



World Economic Outlook

January 2014 Update

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Outline

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

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

Possible deflation in advanced economies

Weak domestic demand in emerging markets

Stagnation in euro area

Capital flow volatility to some emerging markets

RISKS

GROWTH











World

Advanced

Emerging Markets & Developing

Growth momentum increasingly coming from AEs

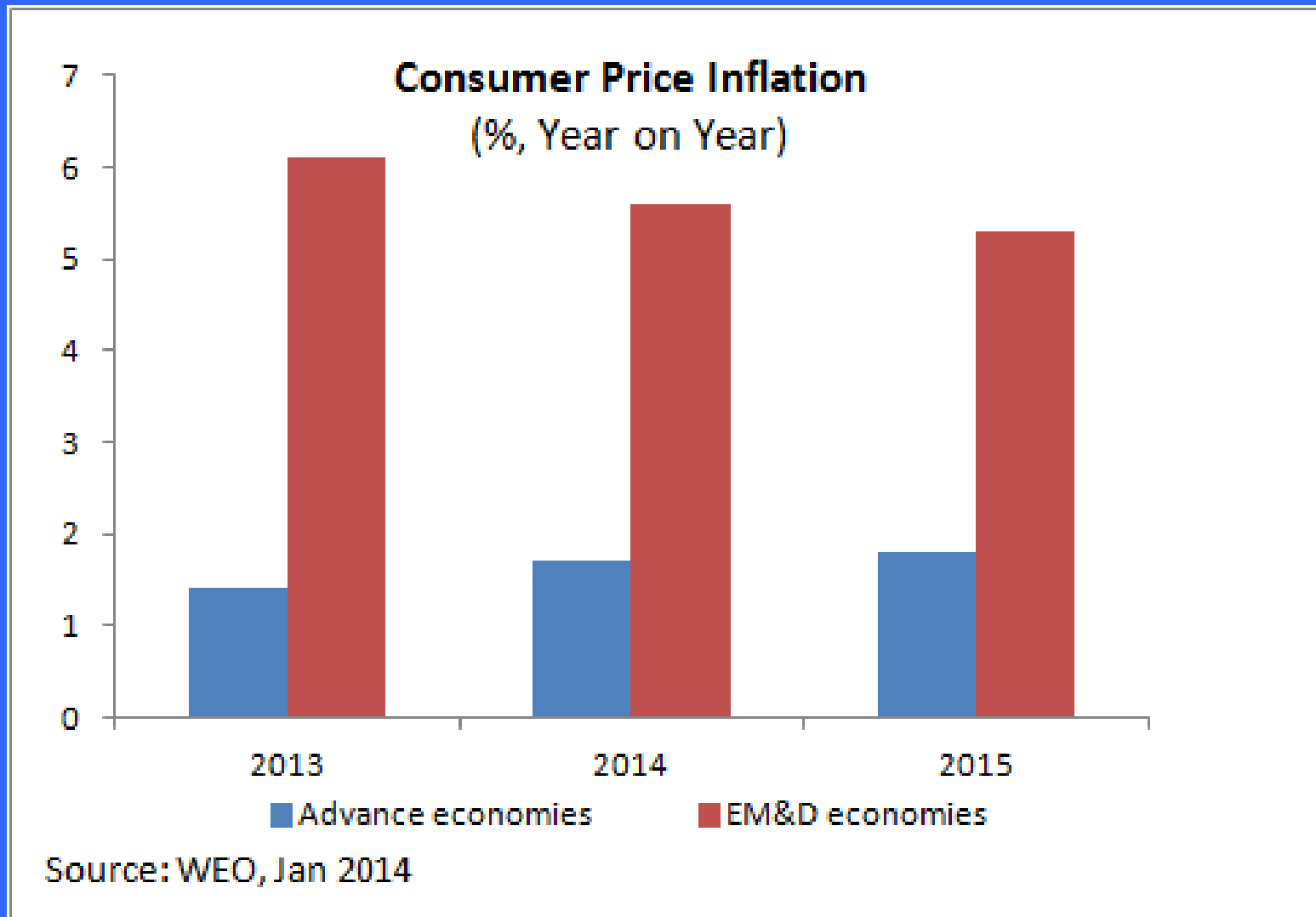
January 2014 WEO Real GDP Growth Projections *(percent change from a year earlier)*

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

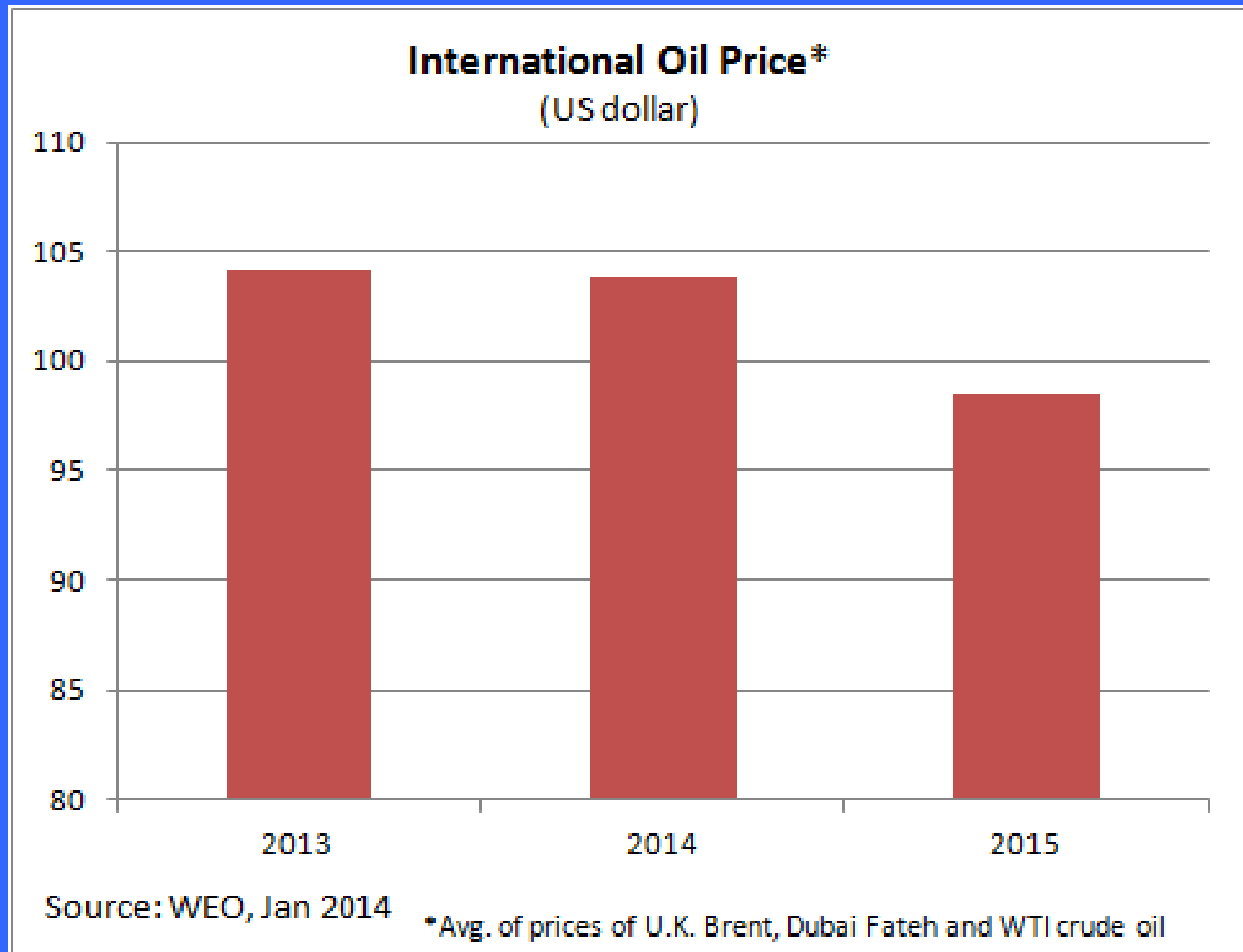
*For India 2013 is FY2013/14, and 2014 is FY2014/15. Data at market prices (Jan WEO factor cost estimates are 4.6% for 2013/14 and 5.4% for 2014/15)

AEs: inflationary pressures still muted

EMDEs: generally in target range, but not everywhere (India)



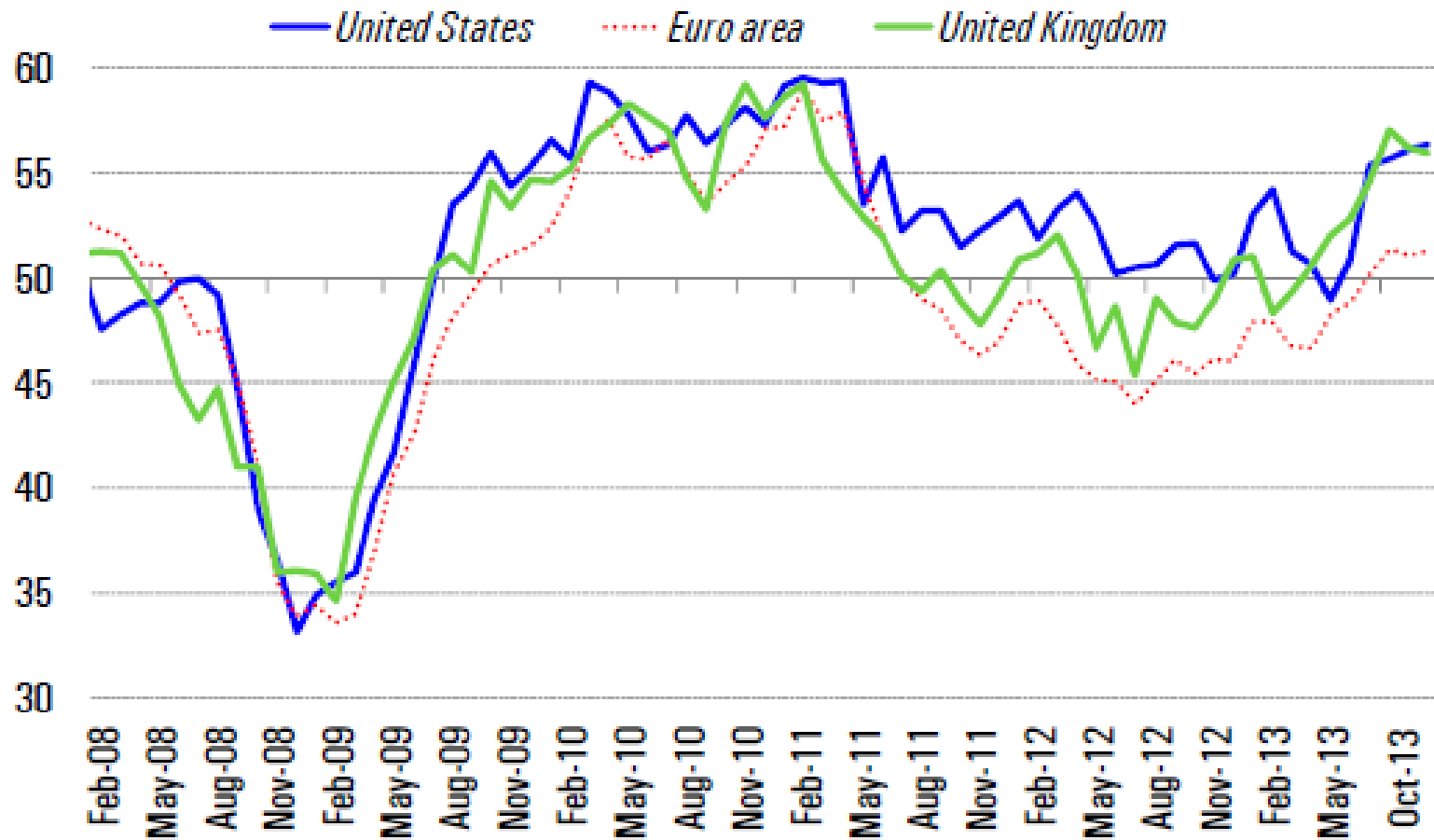
Commodity prices pressures look likely to be tame as well



AEs: turning the corner?

Advanced Economies: Manufacturing PMI

(Seasonally adjusted; 50 = neutral)



Equity markets, especially in US, improving; VIX is muted

Advanced Economies: Stock Market Performance

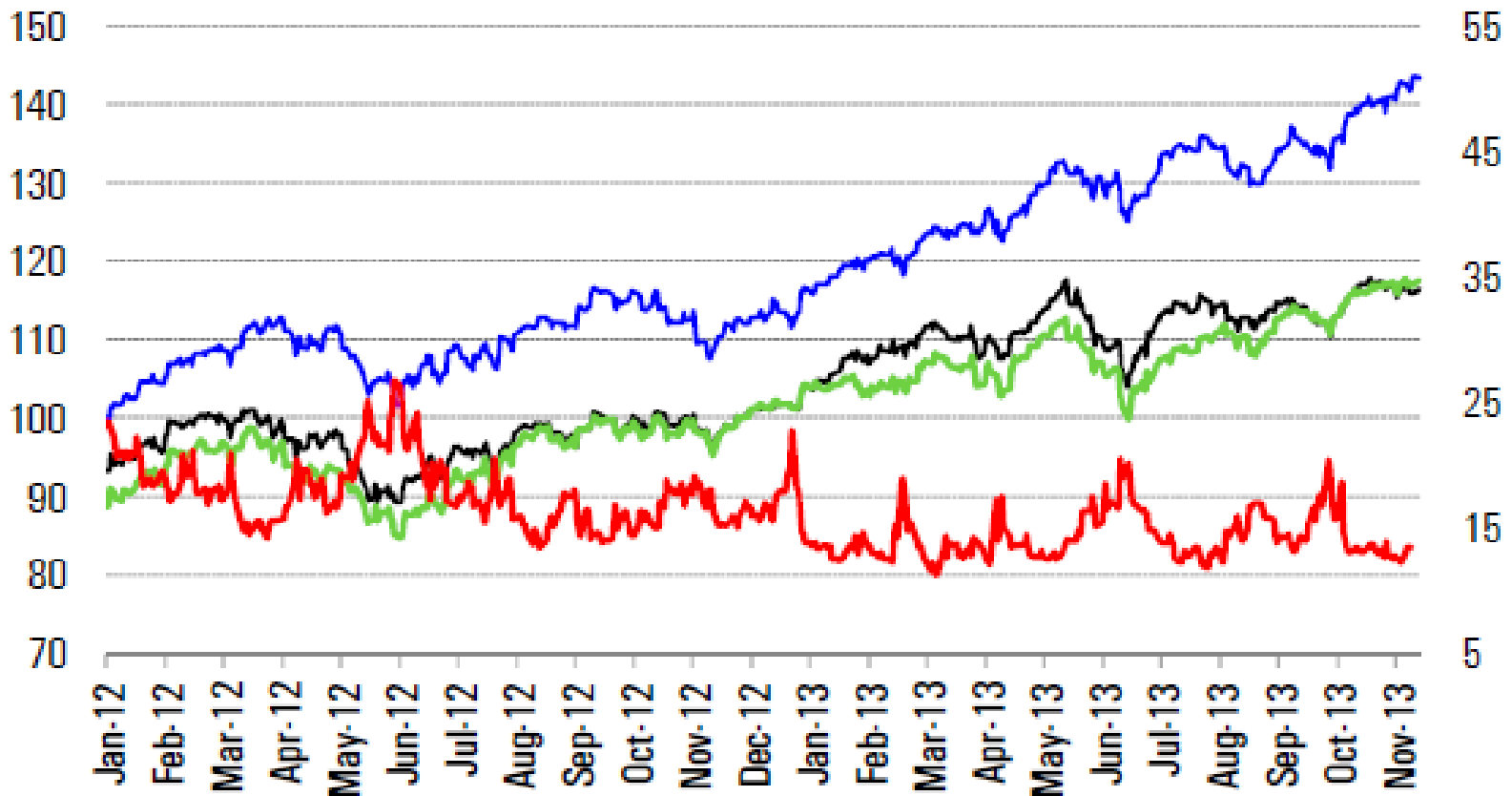
(Index; December 31, 2010 = 100)

— US: S&P 500

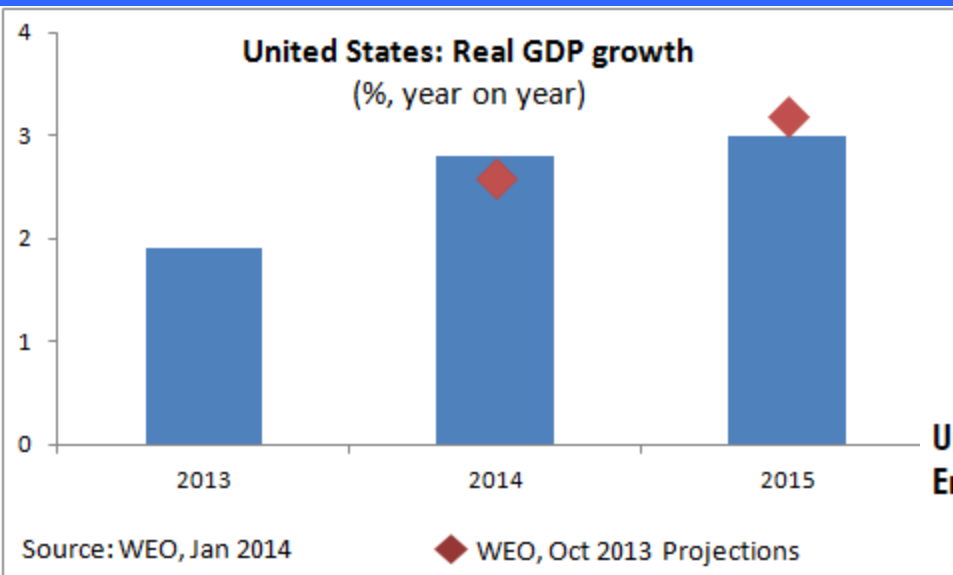
— UK: Financial Times All Shares

— Euro Area: STOXX Broad Price Index

— VIX (actual level, RHS)



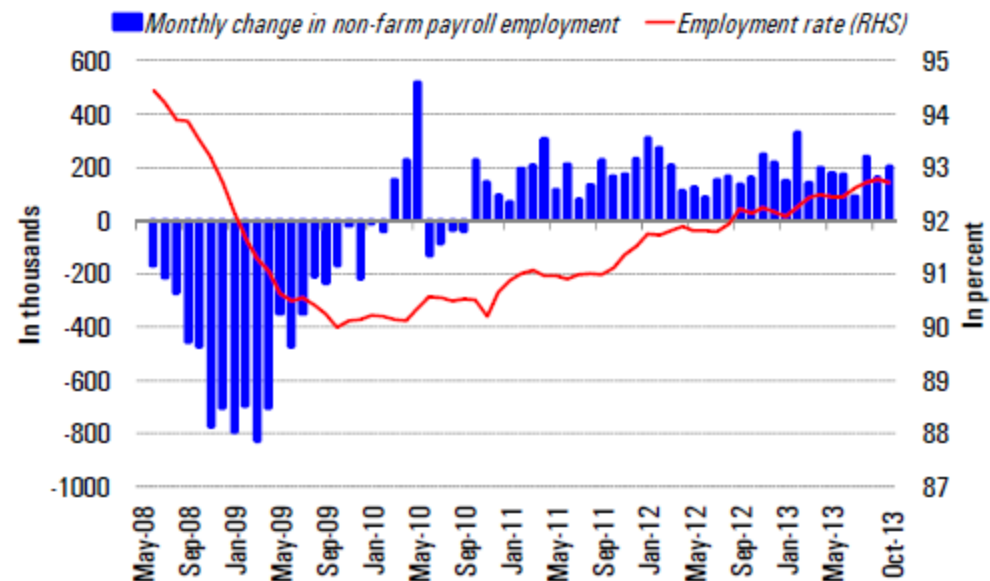
US: recovery, albeit fragile, is evident in the data



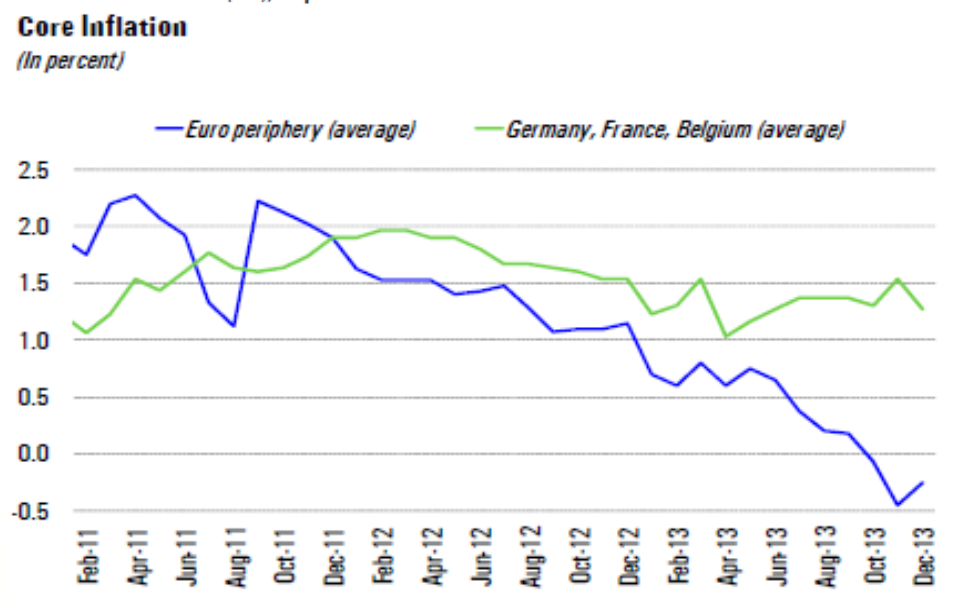
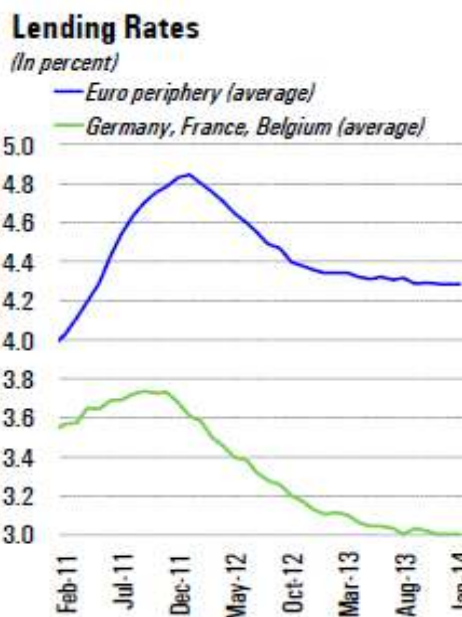
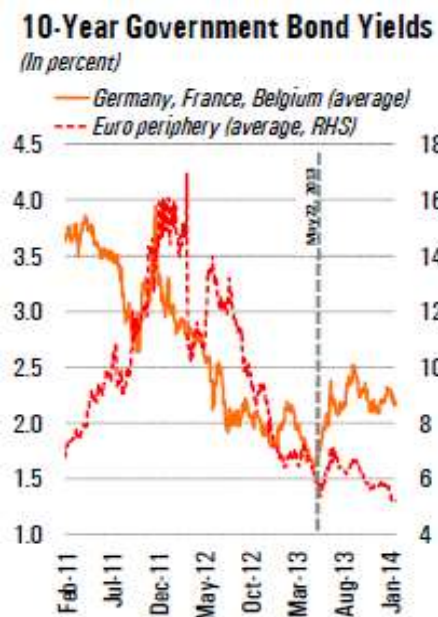
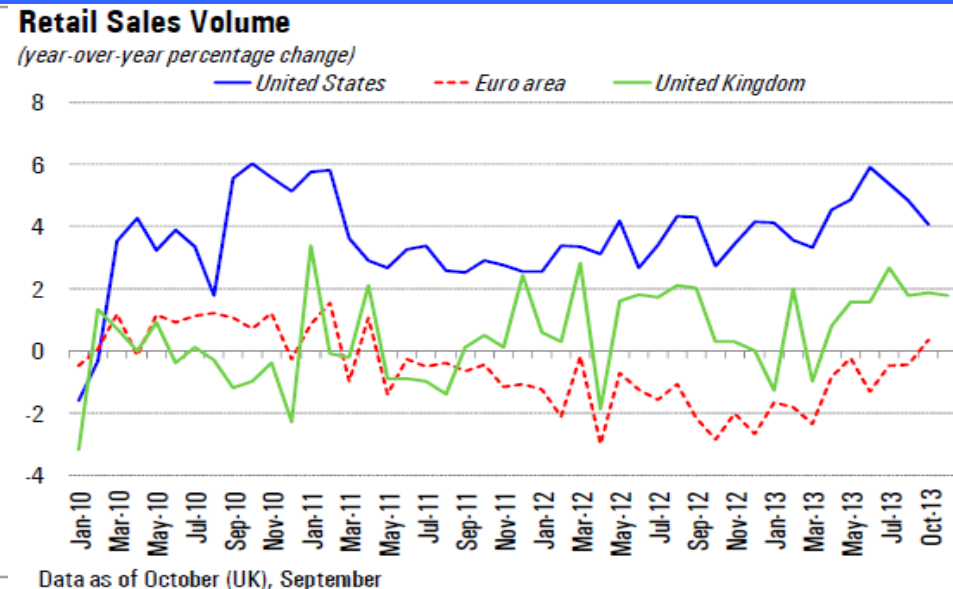
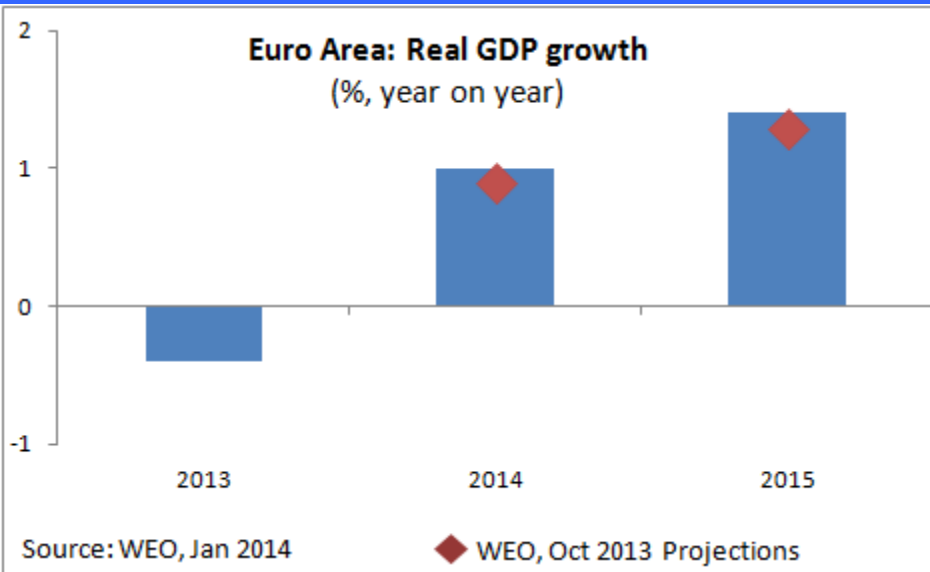
US: growth forecast still trending upward

Employment data are also encouraging

United States: Change in Non-Farm Payroll Employment and Employment rate

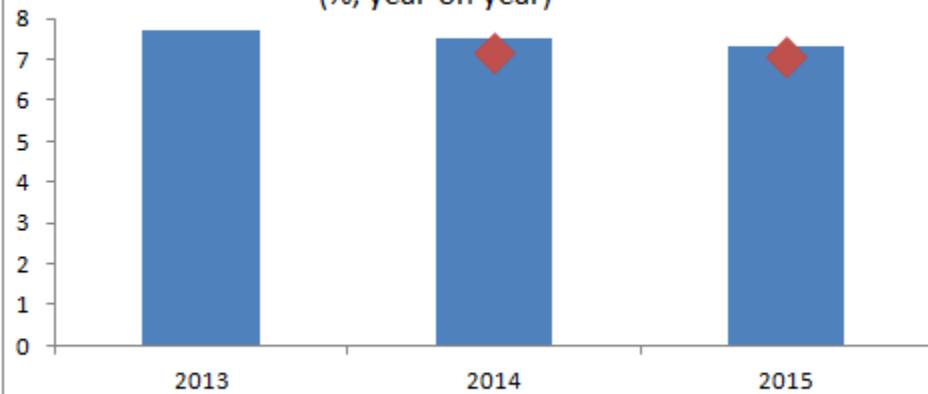


Euro area: from recession to growth?



China and Japan: still crucial for world growth

China: Real GDP growth
(%, year on year)



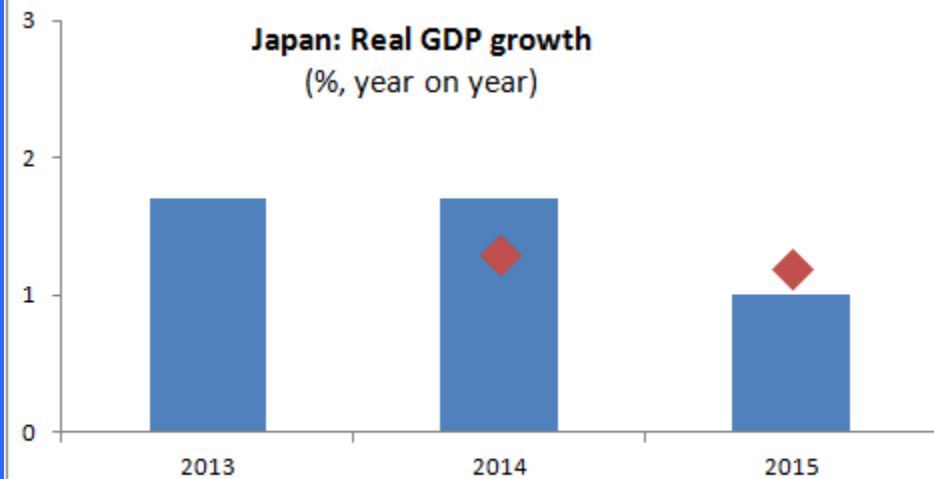
Source: WEO, Jan 2014

◆ WEO, Oct 2013 Projections

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

Japan: concern is to ensure medium-term fiscal consolidation

Japan: Real GDP growth
(%, year on year)



Source: WEO, Jan 2014

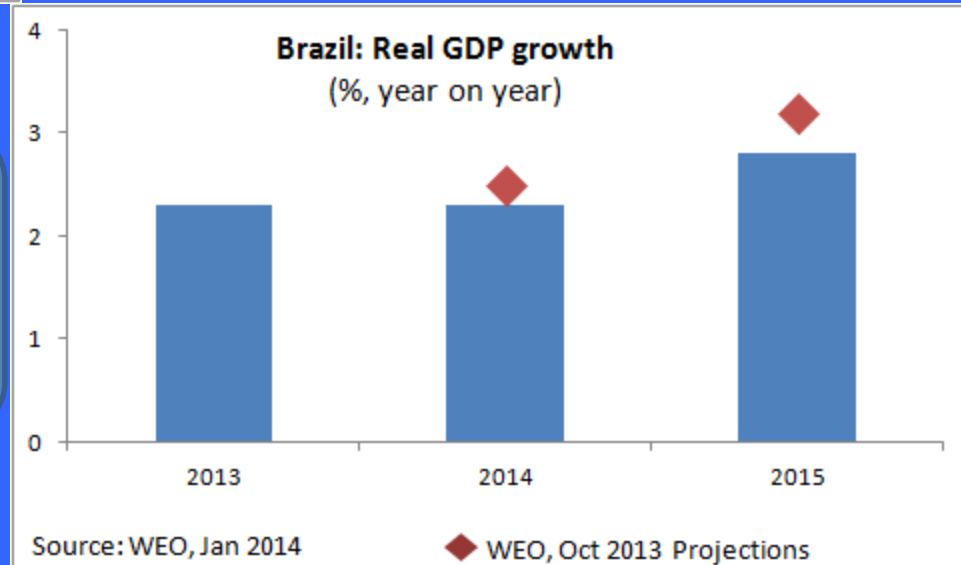
◆ WEO, Oct 2013 Projections

Other BRIC countries: affected by concerns about EMs

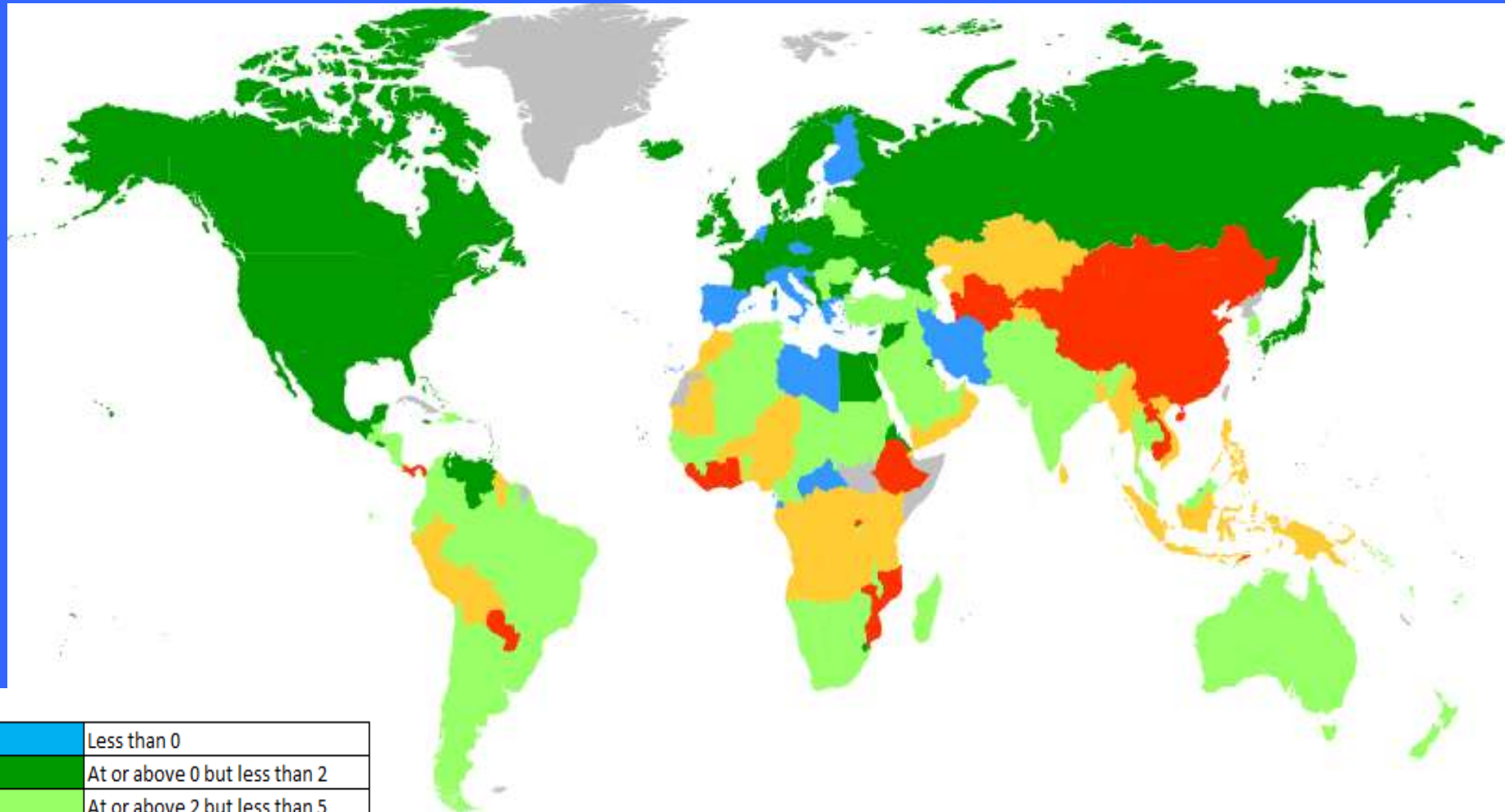


Russia: forecasts have been downgraded. Some EM volatility effects seen

Brazil: also small downgrade to growth outlook. EM volatility is important here too



EMs, especially Asia, still lead world growth

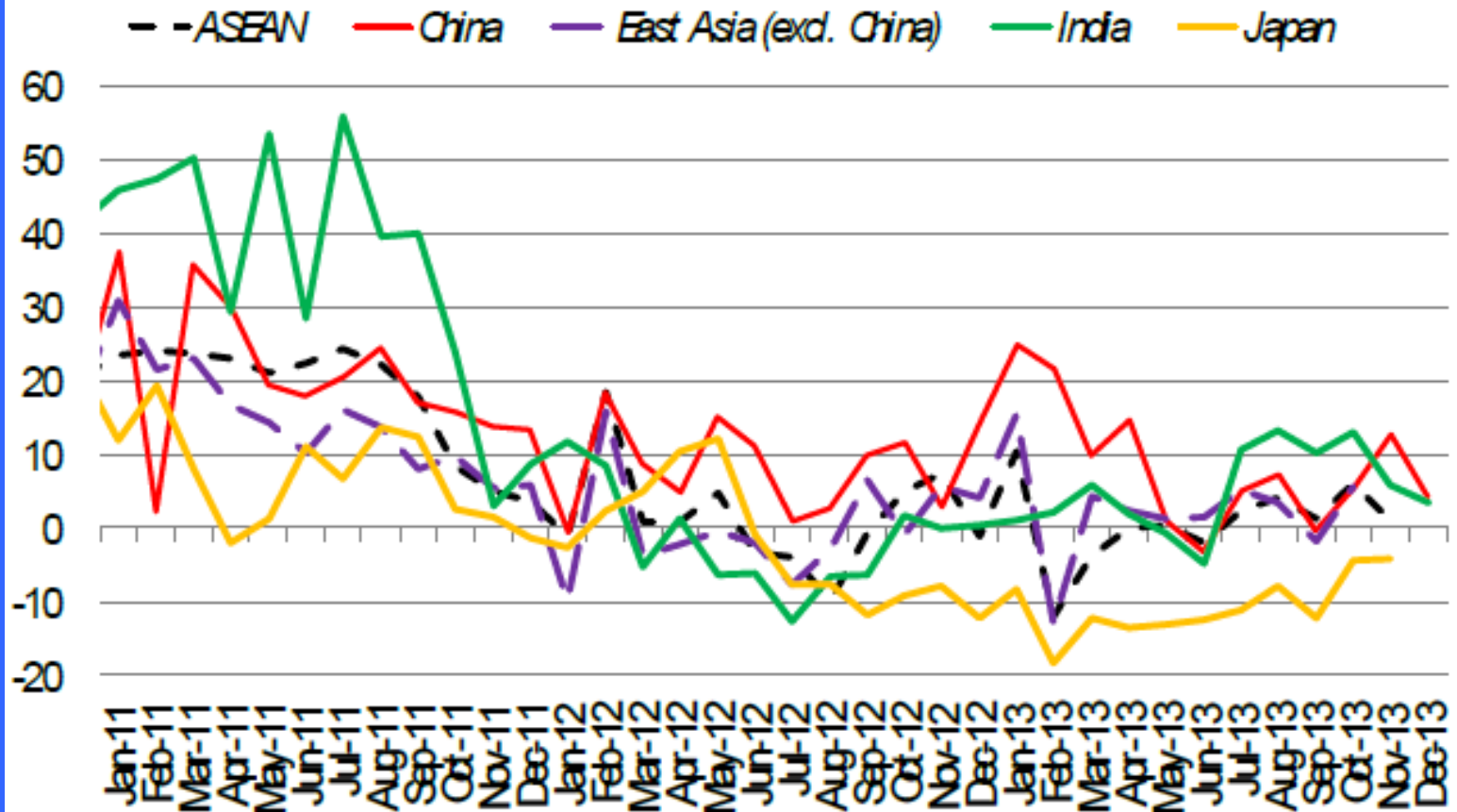


Less than 0
At or above 0 but less than 2
At or above 2 but less than 5
At or above 5 but less than 7
At or above 7

Asia's external sector: showing some signs of improvement

Asia: Exports by Economies

(Year-over-year percent change)

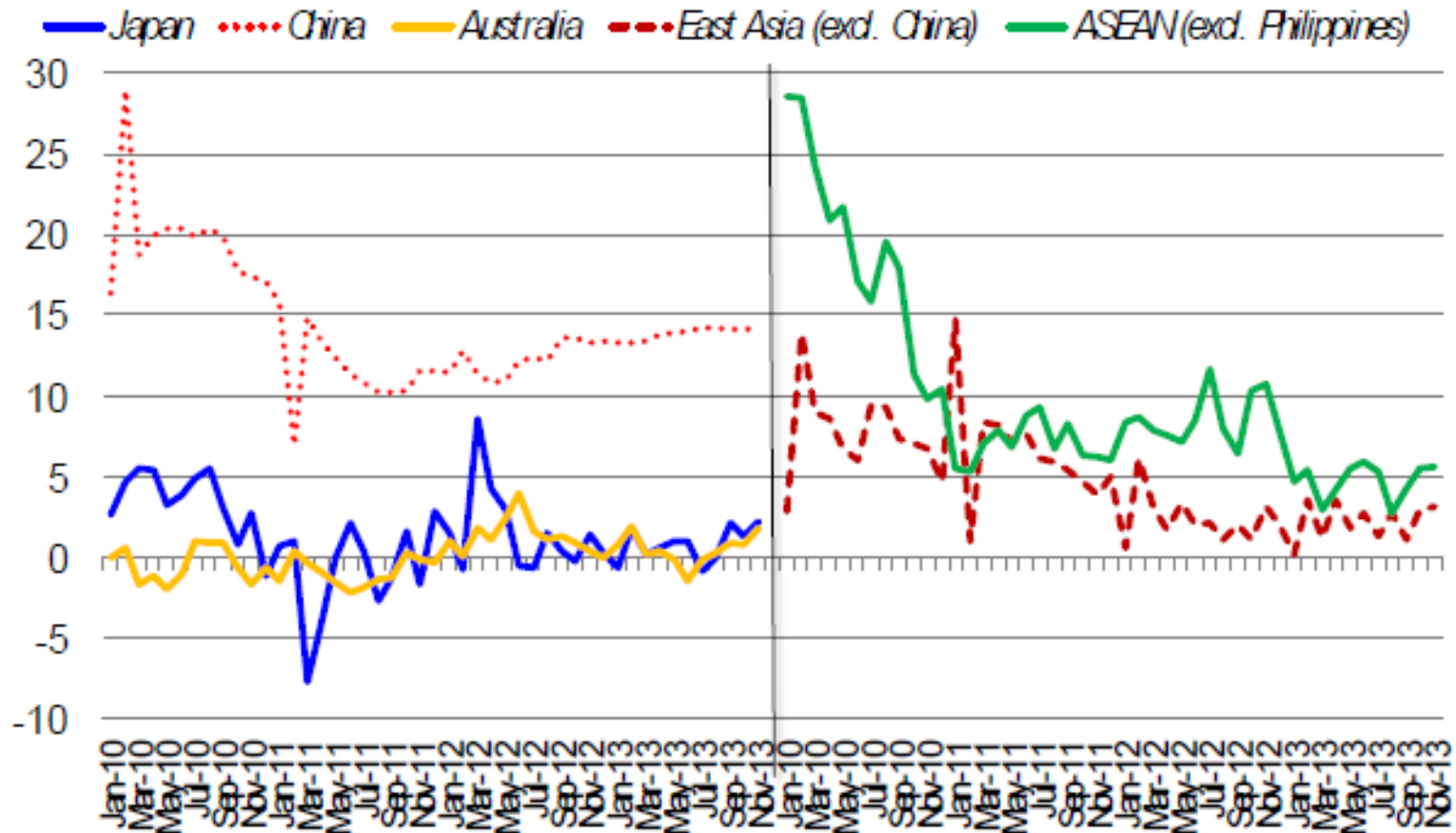


Data as of December 2013 (India, China), November (ASEAN, East Asia, Japan)

Asia: domestic demand may also be strengthening

Selected Asia: Retail Sales Volumes

(Year-on-year percentage change)

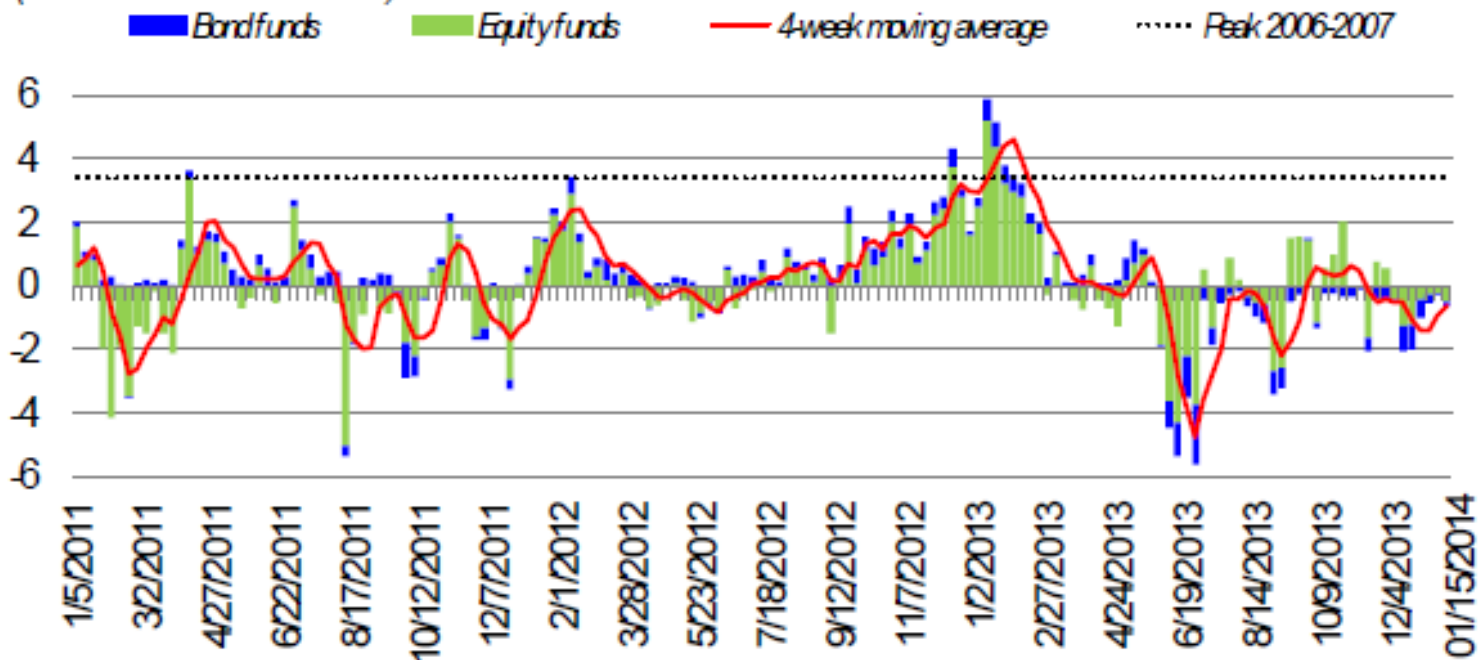


Data as of November

Asia (x-Japan): capital flows have [had?] stabilized;
equities more important than debt

Asia (ex JPN): Equity and Bond Funds — Weekly Net Flows during 2011–14¹

(In billions of U.S. dollars)



¹ Includes exchange traded fund flows and mutual fund flows.

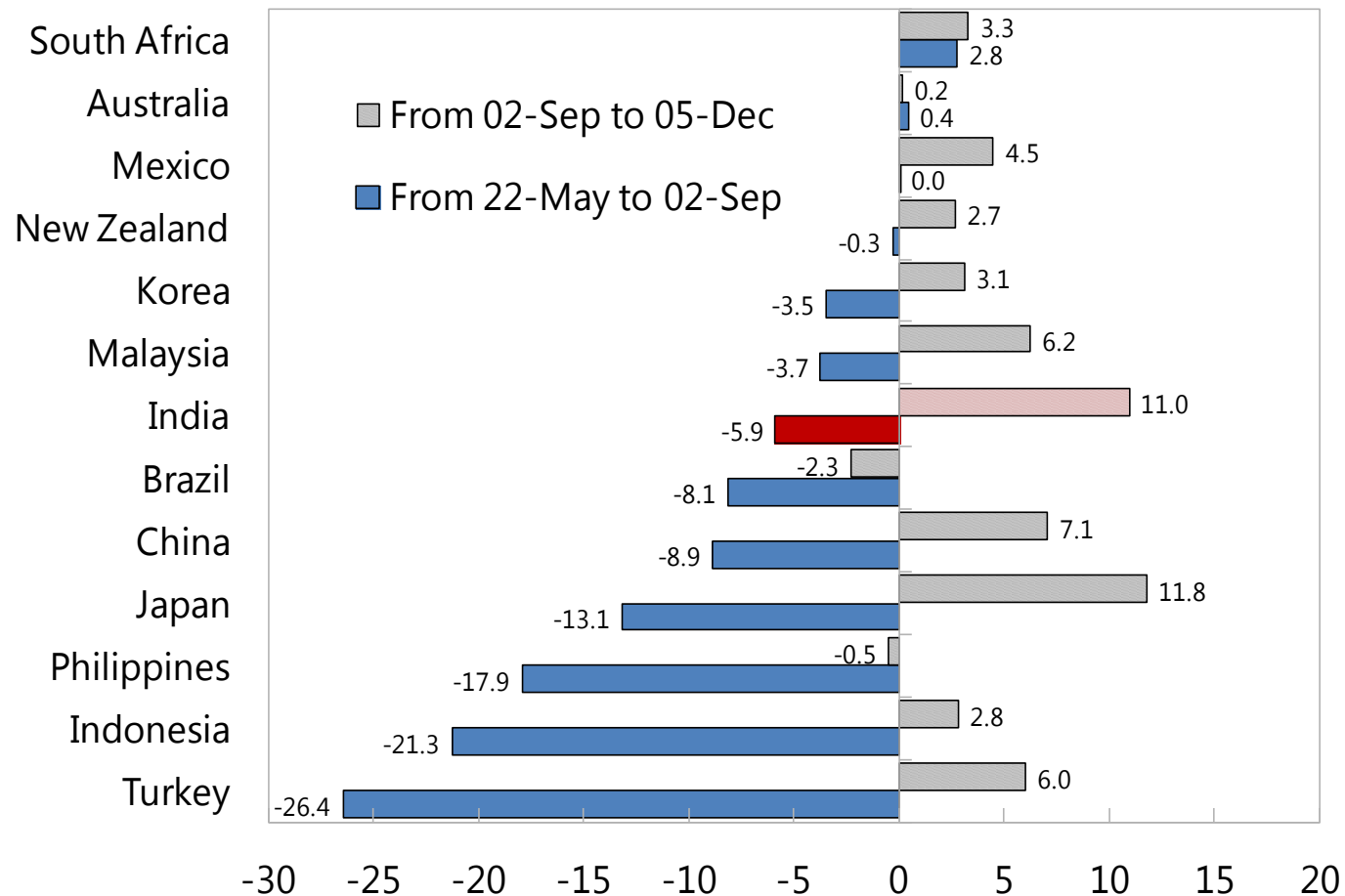
Asia includes Australia, New Zealand, China, Taiwan Province of China, Korea, Hong Kong SAR, India, Indonesia, Malaysia, Philippines, Vietnam, Thailand, and Singapore

Data as of Jan 15, 2014

India's equity market has recovered since September

Equity Market Indices

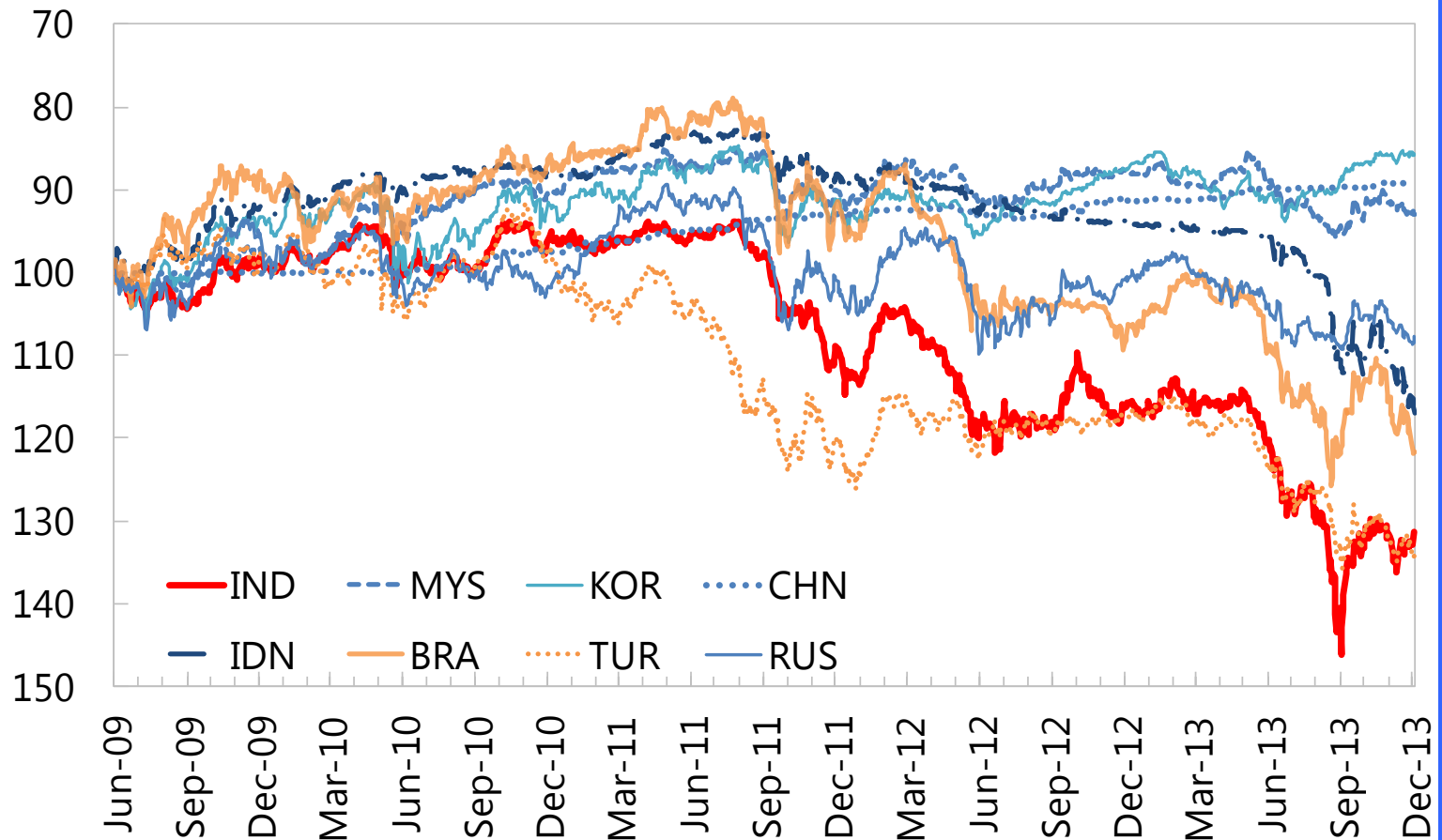
(Percent change since May 22, 2013)



Volatility in EMs

Exchange Rate

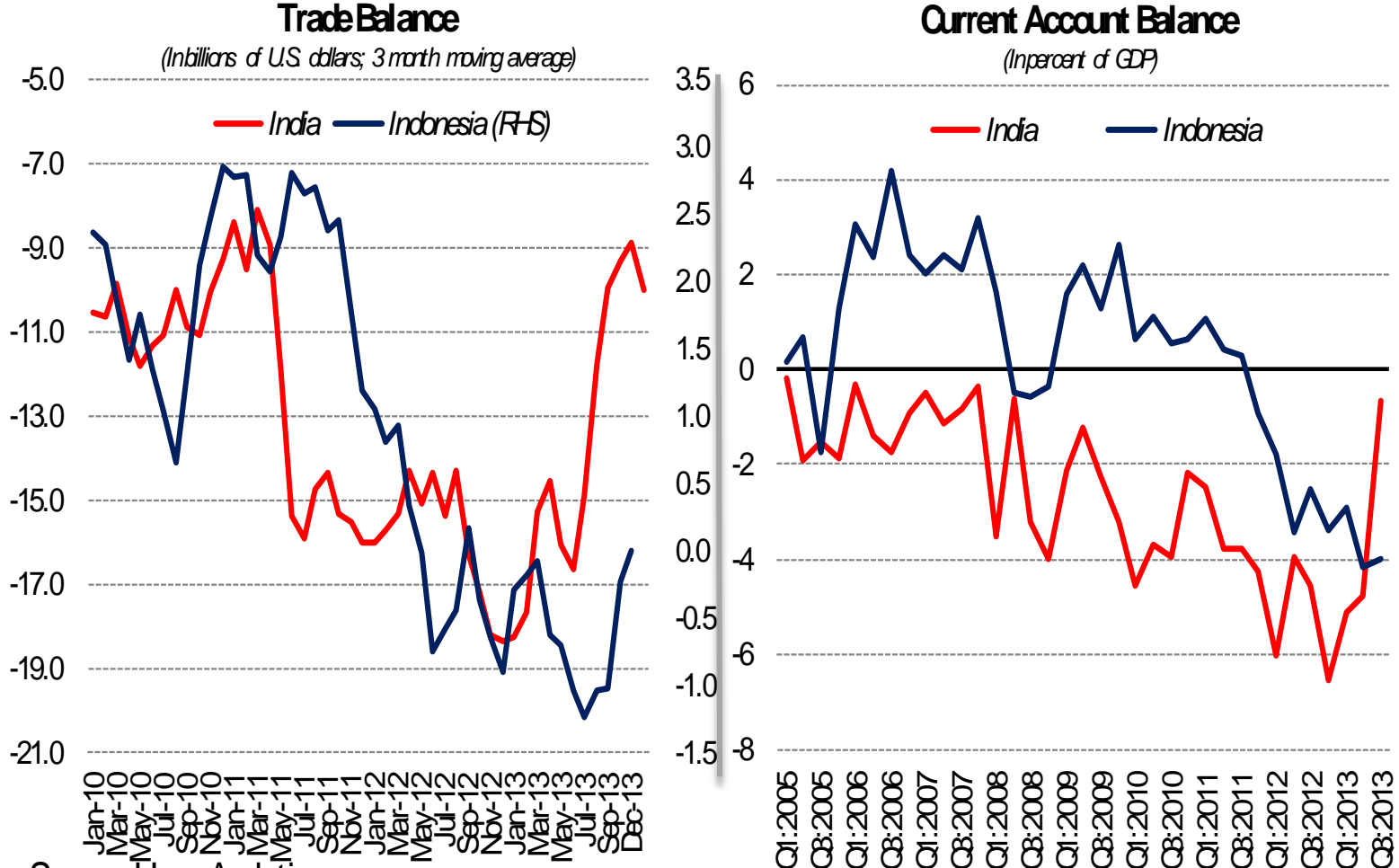
(Index, June 1, 2009=100, NC/US\$)



Sources: Bloomberg and IMF staff calculations.

India & Indonesia: a tale of two "I"s?

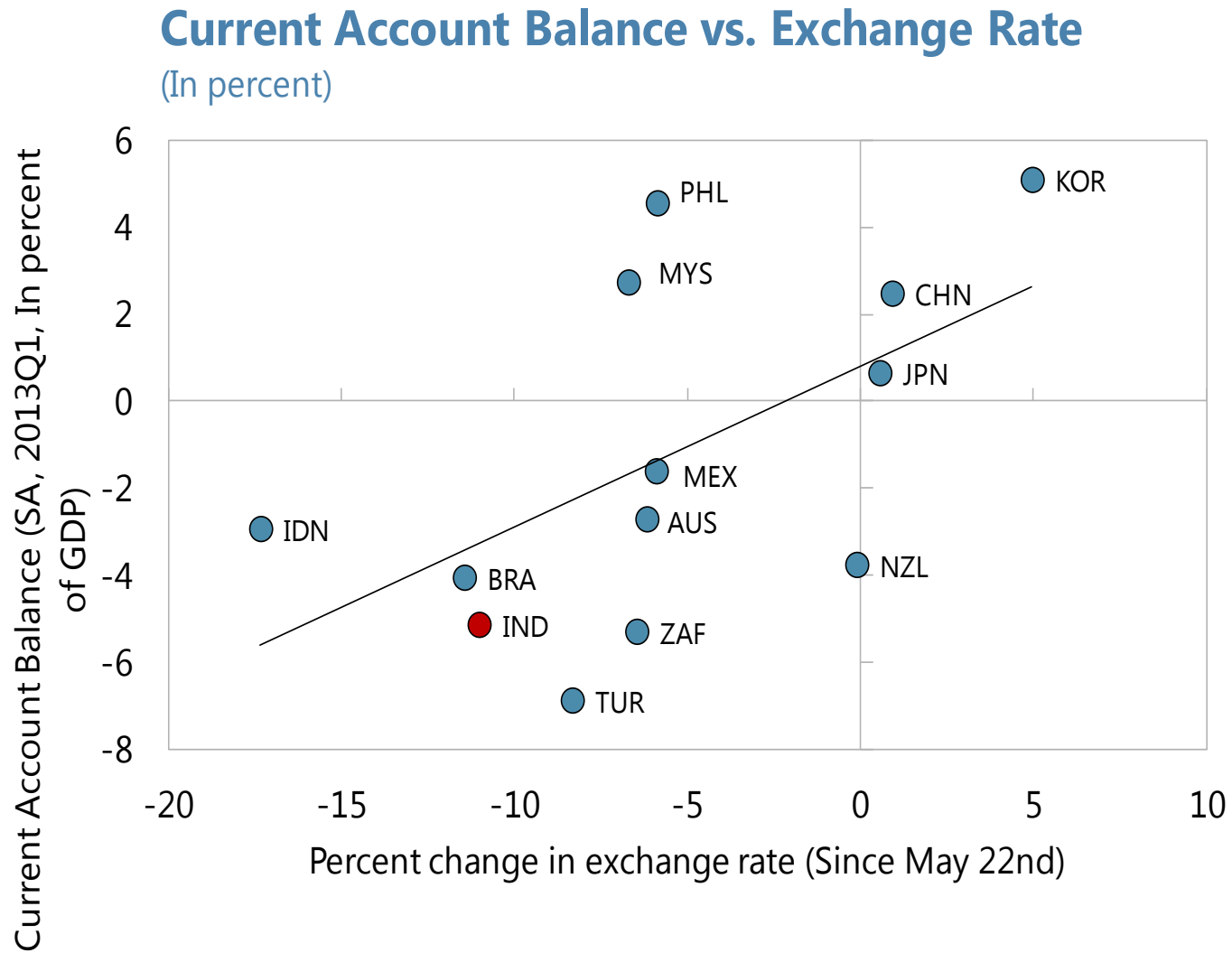
India and Indonesia: Trade Balance and Current Account Balance



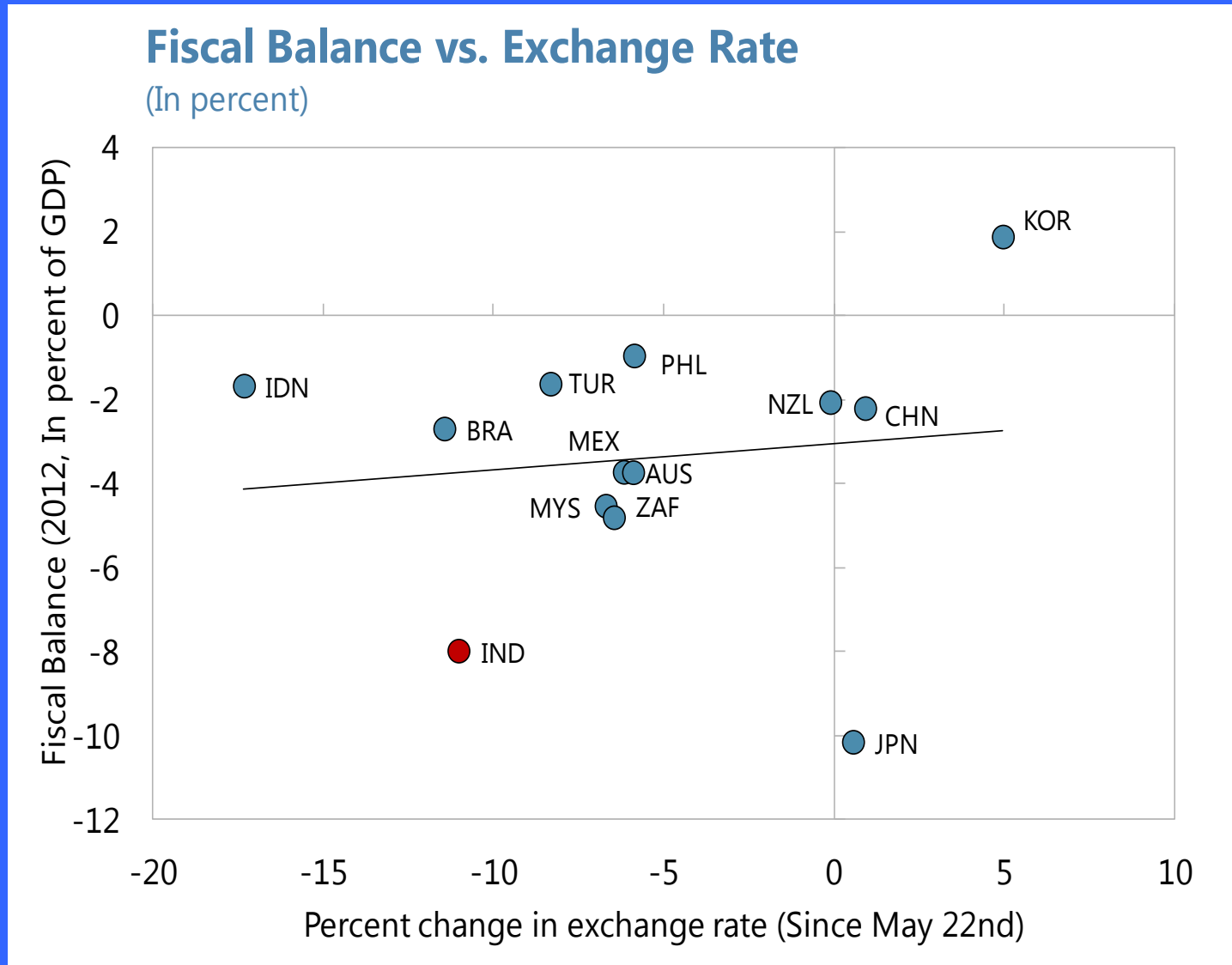
Sources: Faver Analytics.

Data as of December 2013, November (Indonesia; Trade Balance), 2013:Q3 (Current Account Balance)

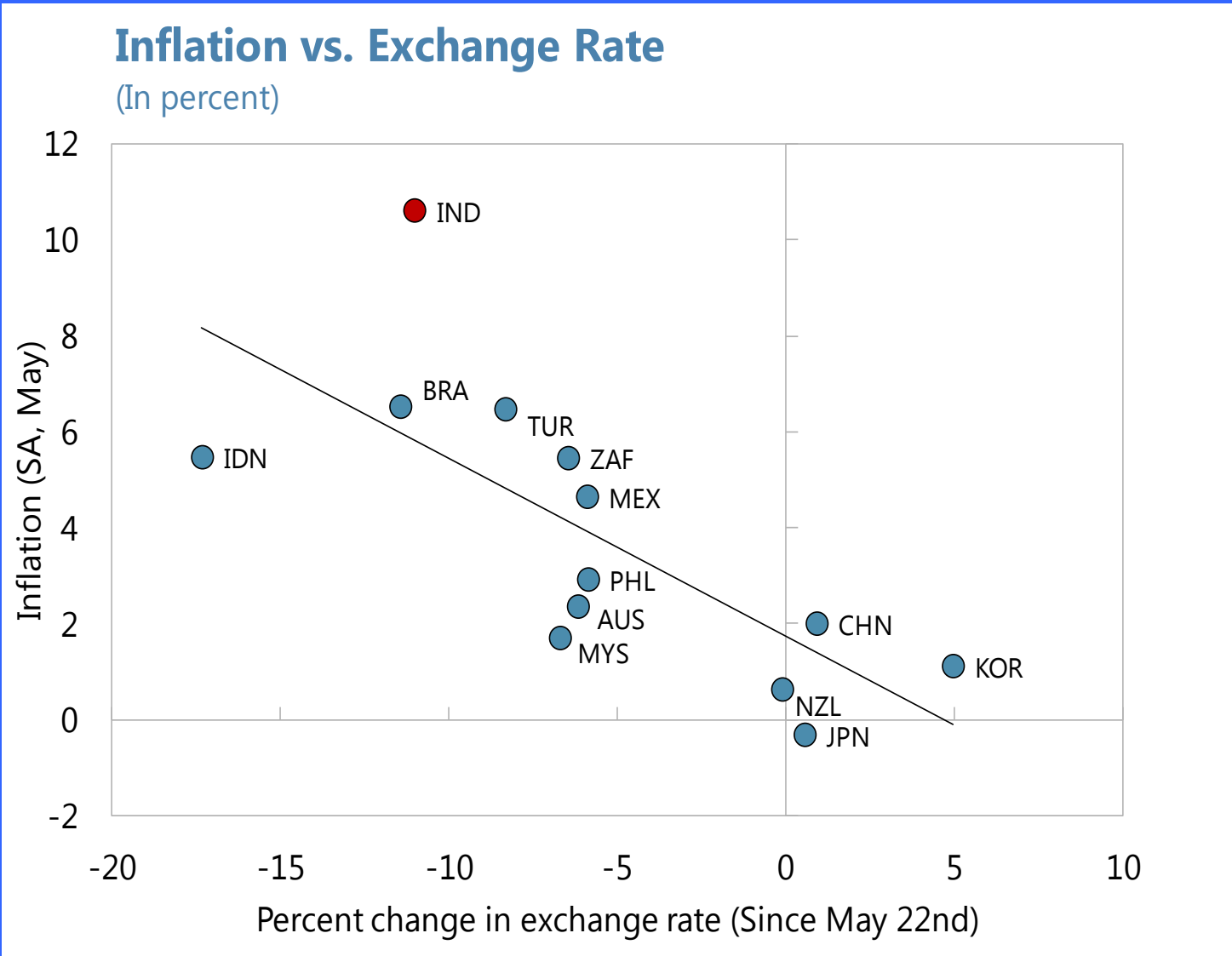
EM exchange rates: fundamentals (like CAD) matter



EM exchange rates: fiscal deficits are a concern too



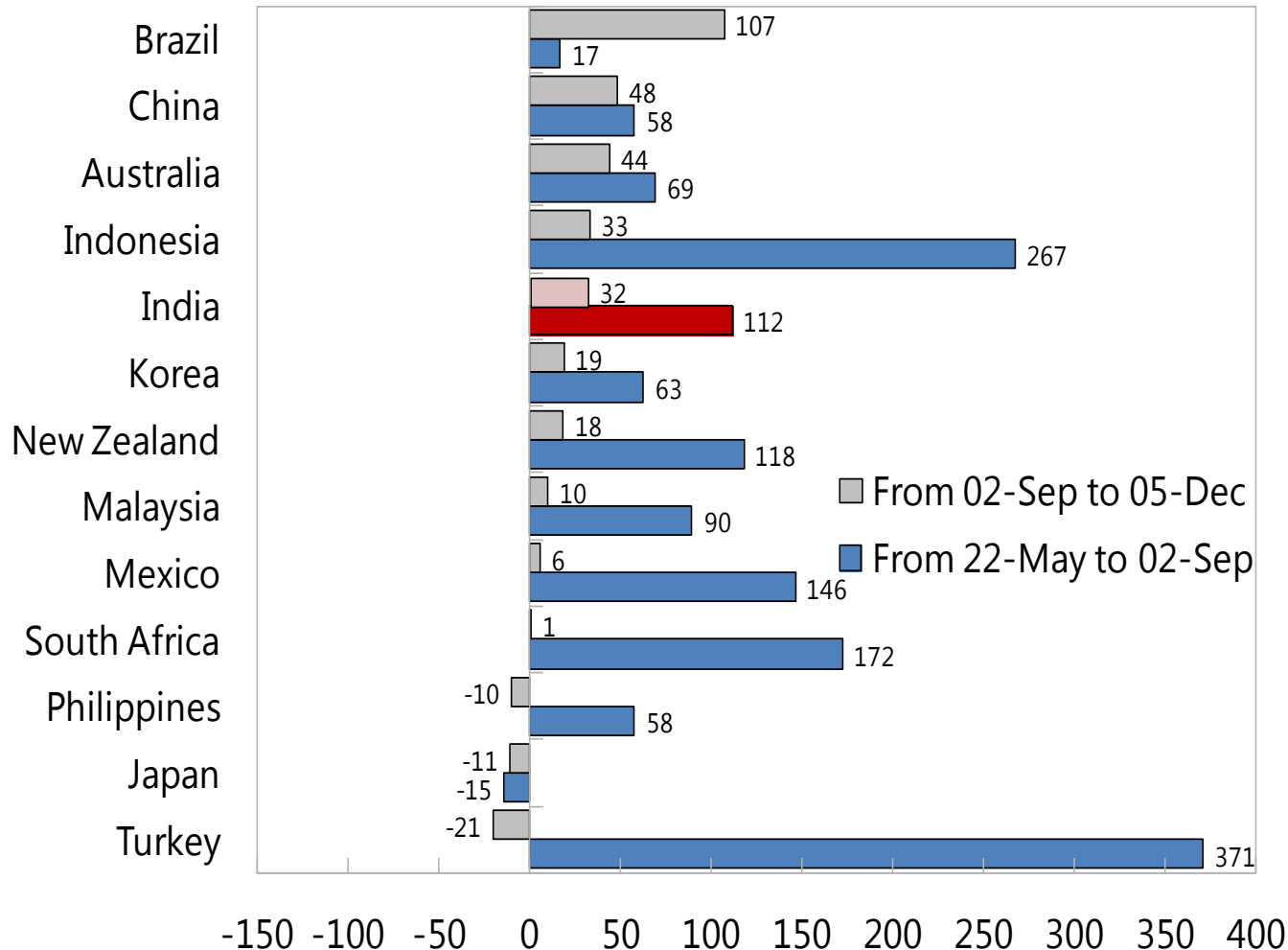
EM exchange rates and inflation: no surprise here



EMs have taken short-run steps taken to fend off contagion...

10-Year Domestic Bond Yields

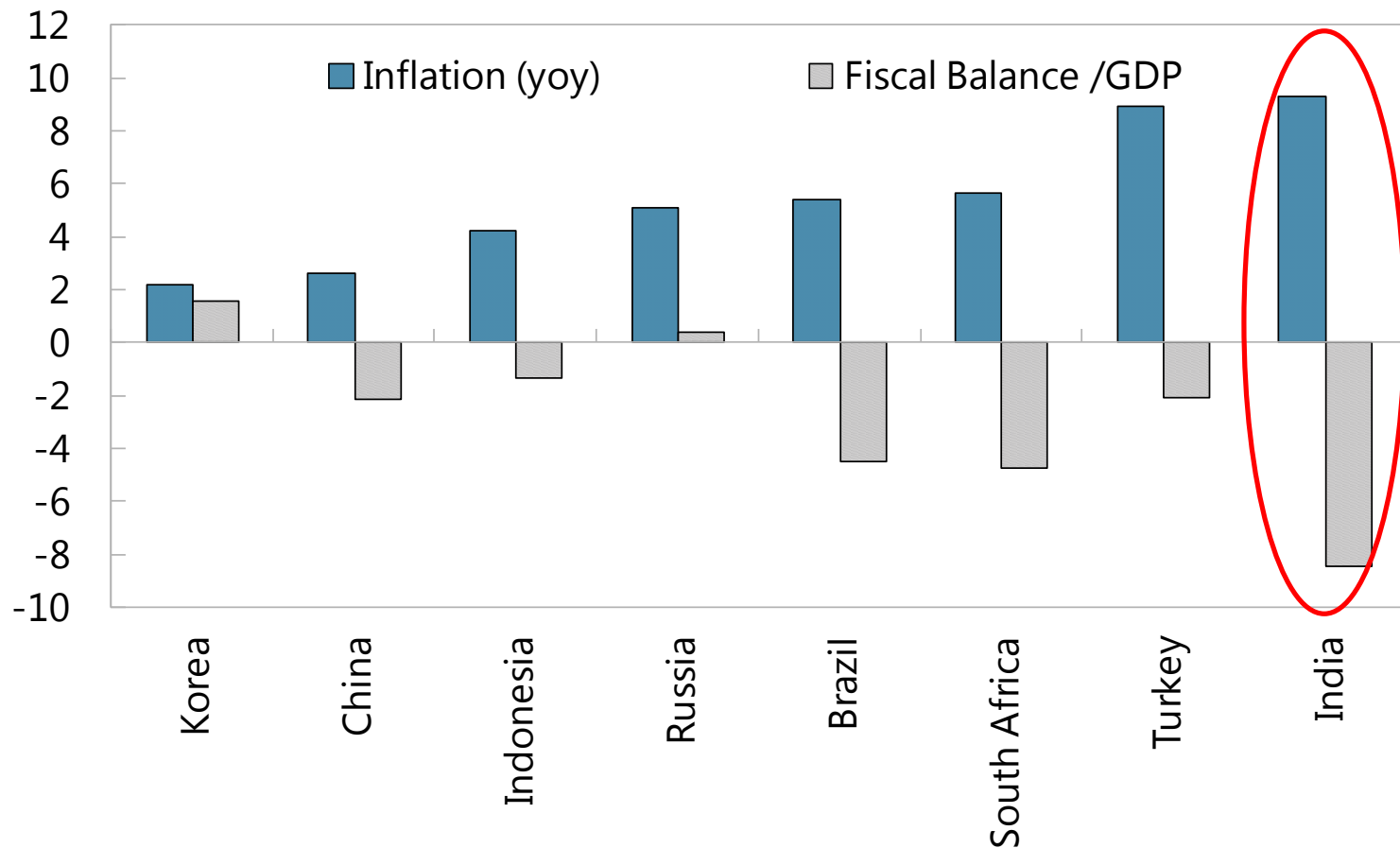
(BPS change since May 22, 2013)



... but getting macro fundamentals right is crucial

Inflation and Fiscal Balance, 2012

(In percent)

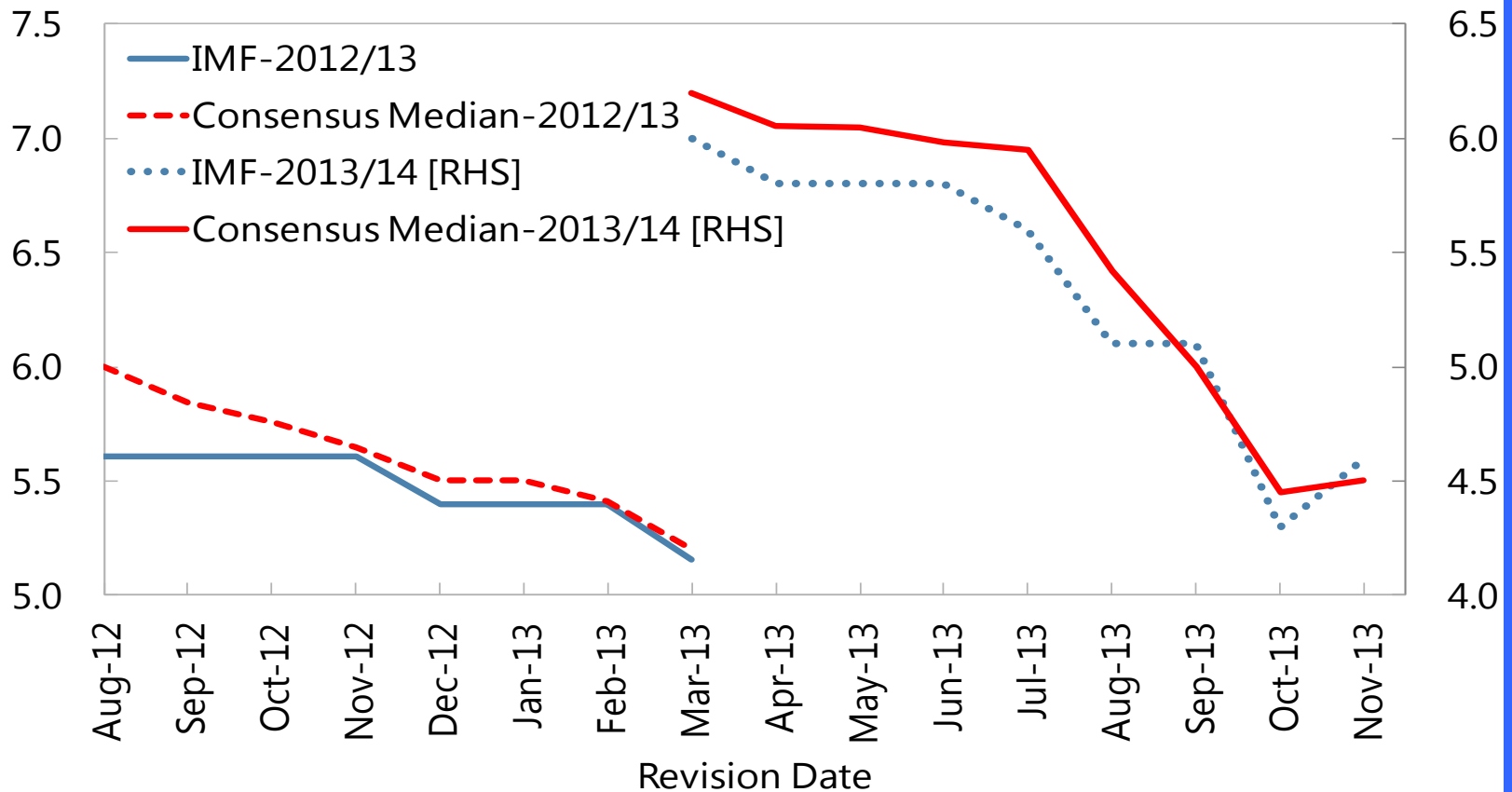


Sources: IMF, *World Economic Outlook*; and IMF staff calculations.

What does this mean for India?

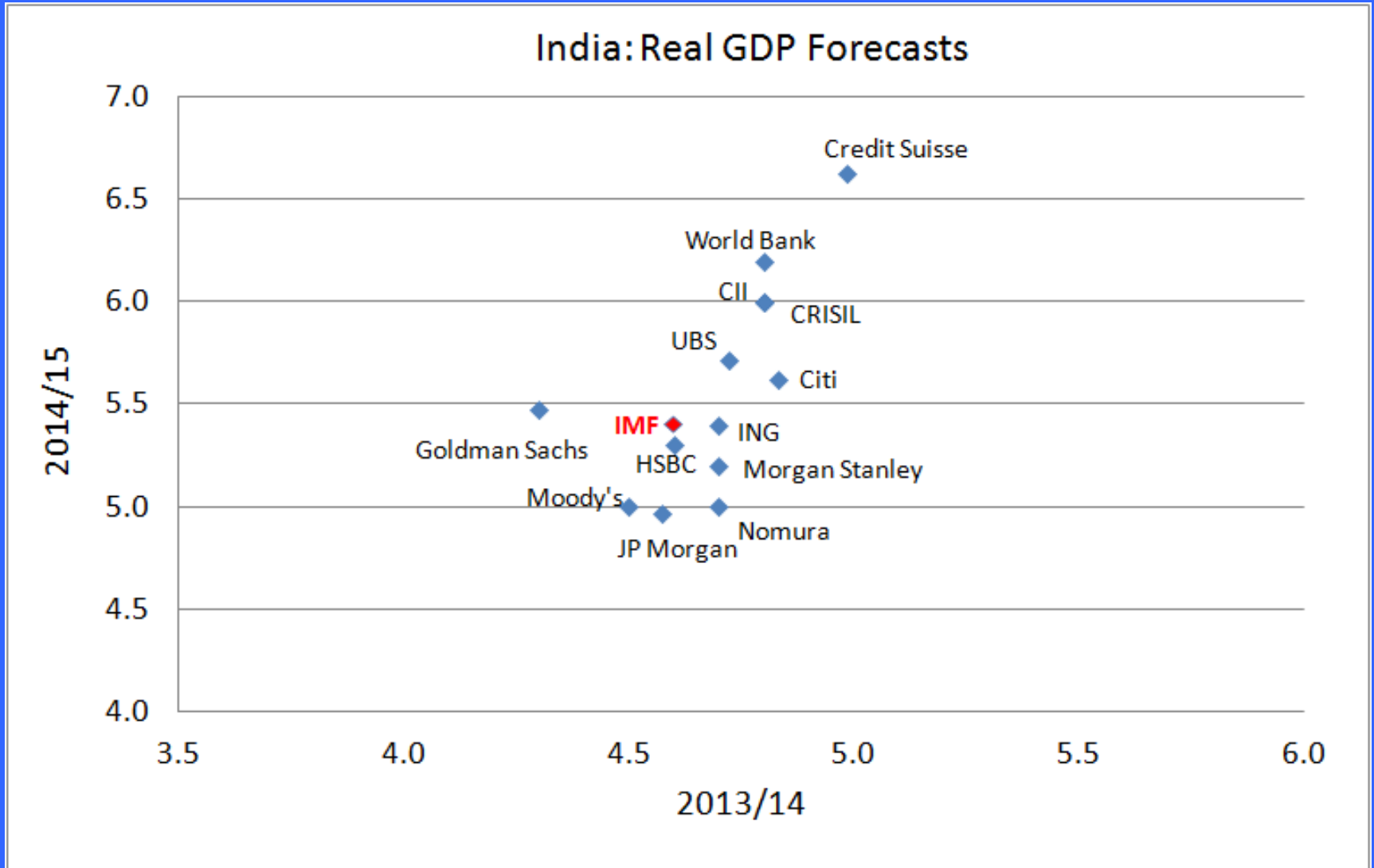
India: Growth Forecast Revisions

(In percent)



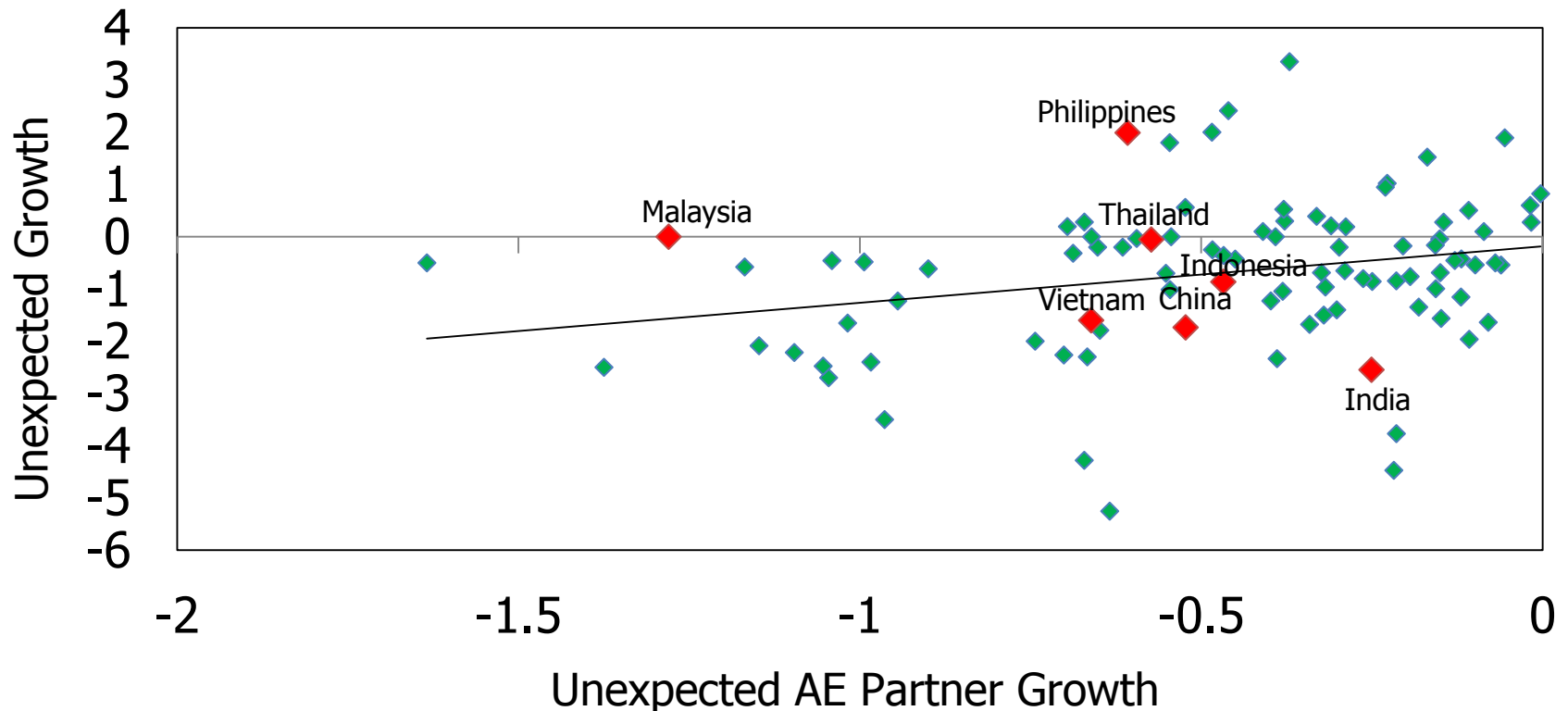
Sources: IMF; and Consensus Economics.

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



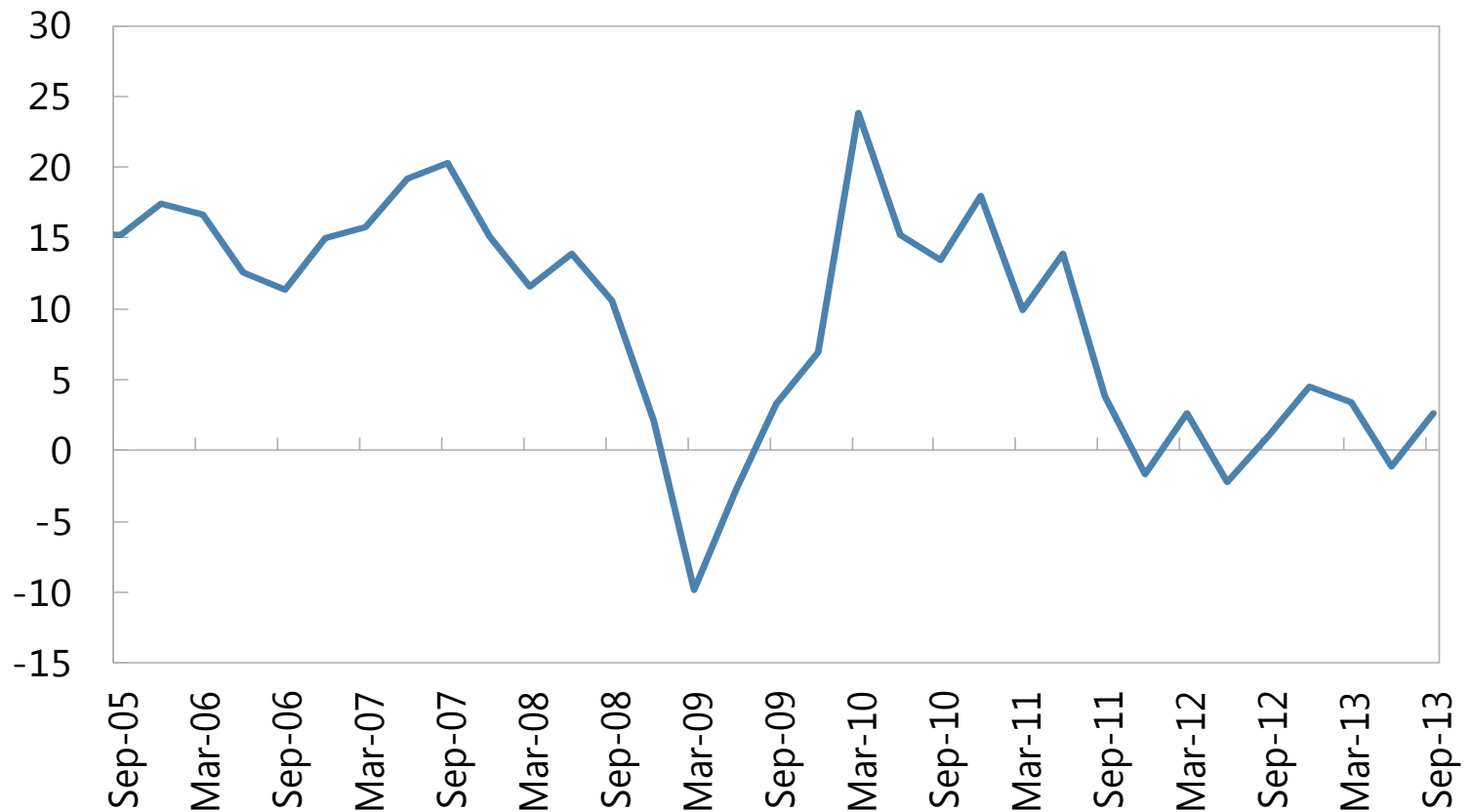
Sources: IMF, *World Economic Outlook*, and IMF staff calculations.

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 ...

Gross Fixed Capital Formation, Real

(yoy percent change)

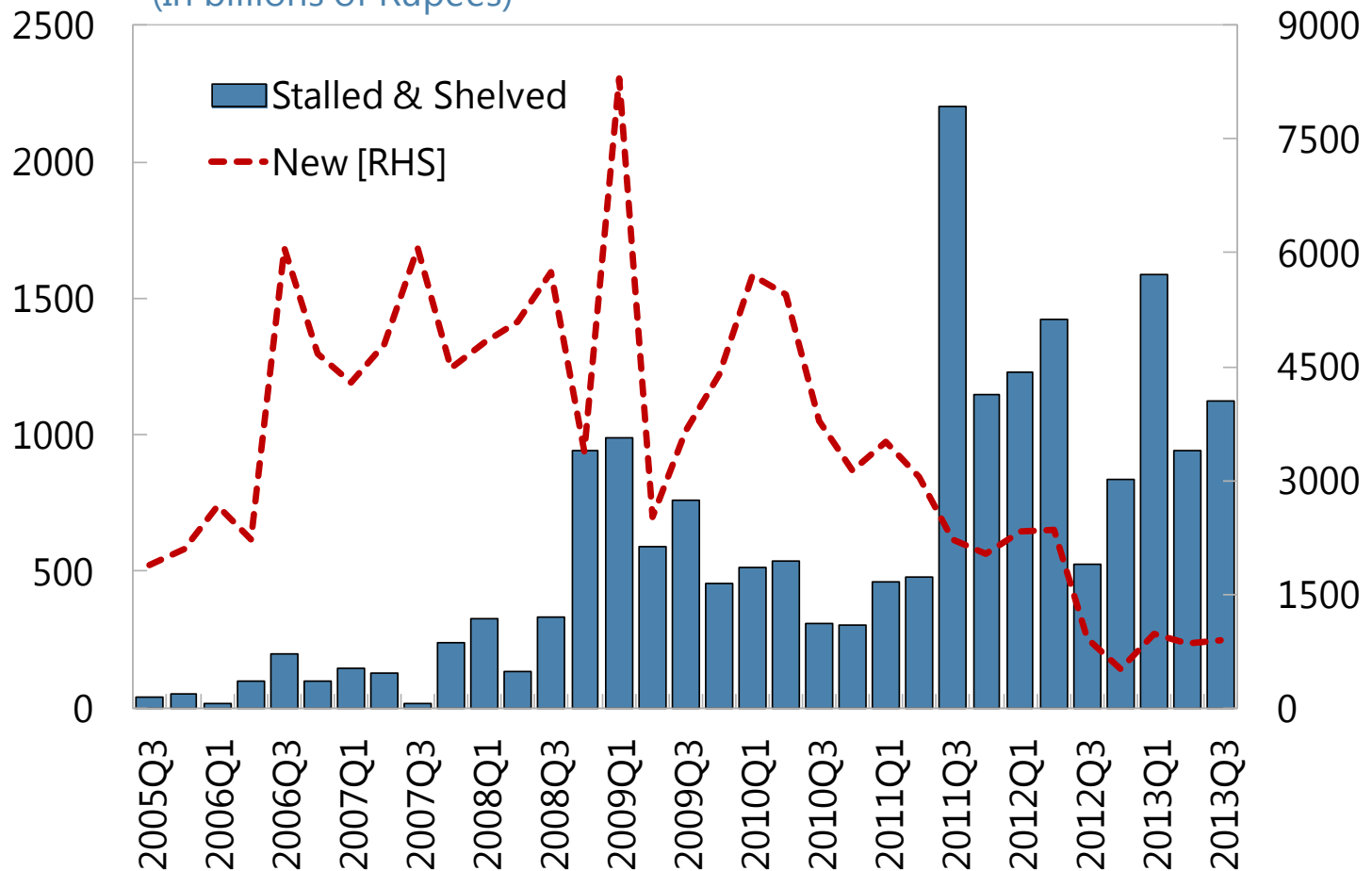


Source: Haver Analytics.

... and the investment pipeline remains thin

Investment

(In billions of Rupees)

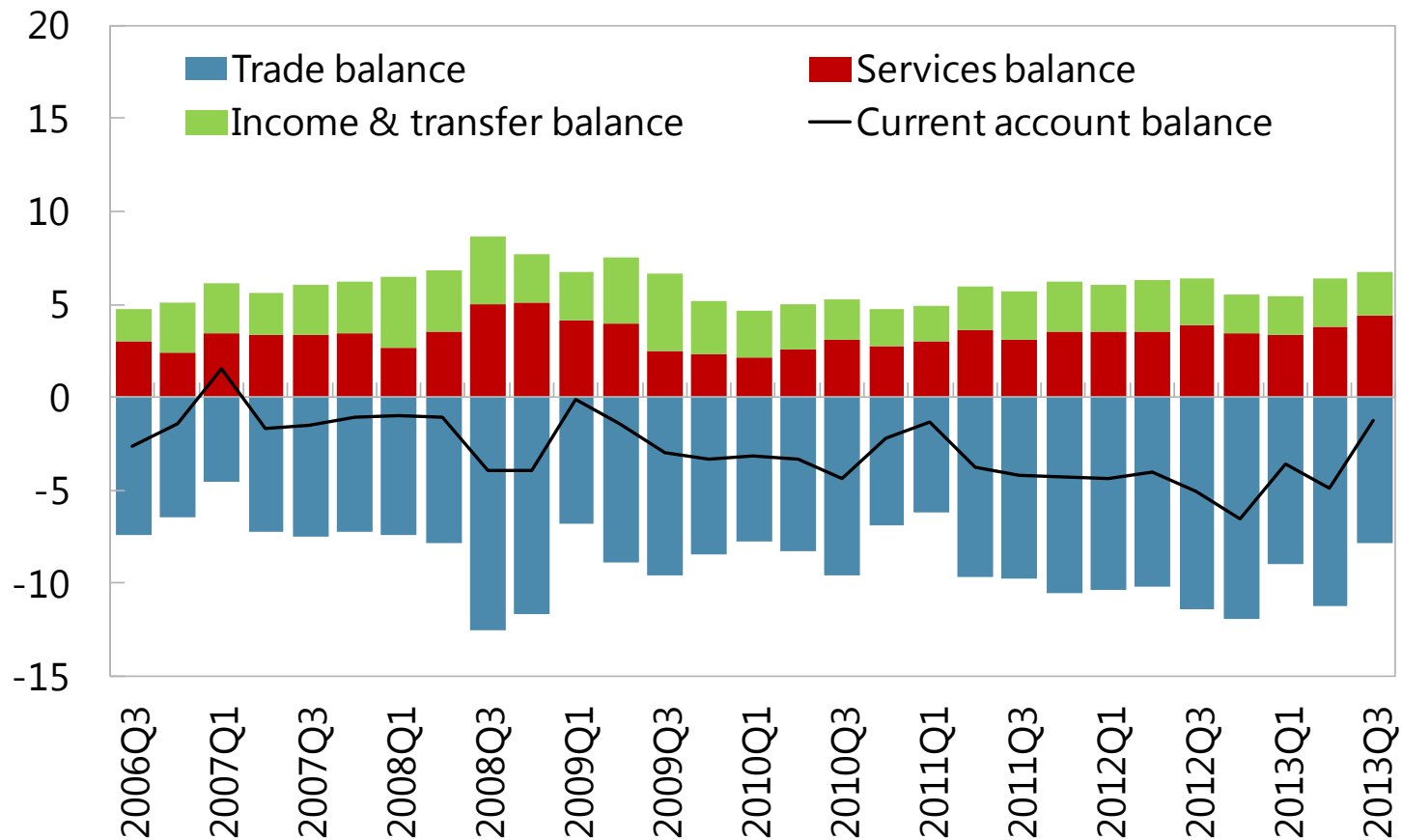


Sources: CAPEX and IMF staff calculations.

India: CAD has been squeezed down, but durably?

Current Account Balance

(In percent of GDP)

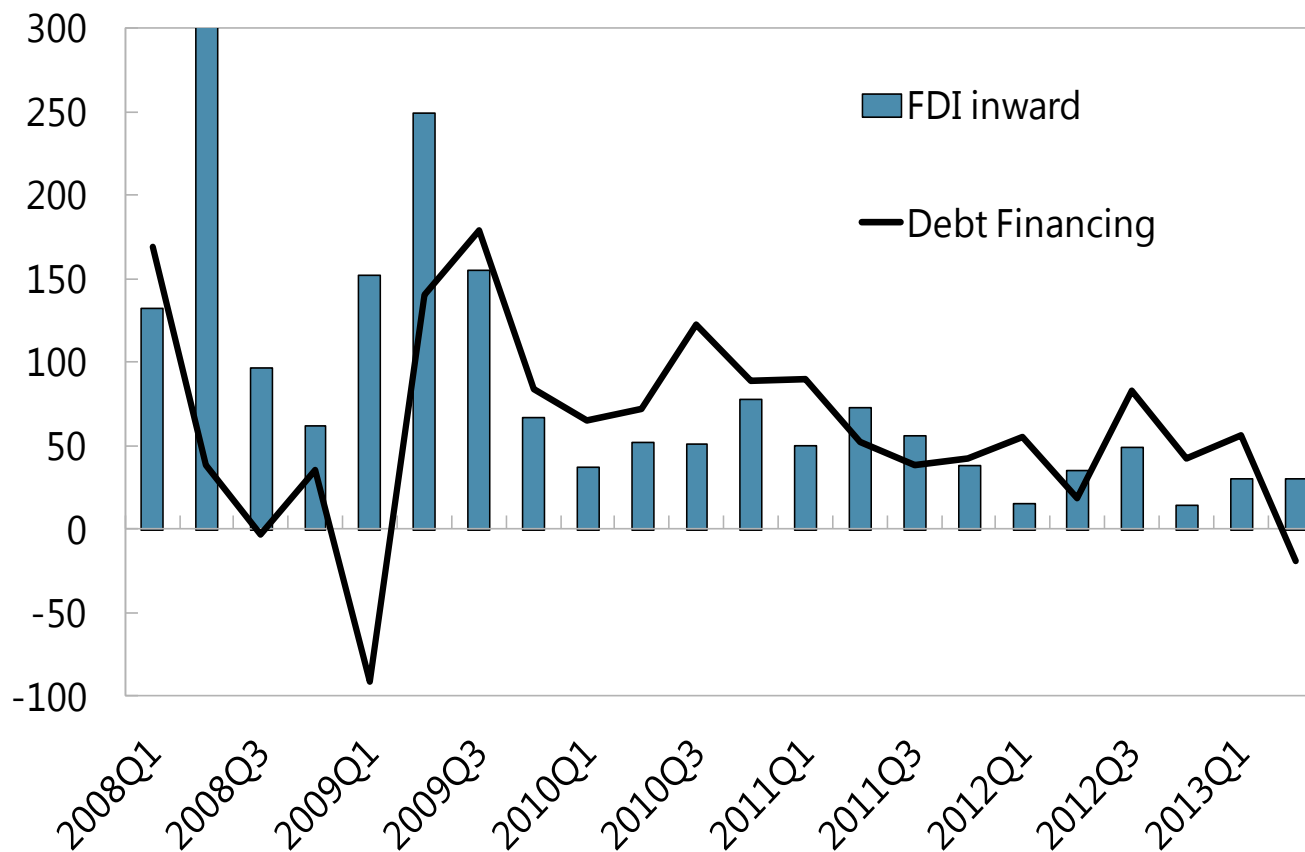


Sources: CEIC and IMF staff calculations.

India: debt flows tapered off, but more durable financing held up

Inward FDI and Debt Financing

(In percent of Current Account Deficit)

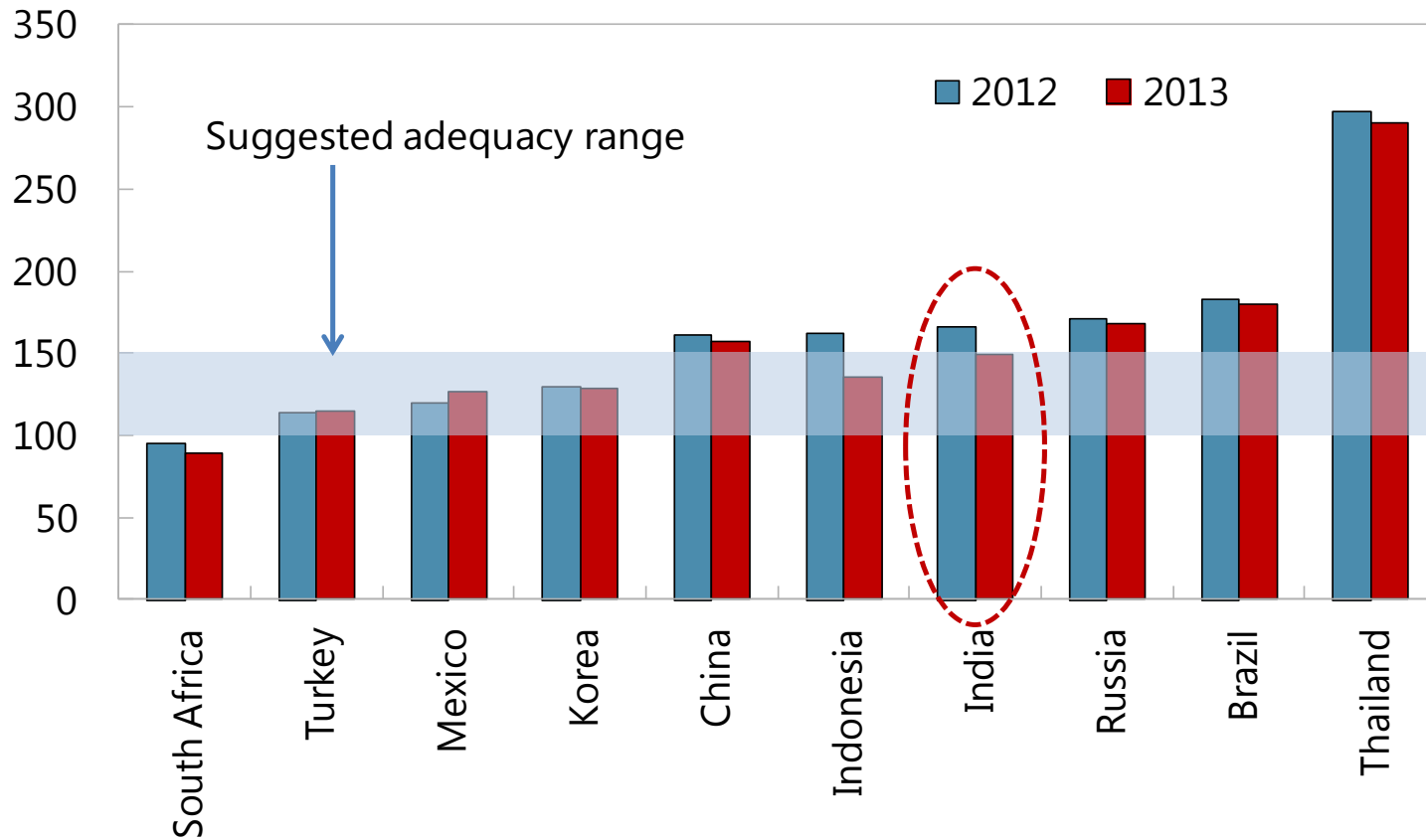


Source: Haver Analytics.

India: ample reserves (even before Sept – Nov measures)

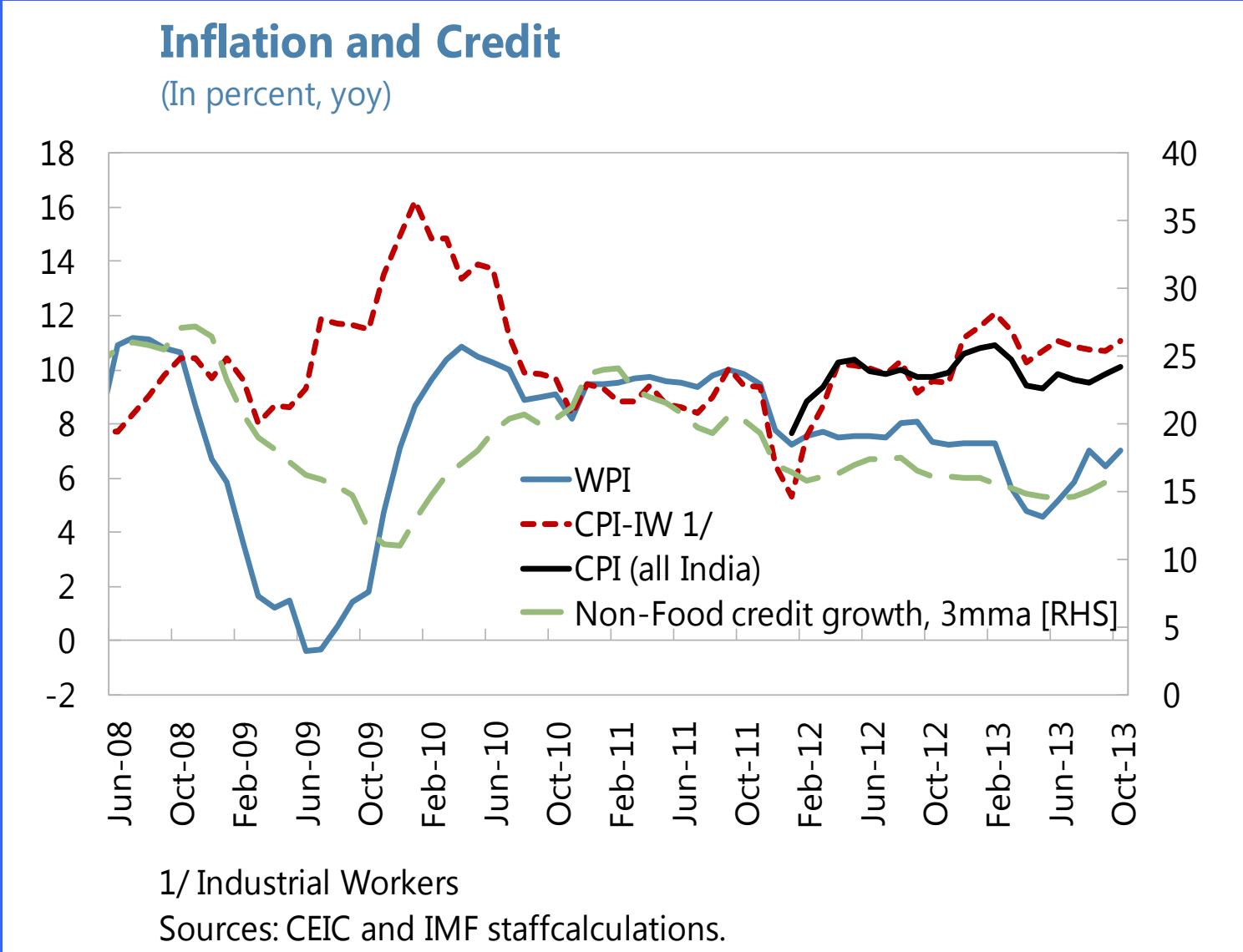
Estimated Reserve Adequacy

(Official reserves as a percent of IMF country-specific metric)



Sources: IMF, *International Financial Statistics*; and IMF staff calculations.

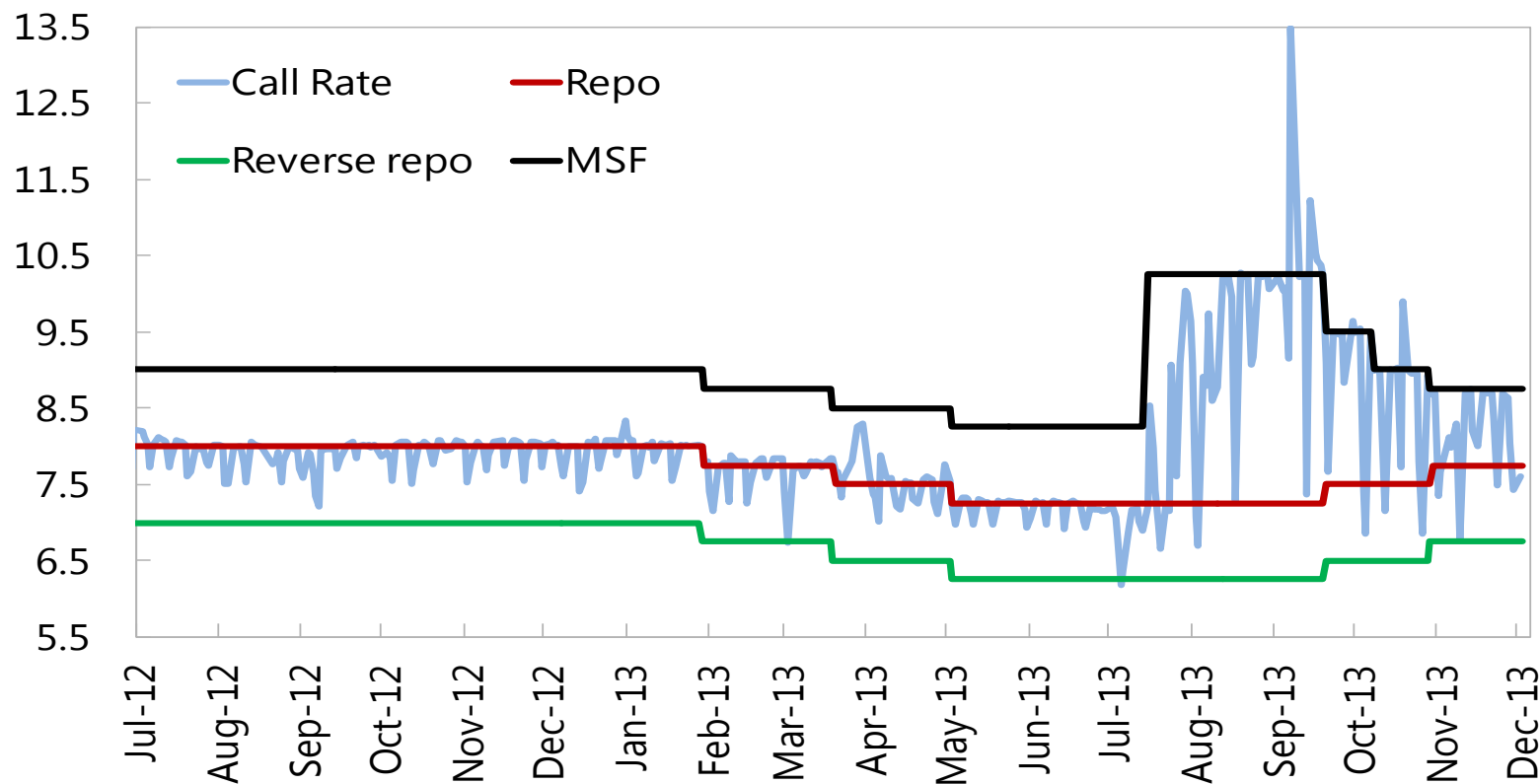
India: inflation is too high; does everyone now agree with that?



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

Global

- **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

EMs/Asia

- 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

India

- **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



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