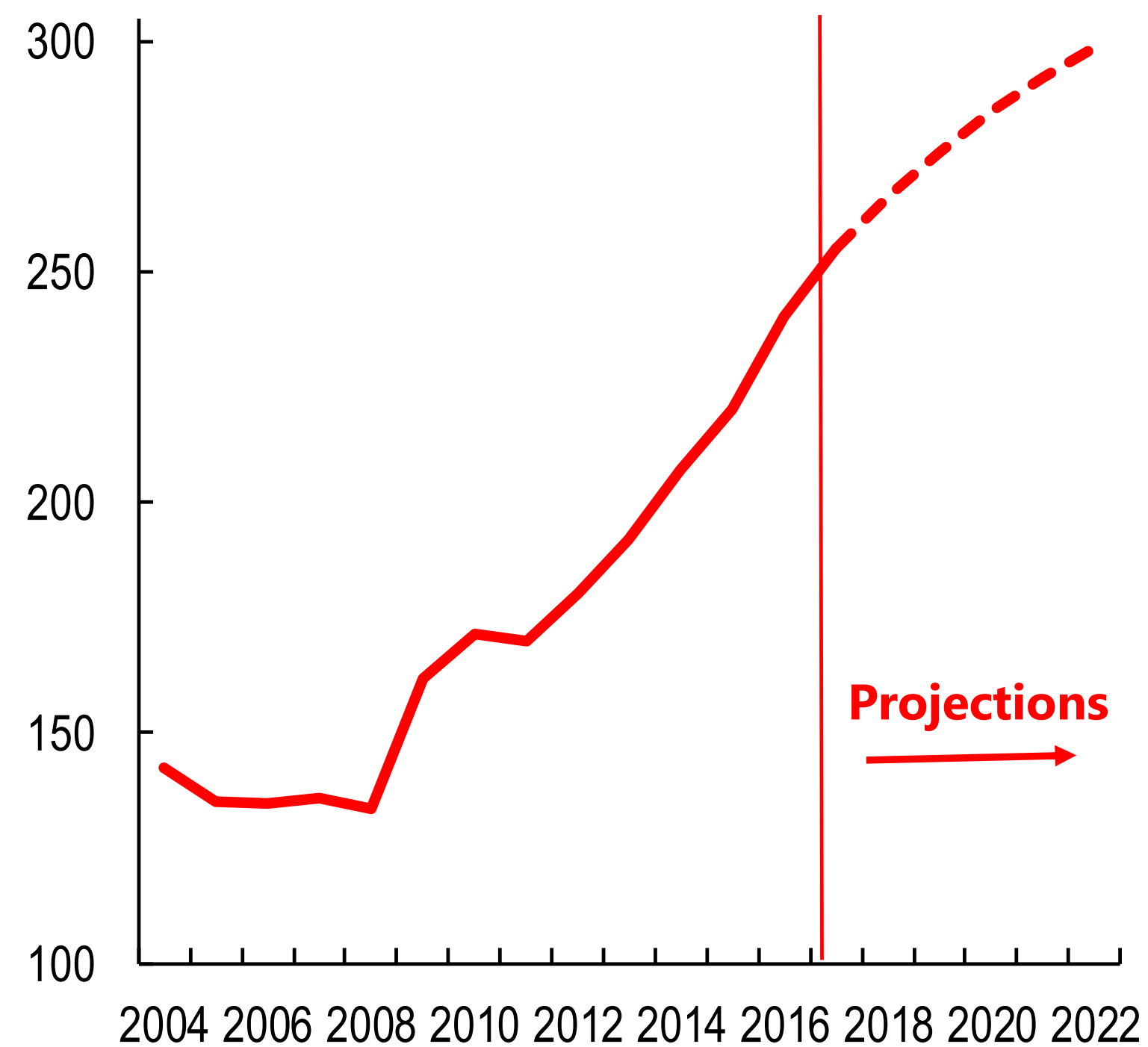
GDP by Production

(In percent of nominal GDP)



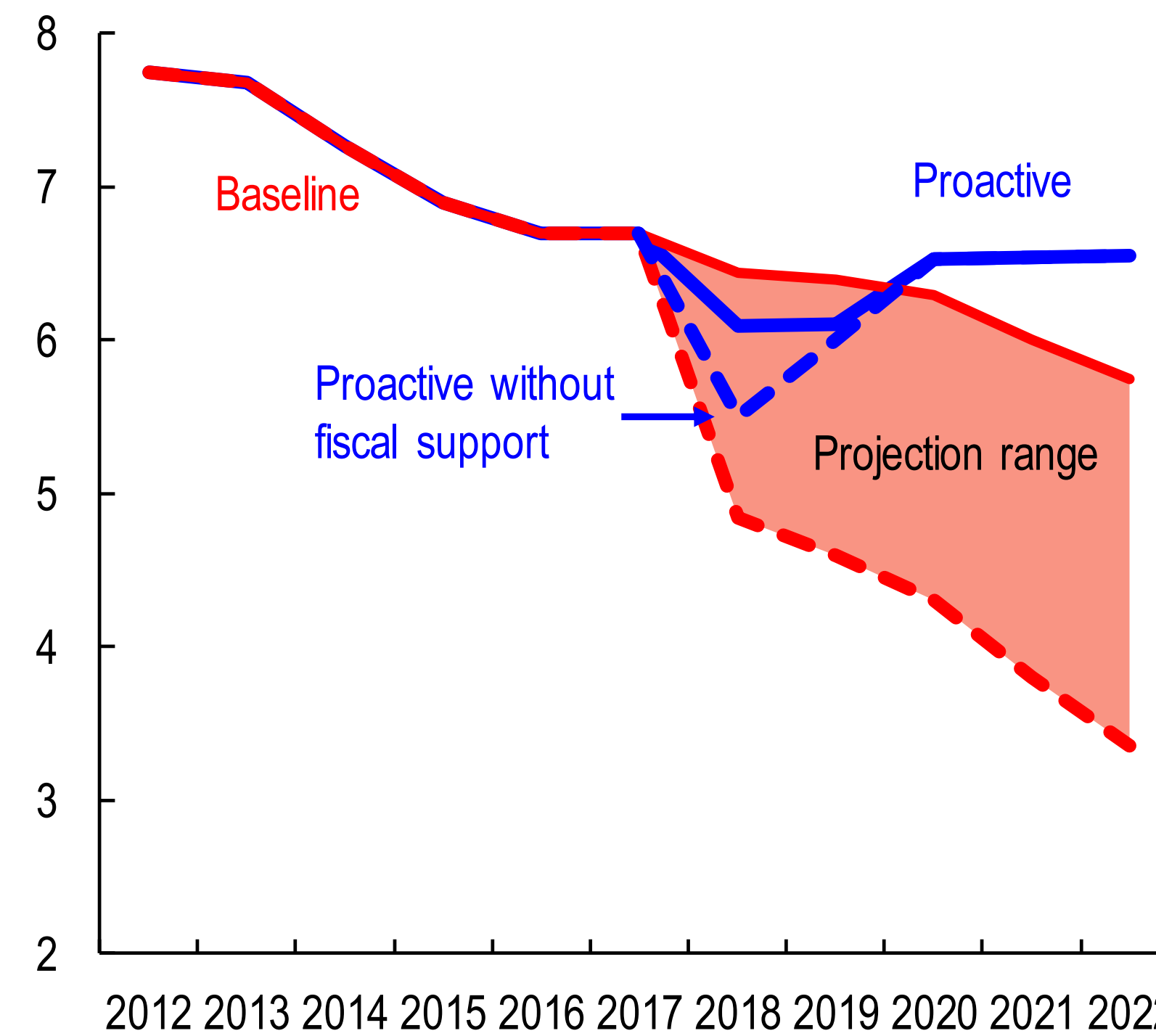
China: Short-term output boost but at cost of rising risks

Non-Financial Sector Debt: High and Rising
(Percent of GDP)



Sources: Haver Analytics; and IMF staff estimates.

Increasing Downside Risks in Growth Outlook
(In percent, year-on-year growth)

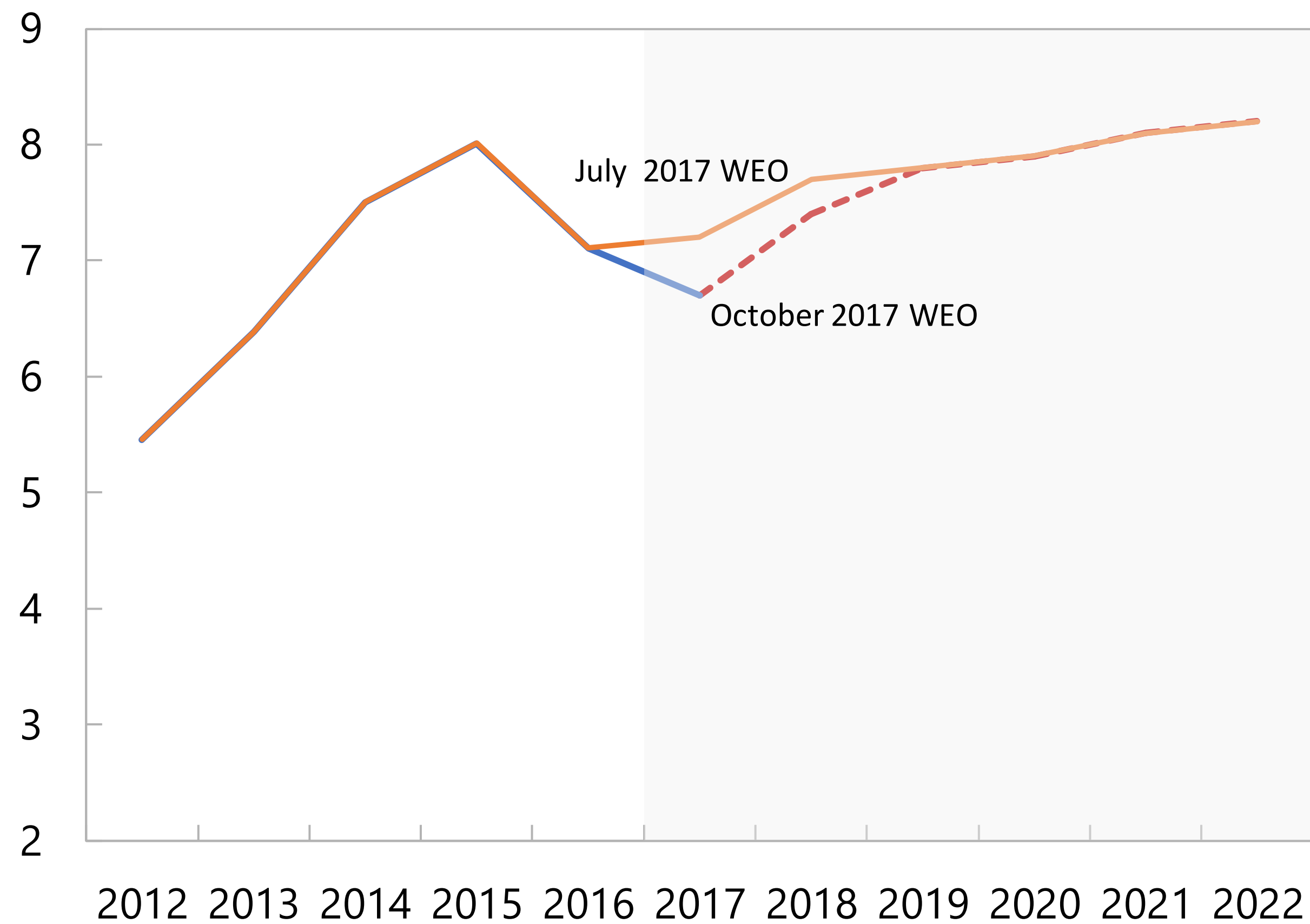


Sources: CEIC Data Company Ltd.; and IMF staff estimates and projections.

India: Growth is expected to recover gradually

Real GDP Growth

(percent; market prices)



Sources: Central Statistics Office, Haver Analytics, IMF Staff Projection.

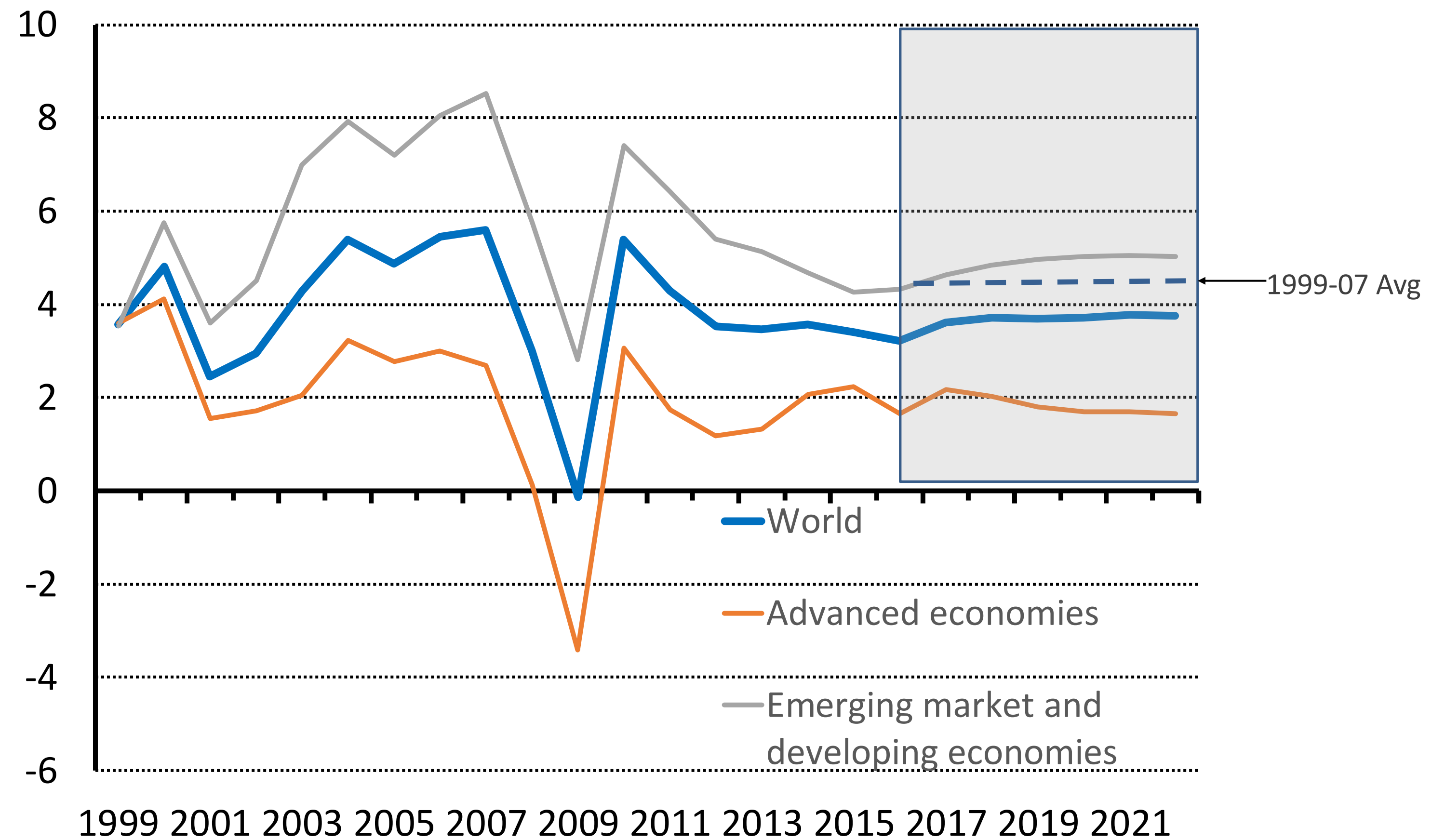
Global recovery “falls short” in a few areas

- Medium term growth prospects in advanced economies and commodity-exporting emerging market and developing economies fall short of past averages
- In more than 25% of emerging and developing economies, real per capita GDP is not projected to converge toward AE levels in 2017-22
- Underlying inflation remains below target in advanced economies

Medium term growth prospects are relatively muted

Real GDP Growth

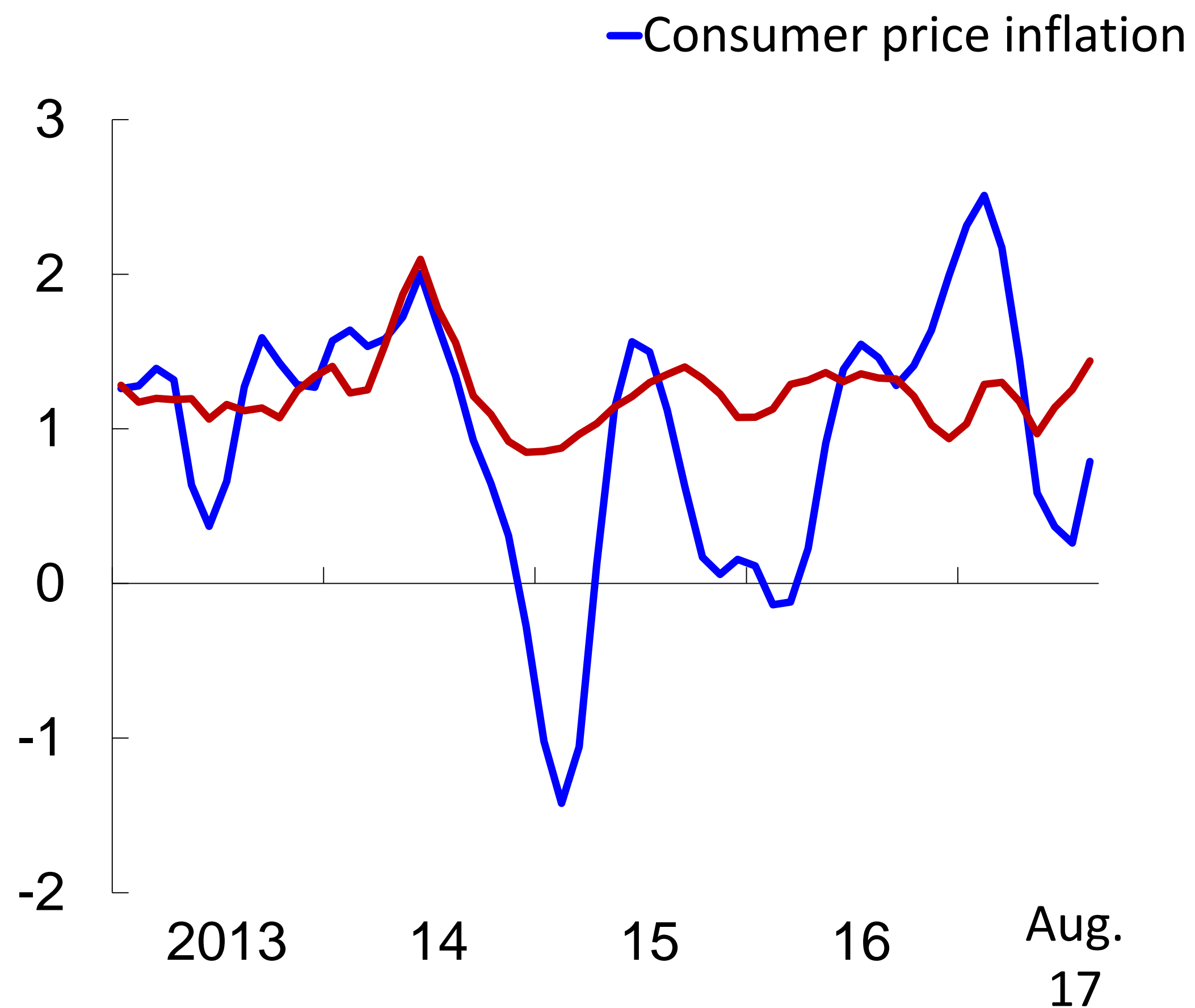
(percent change from a year ago)



Headline inflation has softened; core inflation remains subdued

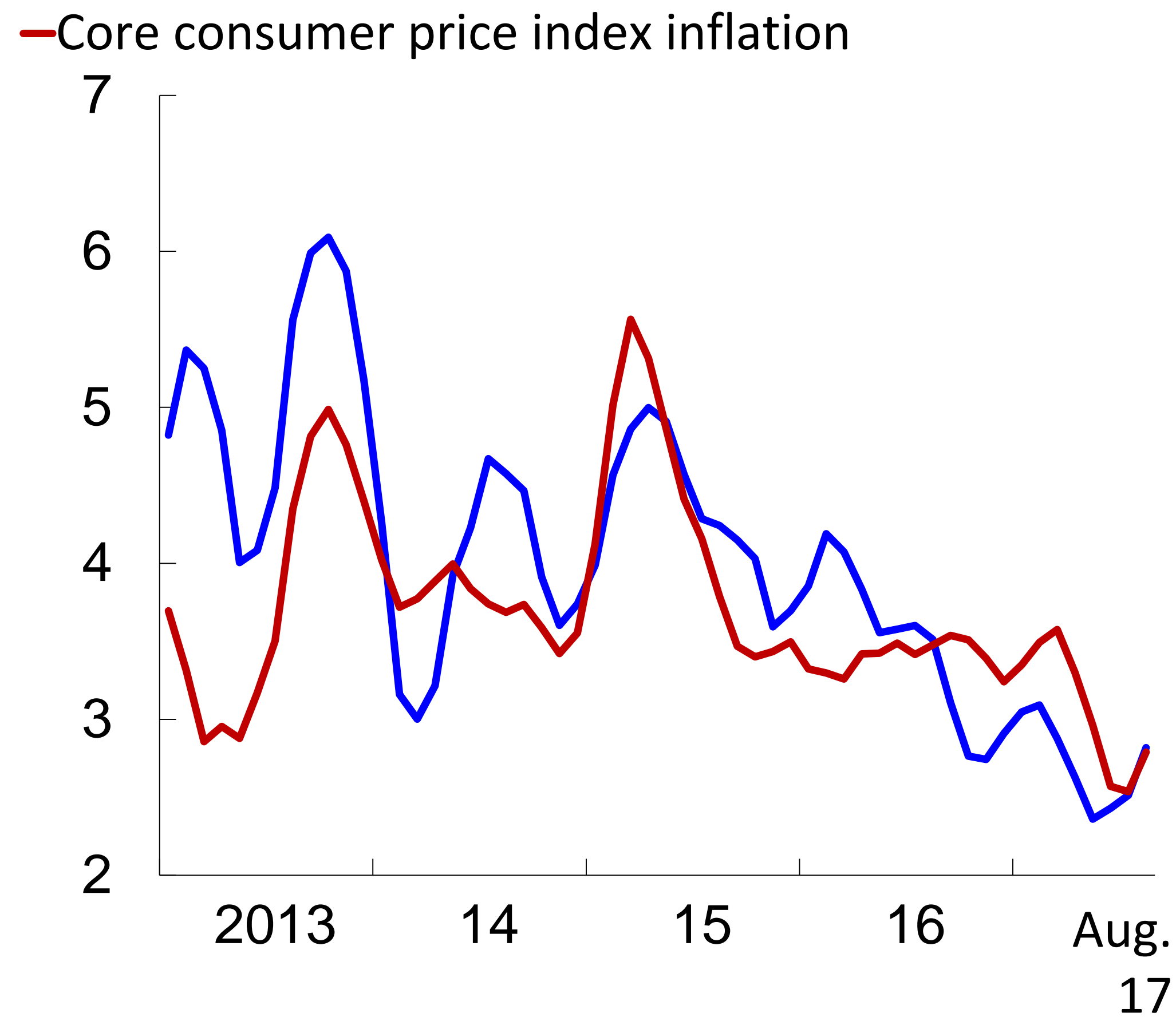
Advanced Economies

(three-month moving average; annualized percent change)



Emerging Market and Developing Economies

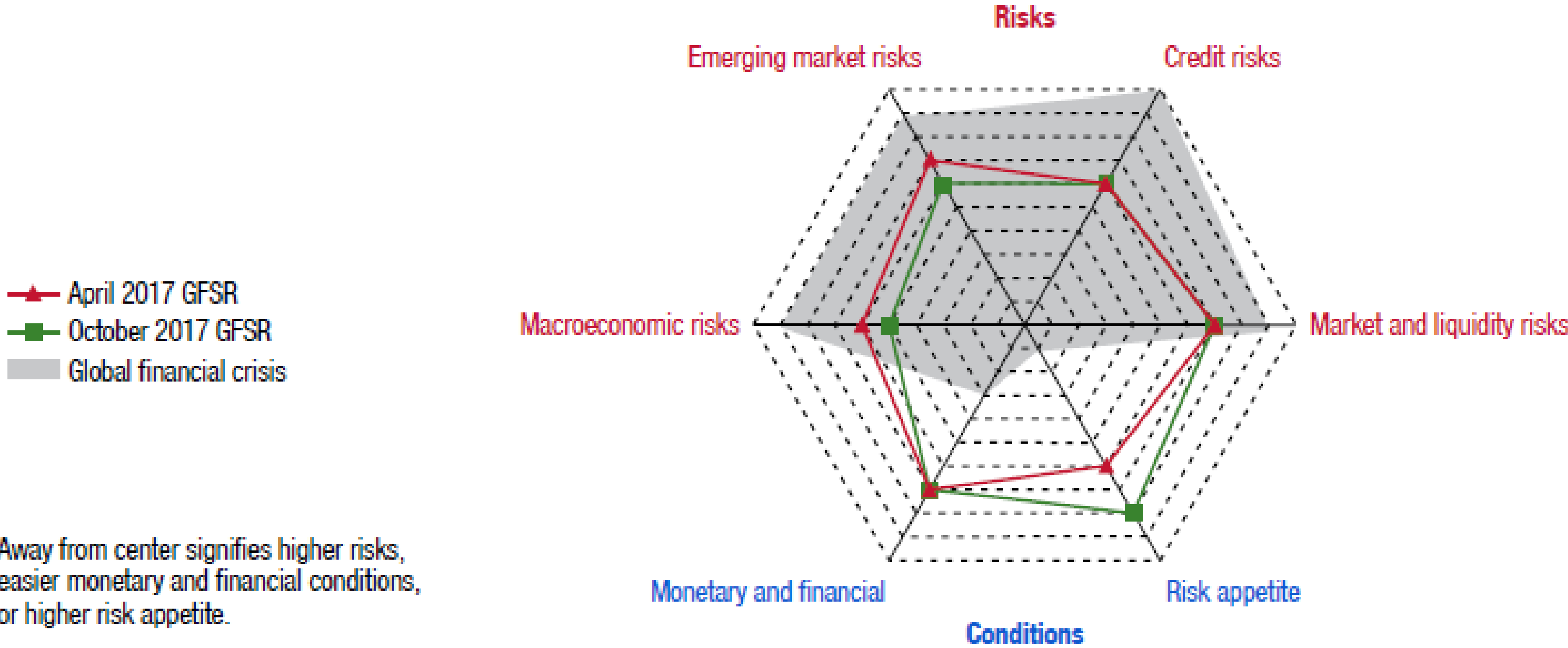
(three-month moving average; annualized percent change)



Risks and Policies

Near-term risks to global financial stability have declined

Global Financial Stability Map

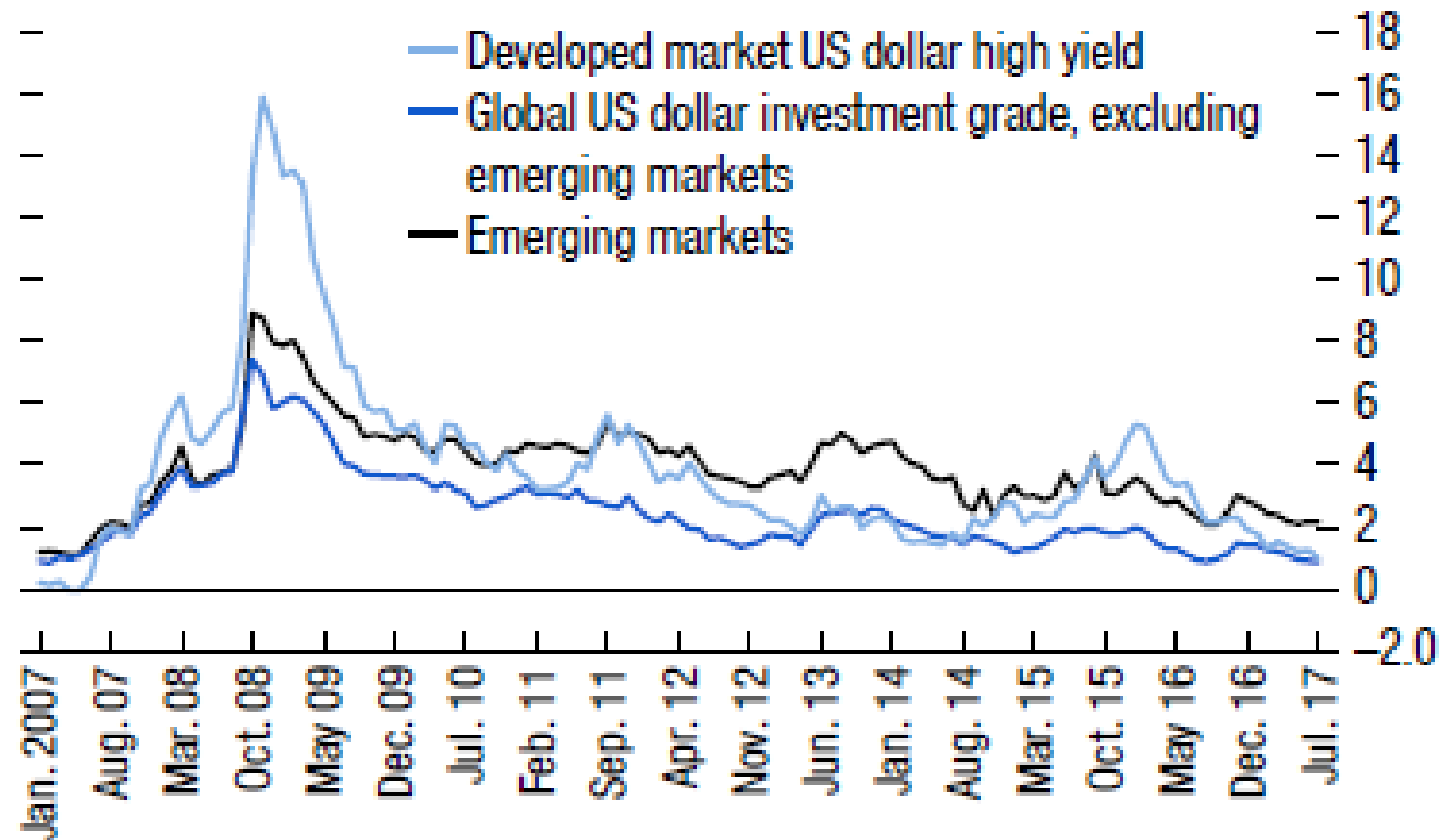


Source: IMF staff estimates.

Note: The shaded region shows the global financial crisis as reflected in the stability map of the April 2009 *Global Financial Stability Report* (GFSR).

The compensation for market and interest rate risk has fallen to historically low levels

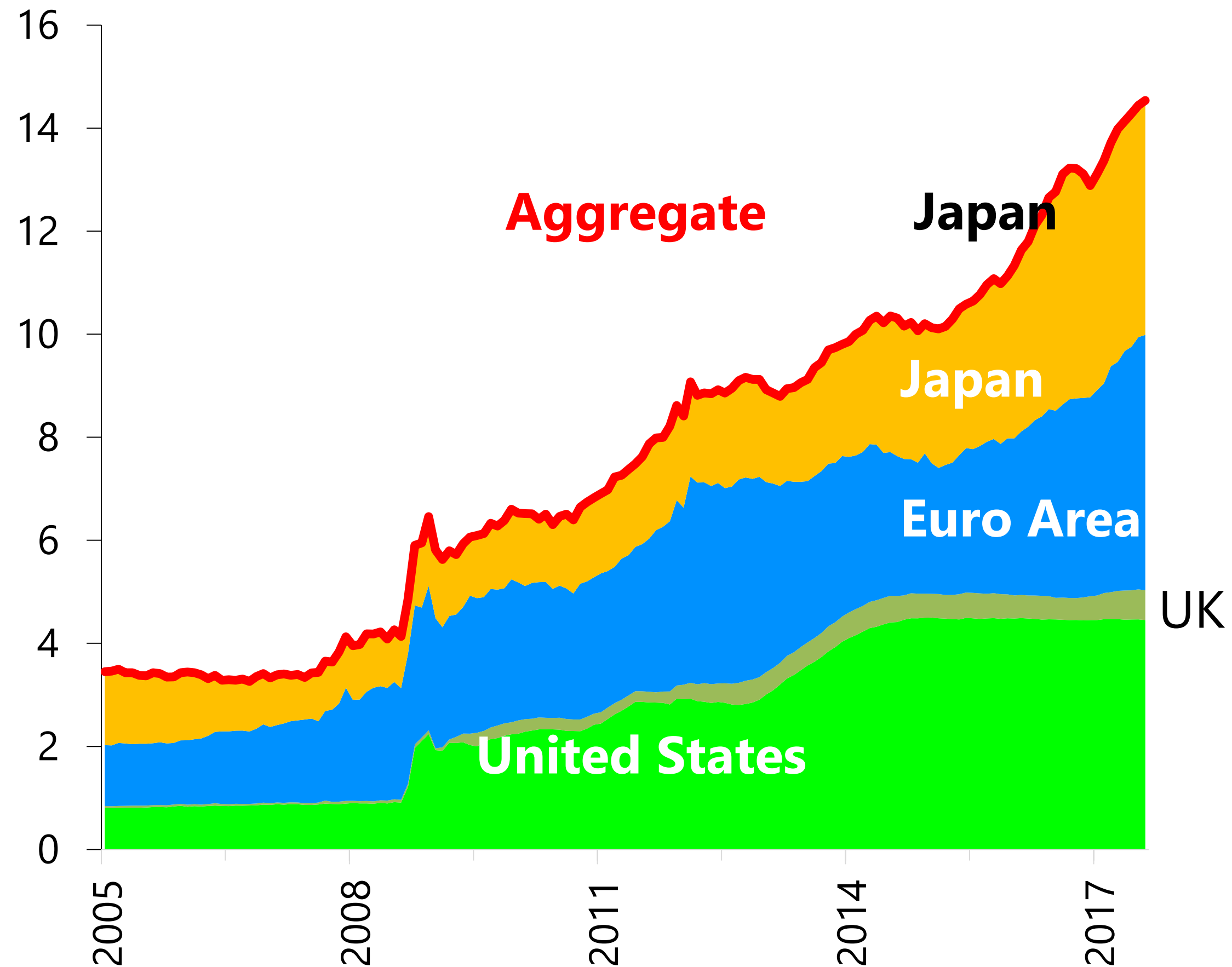
Market Plus Term Premiums for Emerging Market and Developed Market Investment-Grade and High-Yield Bonds
(Percent)



Key stability challenge: rebalancing of central bank and private sector portfolios

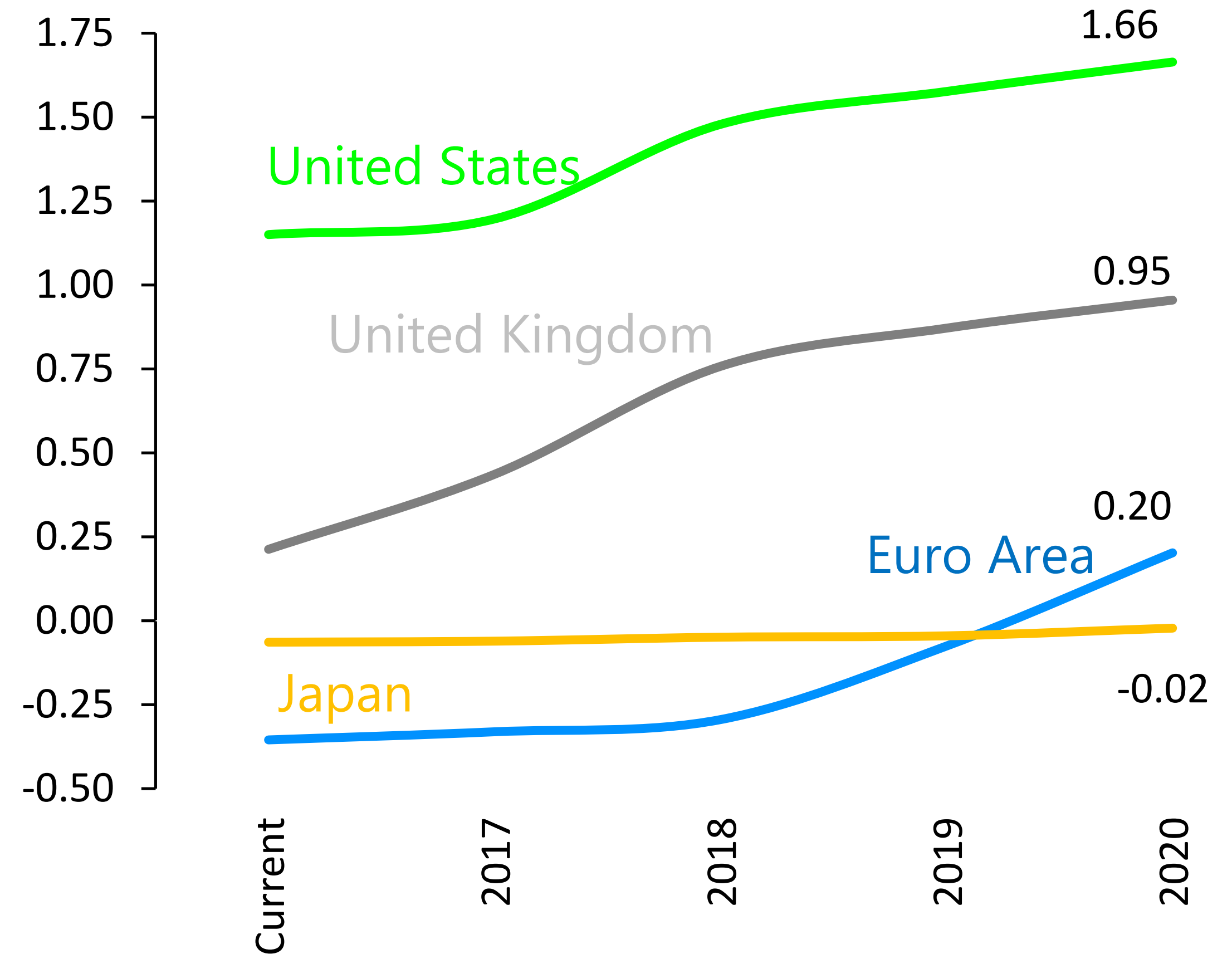
Central Bank Balance Sheets

(Central Bank Outstanding Assets, Trillions of US dollars)



Policy Rate Expectations

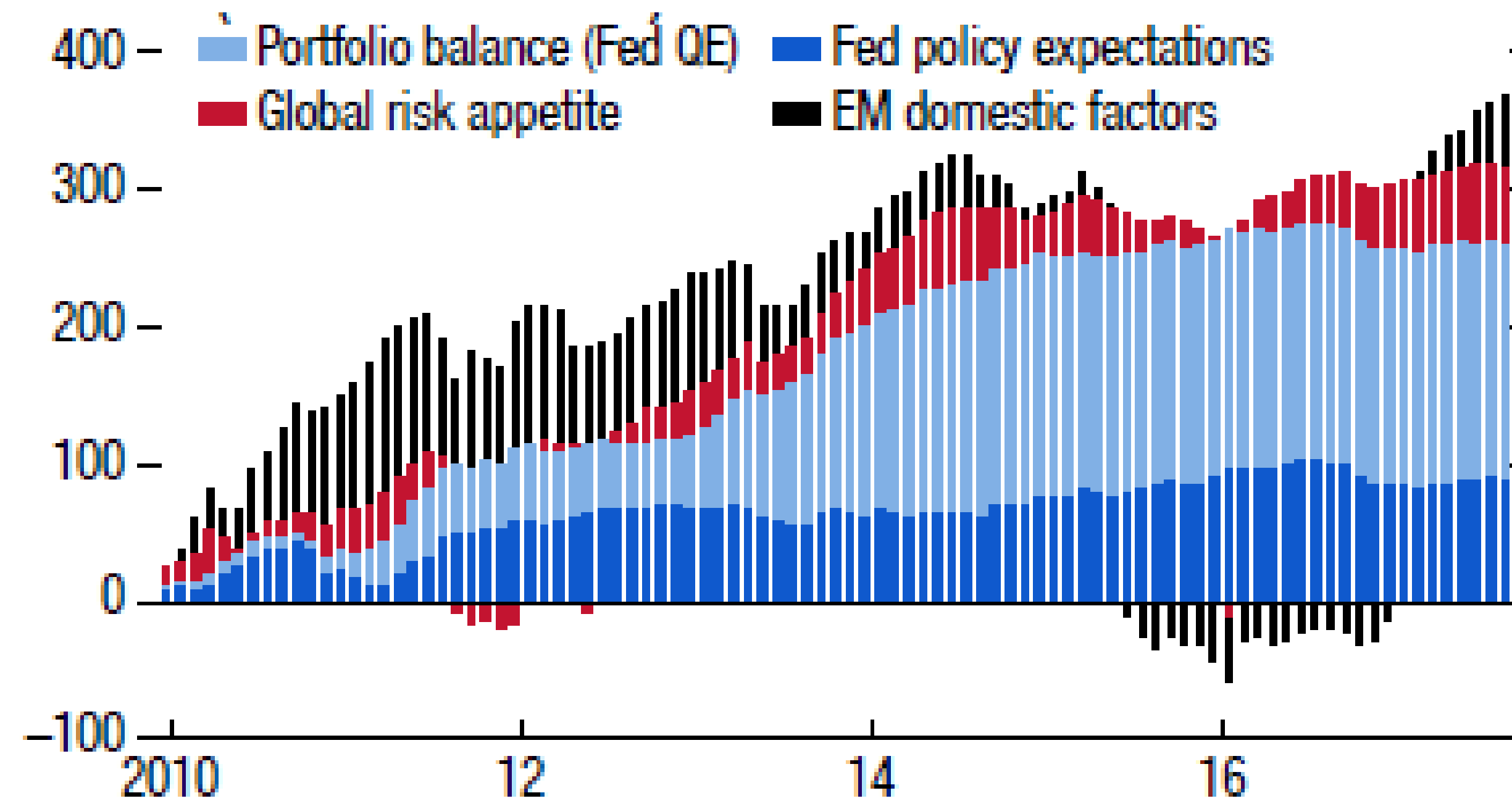
(Forward OIS Rates; Percent)



Potential for spillovers to Emerging Markets

Model Estimates: Cumulative Contributions to Emerging Market Portfolio Flows

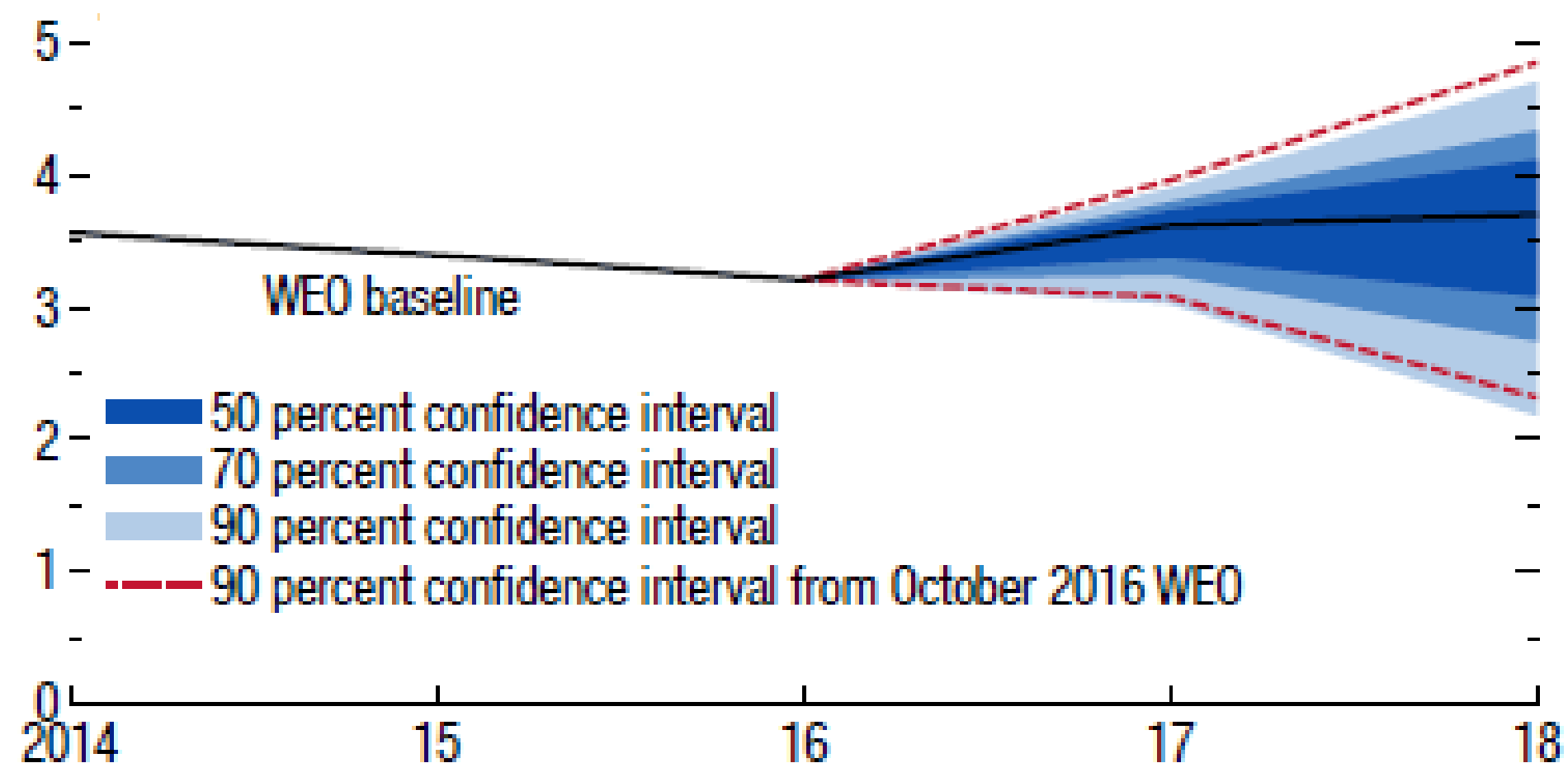
(Billions of dollars)



Overall, risks to outlook still skewed to the downside

Prospects for World GDP Growth

(Percent change)



- **Financial tensions**
 - Financial stability risks in China
 - A potential tightening of global financial conditions
 - Risks of capital flow reversals
 - Challenges facing euro area banks
 - Financial deregulation
- **Threats to global economic integration**
- **Persistently low inflation in advanced economies**
- **Non-economic factors**

Policies: Window of opportunity to undertake structural reforms to bolster potential outlook and reduce risks

Advanced economies

- Cyclical support desirable where demand and inflation are weak
- Boost potential output and strengthen safety nets
- Credible strategies needed to put debt on a sustainable path

Emerging market and developing economies

- Support for rebalancing and tame credit growth in China
- Adjustment to lower commodity revenues in exporters
- Contain financial risks in vulnerable EMDEs
- Structural reforms to boost potential output

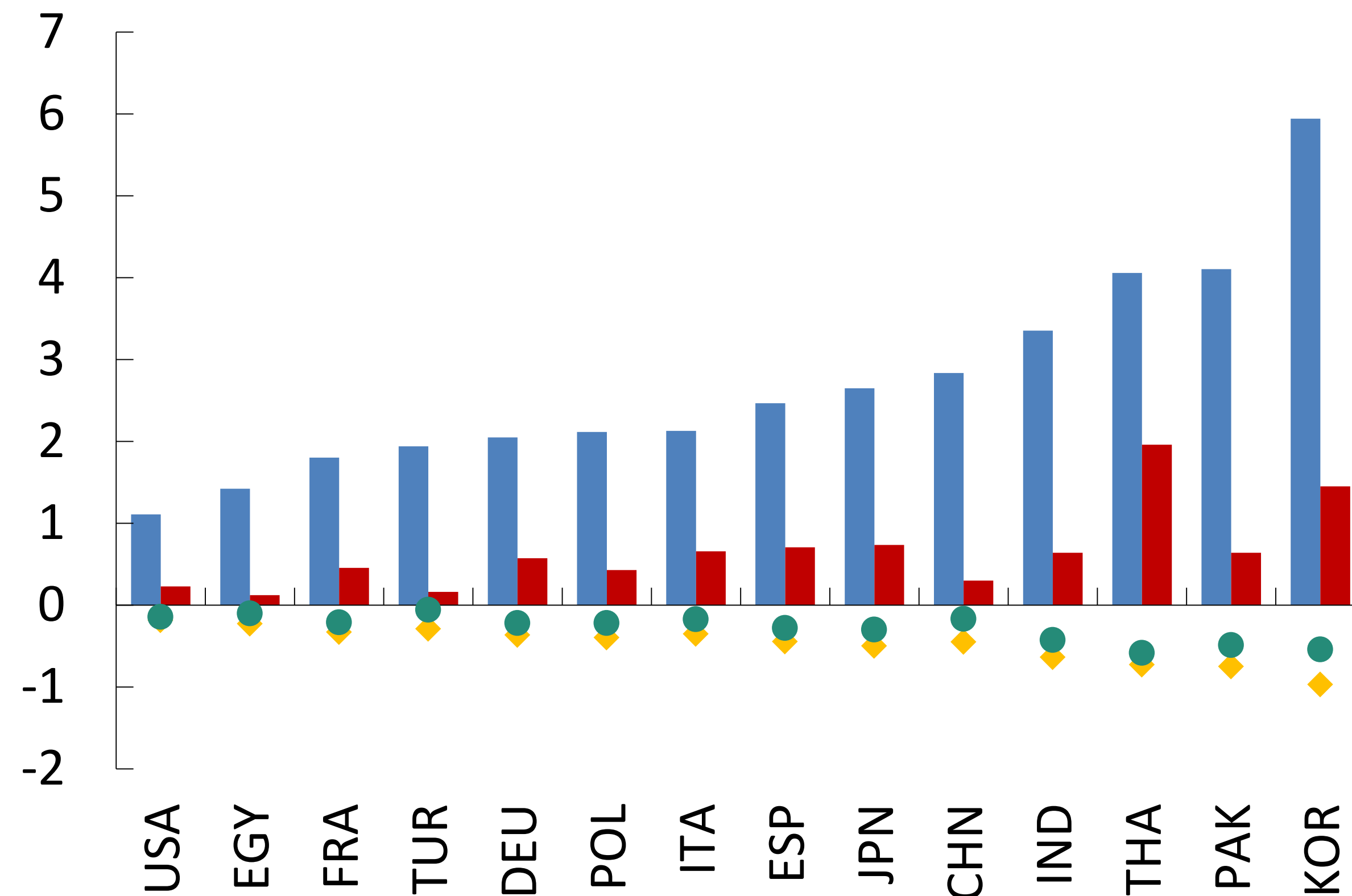
Implications for India

India: External conditions will be mixed

Terms-of-Trade Windfall Gains

(percent of GDP)

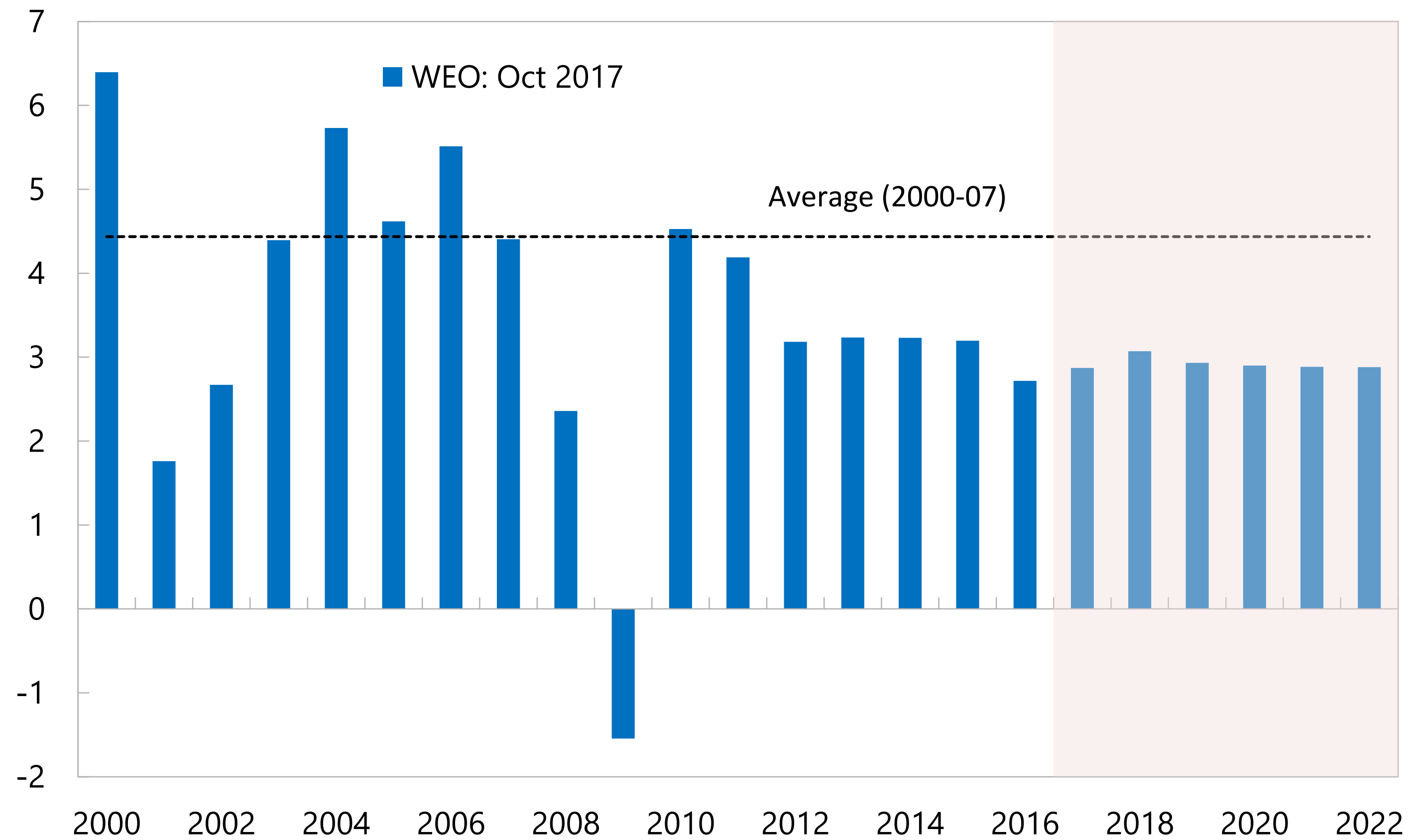
- 2015
- 2016
- ◆ 2017-18 (Apr. 2017 WEO commodity prices)
- 2017-18 (Oct. 2017 WEO commodity prices)



India: External conditions will be mixed

Real GDP Growth of India's Export Partners

(in percent)

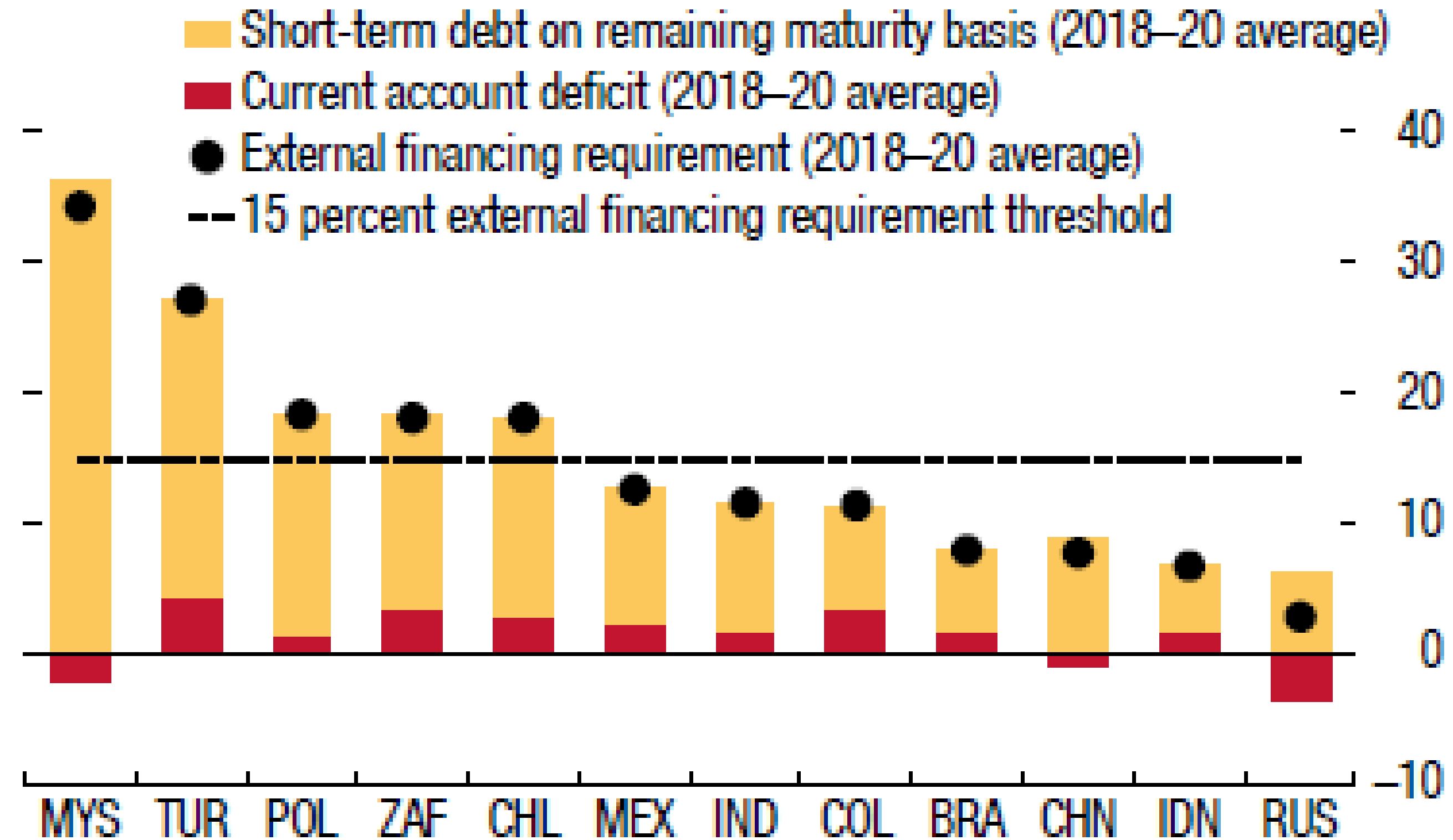


Sources: WEO database, April 2017

Prepared to deal with potential global financial volatility?

External Financial Requirements

(Percent of GDP)



India—Ultimately, domestic policies and reforms will be key!

- Terms of trade will provide some drag in 2017 but should be broadly stable thereafter
- Financial conditions less buoyant going forward but generally supportive, although with high volatility risks
- Export demand to strengthen in 2017 and (less) in 2018, but subsequently expected to lose steam
- Implication: With external demand, terms of trade, and financial conditions only providing limited support, **domestic policies and reforms will be key for India's medium-term growth outlook!**

Thank you

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