

GLOBAL ECONOMIC RECOVERY IS STILL FRAGILE

The IMF World Bank Annual Meeting which is held at Washington D.C this week will cover areas relating to economic developments, youth development, inclusive growth, sustainable development, trade and financial services industry. On the sidelines of the meeting Dr. R. Seetharaman, CEO of Doha Bank came out with analysis between latest IMF economic outlook vs IMF July 2014 economic outlook.

The IMF forecasts global growth to average 3.3 percent in 2014 and to rise to 3.8 percent in 2015. The weaker growth outlook for 2014 than IMF July 2014 forecast which was at 3.4 percent in 2014 and 4 percent in 2015 respectively reflects setbacks to economic activity in the advanced economies during the first half of 2014, and a less optimistic outlook for several emerging market economies. In the face of weaker-than-expected global growth for the first half of 2014 and increased downside risks, growth may again fail to pick up or may fall short of expectations.

In advanced economies, the legacies of the precrisis boom and the subsequent recession, notably high debt burdens and unemployment, still cast a shadow on the recovery, and low potential growth ahead is a concern. Several emerging markets are also adjusting to lower potential growth. In advanced economies, growth is forecast to rise to 1.8 percent in 2014 and 2.3 percent in 2015 when compared to IMF July forecast of 1.8 percent in 2014 and 2.4 percent in 2015. The projected strengthening in activity reflects faster growth in the United States following a temporary setback in the first quarter of this year. Employment growth has been strong, and household balance sheets have improved amid favorable financial conditions and a recovering housing market. US economy growth has been revised upwards to 2.2 percent for 2014 and 3.1 percent for 2015. It was at 1.7 percent for 2014 and 3 percent for 2015 in IMF July 2014 forecast. We have seen the US dollar strengthening in recent times on hopes of US economic recovery and Federal Reserve bringing down its easing program and the dollar index above 85. UK economy growth is at 3.2 percent for 2014 and 2.7 percent for 2015 which is similar to IMF July 2014



forecast for both the years.

In the euro area, recent growth disappointments highlight lingering fragilities. A gradual, but weak recovery is projected to take hold, supported by a sharp compression in interest spreads for stressed economies and record-low long-term interest rates in core euro area economies. Euro area economic growth has been brought down to 0.8 percent for 2014 from 1.1 percent in IMF July 2014 forecast. Euro region growth for 2015 has been brought down to 1.3 percent from 1.5 percent in IMF July 2014 forecast. The slow recovery has prompted European central bank to pursue fresh easing measures. The euro continues to weaken on account of slow growth and easing measures pursued by ECB.

In Japan, GDP contracted more than expected in the second quarter of 2014 in the wake of an increase in the consumption tax. Looking ahead, private investment is forecast to recover and growth to remain broadly stable in 2015. Japan economic growth has been brought down to 0.9 percent for 2014 from 1.6 percent in IMF July 2014 forecast. Japan's 2015 economic growth brought down to 0.8 percent from 1.1 percent in IMF July 2014 forecast. Japan continues to follow its easing measures to revive its growth. The Japanese yen has also weakened on account of easing measures followed by Japan.

In advanced economies, secular stagnation and low potential growth continue to be important medium-term risks—despite

continued very low interest rates and increased risk appetite in financial markets. Secular stagnation situation has arose due to a persistent shortfall of investment relative to saving, even with near-zero interest rates. Deflation, particularly in the euro area, could pose a risk to activity and debt sustainability in some countries.

The emerging and developing economies still account for lion's share of global growth at 4.4 percent for 2014 and 5 percent for 2015 which is lower than IMF July forecast of 4.6 percent for 2014 and 5.2 percent for 2015 respectively. In China, growth is expected at 7.4 percent in 2014 and 7.1 percent in 2015, as the economy transitions to a more sustainable path, which is similar to IMF July 2014 forecast for both the years. Growth is expected to remain strong elsewhere in emerging and developing Asia. India is expected to grow at 5.6 percent in 2014 and 6.4 percent in 2015. The 2014 growth has been marginally revised upwards when compared to IMF July 2014 forecast which was at 5.4 percent. Brazil is expected to grow at 0.3 percent in 2014 and 1.4 percent in 2015 and has revised down from IMF July forecast of 1.3 percent in 2014 and 2 percent in 2015. Russia is expected to grow at 0.2 percent in 2014 and 0.5 percent in 2015. The 2015 growth rate has been brought down from 1 percent in IMF July 2014 forecast to 0.5 percent. For emerging markets, potential growth could be even lower than projected, if supply-side constraints prove more protracted.

In the Middle East and North Africa, the recovery remains fragile even as growth is expected to start picking up modestly on the back of improving domestic security conditions and improving external demand. The growth for Middle East, North Africa, Afghanistan and Pakistan is expected to be 2.7 percent in 2014 and 3.9 percent in 2015 which is lower than IMF July forecast of 3.1 percent in 2014 and 4.8 percent in 2015.

The Currency market has witnessed significant volatility on account of various monetary policies by central banks of advanced economies to revive growth. The strong dollar in recent times has also brought down the prices of major commodities.