Domestic Demand to Lift India's Growth in 2019 and 2020: Asian Development Outlook (ADO) 2019

Despite rising headwinds, Developing Asia's growth in aggregate gross domestic product (GDP) slowed only slightly from 6.2% in 2017 to 5.9% in 2018 as global trade and economic activity decelerated at the end of the year, affecting many economies in the region. With growth in the People's Republic of China (PRC) continuing to moderate, regional growth will soften further to 5.7% in 2019 and to 5.6% in 2020. Excluding the newly industrialized economies, growth will slow from 6.4% in 2018 to 6.2% in 2019 and to 6.1% in 2020.

Aggregate growth in the three major advanced economies—the United States, the euro area, and Japan—slowed from 2.3% in 2017 to 2.2% in 2018. The slowing trend will likely reach 1.9% in 2019 and 1.6% in 2020 under less accommodative fiscal and monetary policies in the US, uncertainty surrounding Brexit in the United Kingdom and the European Union, and the trade conflict between the PRC and US.

With the economy maturing, growth in the PRC slowed from 6.8% in 2017 to 6.6% in 2018 as the government sought to reduce corporate leveraging and control financial risks. Growth will moderate further to 6.3% in 2019 and 6.1% in 2020 as restrictions on housing markets and shadow banking continue and as the trade conflict with the US weakens exports.

Southeast Asia will sustain growth at close to 5% this year and next. Strengthening domestic demand will offset weaker export growth. Strong consumption—spurred by rising incomes, subdued inflation, and robust remittances—should boost economic activity in the sub-region. Export demand, on the other hand, is likely to soften in 2019 in line with the weaker global environment and a muted forecast for semiconductor exports, before picking up slightly in 2020.

Growth will recover in the Pacific but moderate in Central Asia. Growth in the Pacific is set to rebound from a meager 0.9% in 2018 to 3.5% in 2019 as liquefied natural gas production in Papua New Guinea, the sub-region's dominant economy, returns to full capacity following the 2018 earthquake. Meanwhile, lower oil prices and slower growth in the Russian Federation will weigh on economies in Central Asia. Growth in the sub-region is projected to decelerate to 4.2% in both 2019 and 2020 as slowdowns in Kazakhstan and Turkmenistan more than offset higher growth elsewhere.

GDP Growth Rate, % per year

	Growth Rate of GDP			
	2017	**2018**	**2019**	**2020**
Central Asia	4.2	4.4	4.2	4.2
East Asia	6.2	6.0	5.7	5.5
China (PRC)	6.8	6.6	6.3	6.1
South Asia	6.9	6.7	6.8	6.9
India	**7.2**	**7.0**	**7.2**	**7.3**
Southeast Asia	5.3	5.1	4.9	5.0
The Pacific	2.4	0.9	3.5	3.2

Developing Asia	6.2	5.9	5.7	5.6
Developing Asia excluding the NIEs	6.6	6.4	6.2	6.1

Source: PHD Research Bureau, complied from Asian Development Outlook, 2019. Note: The newly industrialized economies (NIEs) are Hong Kong, China; the Republic of Korea; Singapore; and Taipei, China.

Outlook for India

- ADB projects gross domestic product (GDP) growth in India to rise to 7.2% in fiscal year (FY) 2019 and reach 7.3% in FY2020, reversing two years of declining growth as reforms to improve the business and investment climate take effect.
- India would remain one of the fastest-growing major economies in the world this year given strong household spending and corporate fundamentals. India has a golden opportunity to cement recent economic gains by becoming more integrated in global value chains. The country's young workforce, an improving business climate, and a renewed focus on export expansion all support this.
- Income support to farmers, hikes in procurement prices for food grains, and tax relief to tax payers earning less than INR500,000 (USD7,212) will boost household income. Declining fuel and food prices are also expected to provide an impetus for consumption. An increase in utilization of production capacity by firms, along with falling levels of stressed assets held by banks and easing of credit restrictions on certain banks, is expected to help investment grow at a healthy rate.
- Downside risks to growth include a higher-than-expected moderation in global demand and a potential escalation of trade tensions. Lower-than-targeted tax revenues or a delay in strengthening bank and corporate balance sheets could also undermine economic expansion.
- Consumer price inflation is expected to rise to 4.3% in FY2019 and 4.6% in FY2020 as food costs increase slightly and domestic demand strengthens. Given that inflation is expected to average around 4.0% in the first half of FY2019, the central bank would have some room for lowering policy rates.
- A key factor driving India's persistent current account deficit is its tepid export performance compared to other East and Southeast Asian economies. India's export performance could benefit from greater participation in global value chains (GVCs). Lower trade costs, improved infrastructure quality, and enhanced worker skills could help India integrate more with GVCs.

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