IMF Global Outlook Report Summary

The International Monetary Fund (IMF), in its October 2018 World Economic Outlook report, has highlighted that global economic growth seems to have peaked and is likely to slow down beyond the next two years, stating that tightening monetary policies, trade war and geopolitical tensions will be a drag on global growth going forward. Below, we summarize the report and present our views keeping in mind recent developments in the global geopolitical and economic environment.

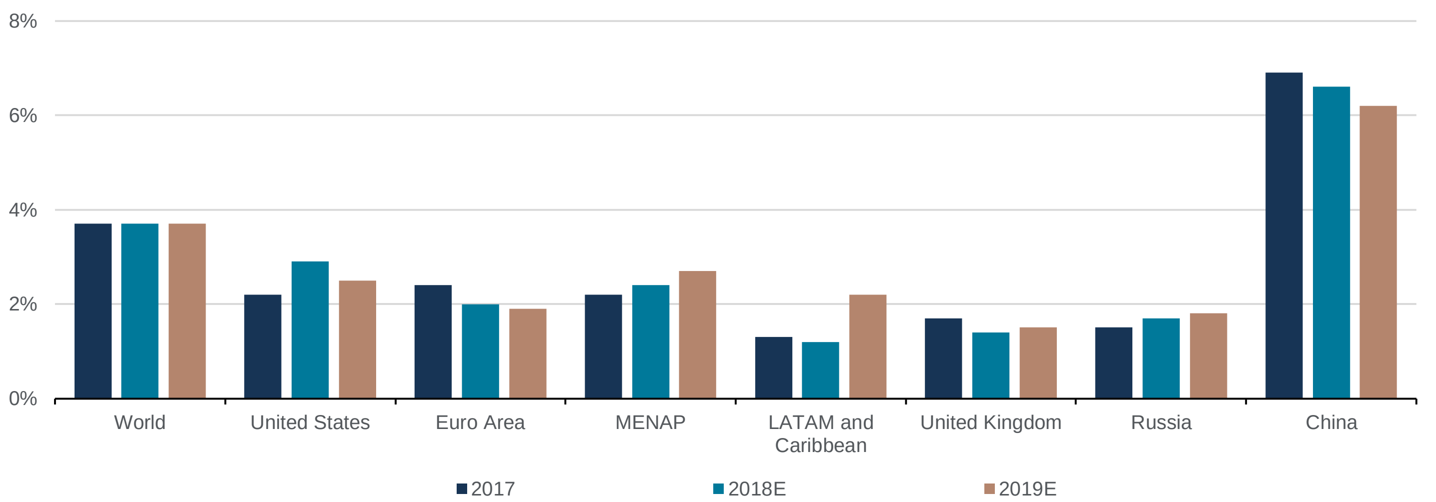
IMF Downgrades its Global Growth Forecasts for 2018 and 2019

The IMF has projected that global economic growth is likely to remain stable at its 2017 level of 3.7% for both 2018 and 2019, against its April 2018 forecast of a 3.9% expansion for both years. The United Kingdom and the Euro area economies are expected to slow down in 2018, hampered by the weaker than expected performance in the first half of 2018. On the other hand, economic growth in the United States is likely to remain strong in 2018, supported by continued increase in fiscal stimulus. For emerging markets, growth expectations for oil exporting countries have been revised upwards, while forecasts have been revised downwards for oil importing economies by the IMF, due to rising oil prices. Meanwhile, the IMF expects growth in China and other Asian economies to weaken, in the aftermath of the protectionist trade policies announced by the US and China earlier this year.

The IMF has warned that global growth is likely to be more susceptible to downside risks going forward, on the back of escalating trade tensions, tightening monetary policy and political uncertainty. The agency cautioned that beyond the next two years, economic growth in several advanced economies is likely to decline to rates that could potentially be well below the averages seen before the global financial crisis. The fund anticipates closing output gaps, normalizing monetary policies, slower growth in working-age populations and the lackluster productivity gains to be the main drivers of weak medium-term expansion rates. The IMF expects the above factors, along with sharp movements in exchange rates, to result in capital outflows and financial market volatility in emerging and developing market economies, particularly those with weaker fundamentals and higher political risk.

The IMF has recommended that as long as the environment of growth persists, governments should implement policies and reforms that will aid in extending the expansionary momentum and improve the medium-term outlook. The agency highlighted that this will also help in building buffers for the next slowdown and strengthen the resilience of the global economy for a scenario in which financial conditions tighten unexpectedly and sharply.

IMF Expects GDP Growth across Major Global Economies to Weaken over the Next Two Years



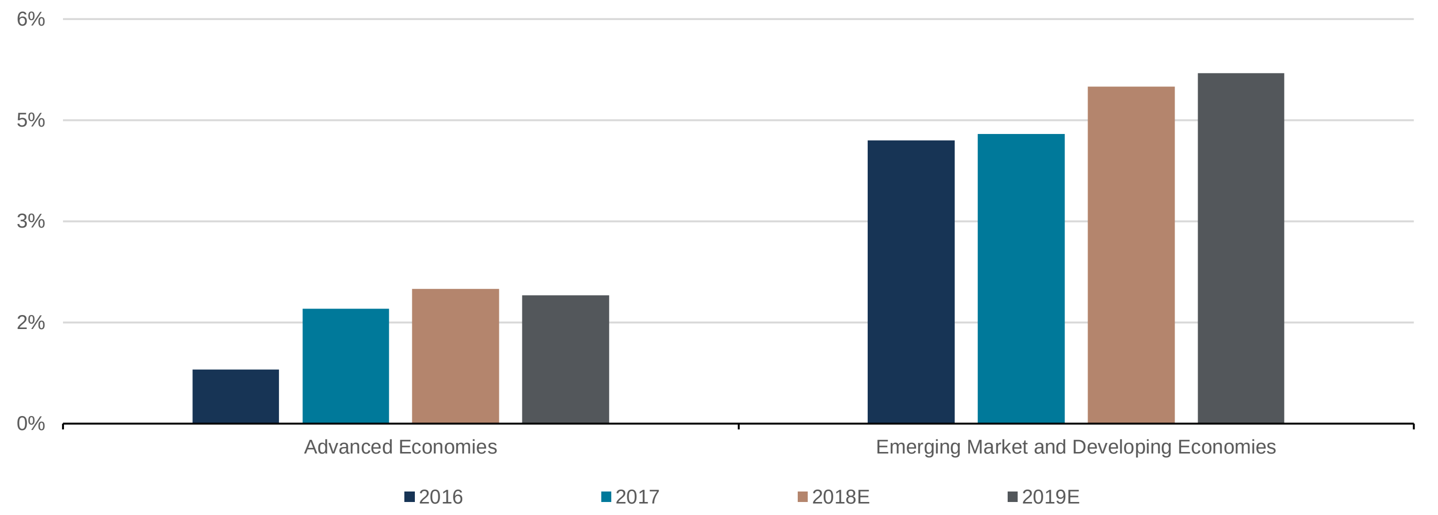
Source: IMF World Economic Outlook Report, October 2018

In our opinion, continued protectionist policies of the US and its trade tensions with major economies, particularly China, could affect investment plans and disrupt global supply chains, thereby negatively impacting growth in the medium term. Additionally, uncertainty surrounding the Brexit and the current volatility in oil markets could also impact global economic growth. Meanwhile, financial conditions are likely to tighten further as major global economies continue to normalize their monetary policies. However, if risks pertaining to trade disruptions and geopolitical tensions pan-out in the near future, central banks might adopt a wait and watch approach before further raising interest rates.

IMF Expects Inflation to Remain Subdued in Advanced Economies and Climb Higher in Emerging and Developing Economies in 2019

Core inflation in advanced economies continues to be very different, according to the IMF. In the US and the UK, inflation is closer to the targets set by these countries, while it remains well below the objectives set by the Euro area and Japan. Across emerging economies, inflation has continued to rise, mainly due to country-specific factors and currency depreciations. While financial conditions have remained supportive in advanced economies, in-spite of the rise in interest rates in the US, they have tightened in several emerging and developing economies, resulting in higher consumer prices. According to the IMF, inflation expectations were better anchored in the past two decades in emerging markets, but have not been managed well over the last few years. The IMF believes that better anchoring of inflation expectations will enable emerging economies to effectively safeguard against external shocks and reduce the impact of exchange rate fluctuations on domestic prices in the future.

IMF Expects Inflation in Emerging and Developing Economies to Rise in 2019



Source: IMF World Economic Outlook Report, October 2018

Ten Years of the Global Financial Meltdown: IMF's Perspective on the Post-Crisis Economic Recovery

The IMF, in its report, noted that ten years since the meltdown across global financial markets, output continues to remain below the pre-crisis trend in more than 60% of the countries, with 85% of these economies belonging to the group that were impacted by the banking crisis. According to the IMF, weaker investments and inadequate productivity are among the several reasons that have held-back some economies from reaching their pre-crisis output levels even after a decade. The IMF ascertained that investment shortfalls must have occurred due to both supply and demand constraints, as the financial system was not in a position to shell out the same credit outlay in the aftermath of the crisis, while demand was also subdued due to weaker growth expectations. The fund indicated that capital shortfall across several sectors, the weak labour market and slower adoption of technology also impacted countries in various ways. The findings from the IMF suggest that the economies which had stricter banking regulations and better fiscal position before the crisis and countries which implemented policies and reforms post-crisis, suffered smaller losses compared to other countries.