World Economic Outlook
January 2014 Update

Thomas Richardson
IMF Senior Resident Representative – India/Nepal

ICRIER, New Delhi
January 31, 2014
1. World Economic Outlook (WEO) January update
   ✓ www.imf.org/weo

2. Advanced Economies (AEs): turning the corner?

3. Emerging Markets (EMs) – especially in Asia – still lead world growth

4. Volatility in EMs – tale of two “I”s?

5. What does this mean for India?
World Economic Outlook Update January 2014

**Upside**
- Strengthened global activity during second half of 2013
- Euro area moving from recession to recovery
- Higher export demand in emerging markets
- U.S. budget deal to boost final demand in 2014

**To ensure growth, IMF recommends:**
- Advanced economies:
  - Avoid premature monetary policy tightening
  - Repair balance sheets
  - Implement structural reforms to boost growth
- Emerging market and developing economies:
  - Manage vulnerabilities from capital flow volatility
  - Safeguard financial stability after rapid credit growth
  - Implement structural reforms to boost growth

**Risks**
- Possible deflation in advanced economies
- Weak domestic demand in emerging markets
- Stagnation in euro area
- Capital flow volatility to some emerging markets

**Growth**

- **2012**
  - World: 3.1%
  - Advanced: 1.4%
  - Emerging Markets & Developing: 4.9%

- **2013**
  - World: 3.0%
  - Advanced: 1.3%
  - Emerging Markets & Developing: 4.7%

- **2014**
  - World: 3.7%
  - Advanced: 2.2%
  - Emerging Markets & Developing: 5.1%

- **2015**
  - World: 3.9%
  - Advanced: 2.3%
  - Emerging Markets & Developing: 5.4%

International Monetary Fund

[www.IMF.org #WEO](http://www.IMF.org #WEO)
Growth momentum increasingly coming from AEs

January 2014 WEO Real GDP Growth Projections  *(percent change from a year earlier)*

<table>
<thead>
<tr>
<th></th>
<th>World (Oct. 2013)</th>
<th>U.S.</th>
<th>Euro Area</th>
<th>Japan</th>
<th>Brazil</th>
<th>Russia</th>
<th>India* (Jan. 2014)</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>2.9</td>
<td>1.6</td>
<td>-0.4</td>
<td>2.0</td>
<td>2.5</td>
<td>1.5</td>
<td>3.8</td>
<td>7.6</td>
</tr>
<tr>
<td>2013e (Jan. 2014)</td>
<td>3.0</td>
<td>1.9</td>
<td>-0.4</td>
<td>1.7</td>
<td>2.3</td>
<td>1.5</td>
<td>4.4</td>
<td>7.7</td>
</tr>
<tr>
<td>2014 (Oct. 2013)</td>
<td>3.6</td>
<td>2.6</td>
<td>1.0</td>
<td>1.2</td>
<td>2.5</td>
<td>3.0</td>
<td>5.1</td>
<td>7.3</td>
</tr>
<tr>
<td>2014 (Jan. 2014)</td>
<td>3.7</td>
<td>2.8</td>
<td>1.0</td>
<td>1.7</td>
<td>2.3</td>
<td>3.3</td>
<td>5.4</td>
<td>7.5</td>
</tr>
</tbody>
</table>

*For India 2013 is FY2013/14, and 2014 is FY2014/15. Data at market prices (Jan WEO factor cost estimates are 4.6% for 2013/14 and 5.4% for 2014/15)

Source: IMF, World Economic Outlook.
AEs: inflationary pressures still muted
EMDEs: generally in target range, but not everywhere (India)
Commodity prices pressures look likely to be tame as well.
AEEs: turning the corner?

Advanced Economies: Manufacturing PMI

(Seasonally adjusted; 50 = neutral)

- United States
- Euro area
- United Kingdom

Chart showing trends in manufacturing PMI from February 2008 to October 2013, with different lines representing different regions.
Equity markets, especially in US, improving; VIX is muted
US: recovery, albeit fragile, is evident in the data

Employment data are also encouraging

US: growth forecast still trending upward
Euro area: from recession to growth?
China and Japan: still crucial for world growth

China: growth expected to remain robust (worries about shadow banks notwithstanding)

Japan: concern is to ensure medium-term fiscal consolidation
Other BRIC countries: affected by concerns about EMs

**Russia:** forecasts have been downgraded. Some EM volatility effects seen.

**Brazil:** also small downgrade to growth outlook. EM volatility is important here too.
EMs, especially Asia, still lead world growth
Asia’s external sector: showing some signs of improvement
Asia: domestic demand may also be strengthening
Asia (x-Japan): capital flows have [had?] stabilized; equities more important than debt
India’s equity market has recovered since September

Equity Market Indices
(Percent change since May 22, 2013)

- South Africa: -26.4%
- Australia: -21.3%
- Mexico: -17.9%
- New Zealand: -17.9%
- Korea: -11.8%
- Malaysia: -11.0%
- India: -10.9%
- Brazil: -8.1%
- China: -8.1%
- Japan: -8.9%
- Philippines: -7.1%
- Indonesia: -6.0%
- Turkey: -5.9%
- New Zealand: -4.5%
- Mexico: -3.7%
- Australia: -3.5%
- India: -3.1%
- Korea: -2.3%
- Brazil: -2.1%
- China: -1.9%
- Japan: -1.7%
- Philippines: -0.5%
- Indonesia: 0.0%
- Turkey: 0.4%
- New Zealand: 2.8%
- Mexico: 6.0%
- Australia: 11.0%
- India: 11.8%
- Korea: 11.8%
- Brazil: 7.1%
- China: 6.2%
- Japan: 4.5%
- Philippines: 3.1%
- Indonesia: 2.7%
- Turkey: 2.8%
- New Zealand: 0.2%
- Mexico: -0.5%
- Australia: -0.0%
- India: -3.5%
- Korea: -3.1%
- Brazil: -2.7%
- China: -2.3%
- Japan: -2.9%
- Philippines: -2.3%
- Indonesia: -2.1%
- Turkey: -0.3%
- New Zealand: 0.0%
- Mexico: -0.0%
- Australia: -0.0%
- India: -0.0%
- Korea: -0.0%
- Brazil: -0.0%
- China: -0.0%
- Japan: -0.0%
- Philippines: -0.0%
- Indonesia: -0.0%
- Turkey: -0.0%
- New Zealand: 0.0%
- Mexico: 0.0%
- Australia: 0.0%
- India: 0.0%
- Korea: 0.0%
- Brazil: 0.0%
- China: 0.0%
- Japan: 0.0%
- Philippines: 0.0%
- Indonesia: 0.0%
- Turkey: 0.0%
- New Zealand: 0.0%
- Mexico: 0.0%
- Australia: 0.0%
- India: 0.0%
- Korea: 0.0%
- Brazil: 0.0%
- China: 0.0%
- Japan: 0.0%
- Philippines: 0.0%
- Indonesia: 0.0%
- Turkey: 0.0%
- New Zealand: 0.0%
- Mexico: 0.0%
- Australia: 0.0%
- India: 0.0%
- Korea: 0.0%
- Brazil: 0.0%
- China: 0.0%
- Japan: 0.0%
- Philippines: 0.0%
- Indonesia: 0.0%
- Turkey: 0.0%
- New Zealand: 0.0%
- Mexico: 0.0%
- Australia: 0.0%
- India: 0.0%
- Korea: 0.0%
- Brazil: 0.0%
- China: 0.0%
- Japan: 0.0%
- Philippines: 0.0%
- Indonesia: 0.0%
- Turkey: 0.0%
- New Zealand: 0.0%
- Mexico: 0.0%
- Australia: 0.0%
- India: 0.0%
- Korea: 0.0%
- Brazil: 0.0%
- China: 0.0%
- Japan: 0.0%
- Philippines: 0.0%
- Indonesia: 0.0%
- Turkey: 0.0%
- New Zealand: 0.0%
- Mexico: 0.0%
- Australia: 0.0%
- India: 0.0%
- Korea: 0.0%
- Brazil: 0.0%
- China: 0.0%
- Japan: 0.0%
- Philippines: 0.0%
- Indonesia: 0.0%
- Turkey: 0.0%
- New Zealand: 0.0%
- Mexico: 0.0%
- Australia: 0.0%
- India: 0.0%
- Korea: 0.0%
- Brazil: 0.0%
- China: 0.0%
- Japan: 0.0%
- Philippines: 0.0%
- Indonesia: 0.0%
- Turkey: 0.0%
- New Zealand: 0.0%
- Mexico: 0.0%
- Australia: 0.0%
- India: 0.0%
- Korea: 0.0%
- Brazil: 0.0%
- China: 0.0%
- Japan: 0.0%
- Philippines: 0.0%
- Indonesia: 0.0%
- Turkey: 0.0%
- New Zealand: 0.0%
- Mexico: 0.0%
- Australia: 0.0%
- India: 0.0%
- Korea: 0.0%
- Brazil: 0.0%
- China: 0.0%
- Japan: 0.0%
- Philippines: 0.0%
- Indonesia: 0.0%
- Turkey: 0.0%
- New Zealand: 0.0%
- Mexico: 0.0%
- Australia: 0.0%
- India: 0.0%
- Korea: 0.0%
- Brazil: 0.0%
- China: 0.0%
- Japan: 0.0%
- Philippines: 0.0%
- Indonesia: 0.0%
- Turkey: 0.0%
- New Zealand: 0.0%
- Mexico: 0.0%
- Australia: 0.0%
- India: 0.0%
- Korea: 0.0%
- Brazil: 0.0%
- China: 0.0%
- Japan: 0.0%
- Philippines: 0.0%
- Indonesia: 0.0%
- Turkey: 0.0%
- New Zealand: 0.0%
- Mexico: 0.0%
- Australia: 0.0%
- India: 0.0%
- Korea: 0.0%
- Brazil: 0.0%
- China: 0.0%
- Japan: 0.0%
- Philippines: 0.0%
- Indonesia: 0.0%
- Turkey: 0.0%
- New Zealand: 0.0%
- Mexico: 0.0%
- Australia: 0.0%
- India: 0.0%
- Korea: 0.0%
- Brazil: 0.0%
- China: 0.0%
- Japan: 0.0%
- Philippines: 0.0%
- Indonesia: 0.0%
- Turkey: 0.0%
- New Zealand: 0.0%
- Mexico: 0.0%
- Australia: 0.0%
- India: 0.0%
- Korea: 0.0%
- Brazil: 0.0%
- China: 0.0%
- Japan: 0.0%
- Philippines: 0.0%
- Indonesia: 0.0%
- Turkey: 0.0%
- New Zealand: 0.0%
- Mexico: 0.0%
- Australia: 0.0%
- India: 0.0%
- Korea: 0.0%
- Brazil: 0.0%
- China: 0.0%
- Japan: 0.0%
- Philippines: 0.0%
- Indonesia: 0.0%
- Turkey: 0.0%
- New Zealand: 0.0%
- Mexico: 0.0%
- Australia: 0.0%
- India: 0.0%
- Korea: 0.0%
- Brazil: 0.0%
- China: 0.0%
- Japan: 0.0%
- Philippines: 0.0%
- Indonesia: 0.0%
- Turkey: 0.0%
- New Zealand: 0.0%
- Mexico: 0.0%
- Australia: 0.0%
- India: 0.0%
- Korea: 0.0%
- Brazil: 0.0%
- China: 0.0%
- Japan: 0.0%
- Philippines: 0.0%
- Indonesia: 0.0%
- Turkey: 0.0%
- New Zealand: 0.0%
- Mexico: 0.0%
- Australia: 0.0%
- India: 0.0%
Volatility in EMs

Exchange Rate
(Index, June 1, 2009=100, NC/US$)

Sources: Bloomberg and IMF staff calculations.
India & Indonesia: a tale of two “I”s?

**India and Indonesia: Trade Balance and Current Account Balance**

*Trade Balance*
(In billions of U.S. dollars; 3 month moving average)

*Current Account Balance*
(Impercent of GDP)

Sources: Haver Analytics.

Data as of December 2013, November (Indonesia; Trade Balance), 2013:Q8 (Current Account Balance)
Current Account Balance vs. Exchange Rate
(In percent)

EM exchange rates: fundamentals (like CAD) matter
EM exchange rates: fiscal deficits are a concern too.
EM exchange rates and inflation: no surprise here

Inflation vs. Exchange Rate
(In percent)

Percent change in exchange rate (Since May 22nd)
EMs have taken short-run steps taken to fend off contagion...
Inflation and Fiscal Balance, 2012
(In percent)

... but getting macro fundamentals right is crucial

Sources: IMF, World Economic Outlook; and IMF staff calculations.
What does this mean for India?

---

**India: Growth Forecast Revisions**

(In percent)

Sources: IMF; and Consensus Economics.
Consensus: 4.7% in 2013/14 and about 5.5% in 2014/15
There is a domestic component to India’s slowdown

Spillovers from Advanced Economies

Sources: IMF, *World Economic Outlook*; and IMF staff calculations.

Note: Unexpected growth denotes real GDP growth in 2013 minus the forecast. AE partner unexpected growth denotes export-weighted average of growth of advanced-economy trading partners in 2013 minus the forecast, multiplied by the economy’s share of exports in real GDP. Forecasts are taken from the September 2011 WEO.
India’s growth slowdown began with investment stalling ...
... and the investment pipeline remains thin

![Investment Graph](chart.png)

**Investment**
(In billions of Rupees)

- **Stalled & Shelved**
- **New [RHS]**

Sources: CAPEX and IMF staff calculations.
India: CAD has been squeezed down, but durably?

Current Account Balance
(In percent of GDP)

Sources: CEIC and IMF staff calculations.
India: debt flows tapered off, but more durable financing held up

Inward FDI and Debt Financing
(In percent of Current Account Deficit)

Source: Haver Analytics.
India: ample reserves (even before Sept – Nov measures)

**Estimated Reserve Adequacy**
(Official reserves as a percent of IMF country-specific metric)

Suggested adequacy range

India: inflation is too high; does everyone now agree with that?

**Inflation and Credit**
(In percent, yoy)

1/ Industrial Workers
Sources: CEIC and IMF staff calculations.
India: monetary policy normalized from September to December; January 28 RBI action (not shown): domestic vs external concerns?

Interest Rates
(In percent)

Source: Bloomberg.
Conclusions

- **Growth momentum** seems to be shifting from EMs to AEs
  - Especially in the US, to lesser extent Japan
  - Euro area is fragile; China is robust, but concerns nag
- **Risks** are on the downside

- Although growth has slowed, Asia is still the **global growth leader**
- **Inflation** is not a major concern for most (except India, Indonesia)
- **International reserves** are adequate in most countries
- Short term policy tightening can help
  - But **macroeconomic fundamentals** are even more important

- **Growth slowdown led by investment** – will take time to fix
- **Current account deficit** now adjusting (durably?)
- **Inflation** is too high, and **budget deficit** too large
  - Fuel subsidies need to be tackled
- Need **structural reforms** too boost investment and growth
Thank you

Want to know more?

www.imf.org/weo: on global outlook
www.imf.org/asia: on our work in Asia
www.imf.org/india: what we do in India

Follow on twitter: @IMF_India