India is expected to grow at 7.3% and 7.4% for 2018 and 2019: IMF

According to IMF's World Economic Outlook (WEO) October 2018, the steady expansion which is under way since mid-2016 continues, with global growth for 2018–19 projected to remain at its 2017 level. Global growth is projected at 3.7% for 2018– 19—0.2 percentage point lower for both years than forecast in April. Risks to global growth skew to the downside in a context of elevated policy uncertainty.

Global growth is expected to remain steady at 3.7% in 2020, as the decline in advanced economy growth with the unwinding of the US fiscal stimulus and the fading of the favorable spillovers from US demand to trading partners is offset by a pickup in emerging market and developing economy growth. Thereafter, global growth is projected to slow to 3.6% by 2022–23, largely reflecting a moderation in advanced economy growth toward the potential of that group.

Growth in advanced economies will remain well above trend at 2.4% in 2018, before softening to 2.1% in 2019. The forecast for both years is 0.1 percentage point weaker than in the April 2018 World Economic Outlook (WEO).

With emerging Asia continuing to expand at a strong pace—despite a 0.3 percentage point downward revision to the 2019 growth forecast mostly driven by recently announced trade measures—and activity in commodity exporters firming, growth in the emerging market and developing economy group is set to remain steady at 4.7% in 2018–19. Over the medium term, growth is projected to rise to slightly less than 5% .

Overview of World Economic Outlook Projections

Economy	Projections		
	2017	2018	2019
World Output	3.7	3.7	3.7
Advanced Economies	2.3	2.4	2.1
United States	2.2	2.9	2.5
Japan	1.7	1.1	0.9
United Kingdom	1.7	1.4	1.5
Other Advanced Economies[1]	2.8	2.8	2.5
Emerging Market and Developing Economies	4.7	4.7	4.7
Emerging and Developing Asia	6.5	6.5	6.3
China	6.9	6.6	6.2

India[2]	6.7	7.3	7.4
ASEAN-5	5.3	5.3	5.2

Source: PHD Research Bureau, data complied from World Economic Outlook

[1]Excludes the Group of Seven (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 fiscal year 2011/12 as a base year

Inflation Outlook

Inflation is expected to rise this year across both advanced and emerging market and developing economies. In advanced economies, it is projected to pick up to 2% in 2018, from 1.7% in 2017. Inflation in emerging market and developing economies excluding Venezuela is expected to increase to 5.0% this year from 4.3% in 2017. Core inflation is assumed to gradually decline to 2 percent thereafter, with a monetary policy response that ensures expectations remain well anchored. Within the group of emerging market and developing economies, core inflation rates are expected to be more dispersed than among advanced economies. To a large extent, the dispersion reflects variation in cyclical positions, anchoring of inflation expectations, and inflation targets.

Rising Headline Inflation

Higher energy prices have lifted headline year-over-year inflation rates in advanced and emerging market and developing economies over the past six months.

Core inflation—that is, excluding food and energy—remains below central banks' targets in most advanced economies. Among advanced economies, core annual consumer price inflation in the United States, where unemployment hovers around multi decade lows, has exceeded 2% since March. Among emerging market and developing economies, excluding Venezuela's hyperinflation, core inflation remains below the average of recent years but has inched up in recent months.

Core inflation in the United Kingdom averaged slightly more than 2% in the first half of 2018, lower than last year, as the effects of the large sterling depreciation of 2016–17 on domestic prices have gradually faded. In the euro area and Japan, core inflation remains weak at about 1% in the euro area and 0.3 percent in Japan. In the emerging market and developing economy group, core inflation remains contained at about 2% in China, where domestic demand has slowed in response to financial regulatory tightening. In India, core inflation (excluding all food and energy items) has risen to about 6% as a result of a narrowing output gap and pass-through effects from higher energy prices and exchange rate depreciation.

External Sector Outlook

After remaining broadly stable in 2017, current account deficits and surpluses in 2018 are, on the whole, forecast to widen slightly from 2017. Given that most fuel exporters were already running surpluses in 2017, both factors will lead to some widening of global current account imbalances. Over the medium term, current account balances should narrow again, with a stabilization in the US current account deficit as the expansionary effects of fiscal policy wane, coupled with some narrowing of surpluses in China and, to a lesser extent, in

Europe. The recently imposed trade measures by the United States and retaliatory actions by trading partners are expected to have a limited impact on external imbalances.

Outlook for India

The IMF has retained India's growth at 7.3% in 2018 and 7.4% in 2019 (slightly lower than in the April 2018 World Economic Outlook [WEO] for 2019, given the recent increase in oil prices and the tightening of global financial conditions), up from 6.7 percent in 2017). According to the WEO, important reforms have been implemented in recent years, including the Goods and Services Tax, the inflation-targeting framework, the Insolvency and Bankruptcy Code, and steps to liberalize foreign investment and make it easier to do business. Looking ahead, renewed impetus to reform labor and land markets, along with further improvements to the business climate, are also crucial.

The Forecast (Policy Assumptions)

The WEO baseline forecast assumes an expansionary fiscal policy stance for advanced economies in 2018, owing largely to US fiscal stimulus, turning neutral in 2019. From 2020 onward, fiscal policy is expected to be contractionary in advanced economies as the US fiscal stimulus begins to unwind.

Monetary policy stances are projected to diverge among advanced economies. The US federal funds target is expected to increase to about 2.5% by the end of 2018 and about 3.5% by the end of 2019. The policy target rate is expected to decline to 2.9% in 2022. For emerging market economies, monetary policy stances are assumed to vary, based on the economies' cyclical positions.

Asian Economies: Real GDP AND Unemployment

Economy	Real GDP (Projections)		Unemployment (Projections)	
	2018	2019	2018	2019
Asia	5.6	5.4	-	-
Japan	1.1	0.9	2.9	2.9
Korea	2.8	2.6	3.7	3.7
Emerging and Developing Asia	6.5	6.3	-	-
China	6.6	6.2	4.0	4.0
India	7.3	7.4	-	-
Other Emerging and Developing Asia	6.1	6.3	-	-

Source: PHD Research Bureau, data complied from World Economic Outlook

Challenges for monetary policy in emerging markets as global financial conditions normalize

Inflation in emerging market and developing economies (hereafter, emerging markets) has, on average, been remarkably low and stable in recent years. Following large commodity price swings, inflation in most emerging markets has been quick to stabilize, and the shortlived effects of inflationary shocks have, in turn, allowed central banks in these countries to cut interest rates to fight off recessions. Headline consumer prices in the wider group of emerging market and developing economies, split into three broad geographical areas—Asia, Latin America, and the combination of Europe, the Middle East, and Africa—all exhibit the same pattern of convergence to lower inflation rates.

Changes in longer-term inflation expectations have been the key driver of the level of inflation in emerging markets, with an overall positive contribution to inflation in each of the four indicative sub periods explored. The overall deviation of inflation from the target declined gradually during 2004–14, by 0.7 percentage point.

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