Event Update - IMF Releases World Economic Outlook

October-2020

Higher spending lowers Covid-19-led decline in Advanced Economies…

The latest update to the IMF's World Economic Outlook showed a less severe decline for 2020 as compared to the estimates published in June-2020. ***Global real GDP is now expected to show a decline of 4.4% in 2020, an upward revision from a decline of 5.2% expected in June-2020, mainly led by the surprise growth in Q2-2020. For 2021, global real GDP is expected to bounce back to a growth of 5.2%, a 20 bps downward revision from 5.4% in the previous forecast.*** *The report showed upward revisions for a majority of the countries, especially in the Advanced Economies group, whereas higher-than-expected impact of the Covid-19 in the Emerging & Developing Economies has resulted in a relative steepening of output decline.*

The upward revision for 2020 growth forecast mainly reflected higher-than-expected GDP growth rates during Q2-2020 mainly in advanced economies as economic activity resumed sooner-than-expected after the lockdowns. *Q3-2020 recovery is also expected to be stronger, according to the IMF, that further supported the revisions for the year. However, the momentum is expected to slow down in Q4-2020.*

GDP estimates for Advanced Economies were revised upward by 230 bps to a decline of 5.8% for 2020, indicating that the bulk of the slowdown in global GDP came as a result of the severe impact that the pandemic had in this region as compared to Emerging Markets & Developing Economies. The latter is expected to see a much smaller real GDP decline of 3.3% in 2020, but a downward revision from a decline of 3.1% expected in June-2020.

Among key economies, China is the only country that is expected to see a growth in 2020 at 1.9%, an upward revision from 1.0% growth expected in June-2020. For 2021, China's real GDP is expected to grow by 8.2%. *Meanwhile, India is expected to see one of the steepest GDP declines in 2020 at –10.3% after undergoing a steep downward revision of 580 bps as compared to June-2020 expectations. For 2021, India's GDP is expected to bounce back to a growth of 8.8%, one of the strongest recoveries from amongst the key global economies.*

GDP forecasts for the MENA region also underwent an upward revision to show a lower decline of 5.0% as compared to a decline of 5.7% in the June-2020 forecast, which we believe includes the effects of higher expected oil price. *For 2021, the MENA region is expected to clock a growth of 3.2%, a slight decline from 3.7% in the previous forecast.*

Country/Regions	Oct-2020 Updated Forecasts				Rev. from June-2020	
Real GDP Growth	**2018**	**2019**	**2020e**	**2021e**	**2020e**	**2021e**
World Output	3.5%	2.8%	-4.4%	5.2%	0.8%	-0.2%
Advanced Economies	2.2%	1.7%	-5.8%	3.9%	2.3%	-0.9%
United States	3.0%	2.2%	-4.3%	3.1%	3.7%	-1.4%
Euro Area	1.8%	1.3%	-8.3%	5.2%	1.9%	-0.8%
EM and Developing Economies	4.5%	3.7%	-3.3%	6.0%	-0.2%	0.2%
China	6.7%	6.1%	1.9%	8.2%	0.9%	0.0%
India	6.1%	4.2%	-10.3%	8.8%	-5.8%	2.8%
MENA	1.2%	0.8%	-5.0%	3.2%	0.7%	-0.5%
Saudi Arabia	2.4%	0.3%	-5.4%	3.1%	1.4%	0.0%
Sub-Saharan Africa	3.3%	3.2%	-3.0%	3.1%	0.2%	-0.3%
Trade Volume	**2018**	**2019**	**2020e**	**2021e**	**2020e**	**2021e**
World Trade Volume	3.9%	1.0%	-10.4%	8.3%	1.5%	0.3%
Imports - Advanced Economies	3.6%	1.7%	-11.5%	7.3%	1.7%	0.1%
Imports - EM and Developing Economies	5.0%	-0.6%	-9.4%	11.0%	0.0%	1.6%
Exports - Advanced Economies	3.5%	1.3%	-11.6%	7.0%	2.0%	-0.2%
Exports - EM and Developing Economies	4.1%	0.9%	-7.7%	9.5%	1.6%	0.2%
Consumer Prices	**2018**	**2019**	**2020e**	**2021e**	**2020e**	**2021e**
Advanced Economies	2.0%	1.4%	0.8%	1.6%	0.5%	0.5%
EM and Developing Economies	4.9%	5.1%	5.0%	4.7%	0.5%	0.1%

Sources : IMF WEO Oct-2020

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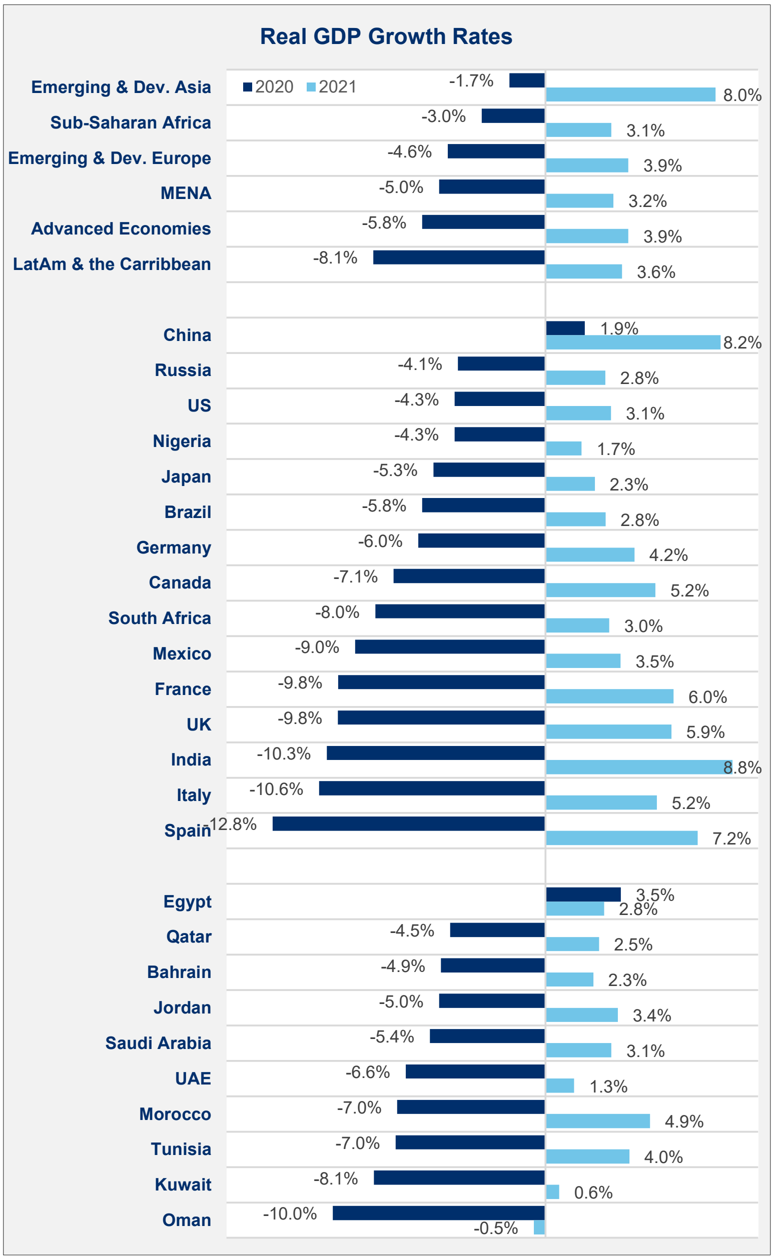
Global recovery continues but remains uneven across countries...

Although growth during Q2-2020 has been broadly better-than-expected, the IMF said that the economic activity was uneven across the globe. The differences in economic activity came primarily from the way countries dealt with covid-19 at the peak of the pandemic that was followed by the timing of opening the economies from the lockdowns. The earlier-than-expected opening up of the Chinese economy provided a big push to global trade resulting in higher exports and a strong pickup in external demand for medical equipment and for equipment that helped in remote working. Higher investment by the government also aided the recovery process in China. Excluding China, the GDP decline in emerging market and developing economies will be steeper by 240 bps at -5.7% for 2020, whereas for 2021, the scenario reverses to a growth of 5% ex-China vs. a higher expected growth of 6.0% when we include China.

Secondly, government transfers and household income support in the US and Euro Area resulted in less-severe contraction. According to the IMF, discretionary revenue and spending measures announced by advanced economies amounted to more than 9% of GDP with an additional 11% in other forms of liquidity support, including equity injections, asset purchases, loans and credit guarantees. On the other hand, countries that reported weaker-than-expected recovery, including India, was mainly led by a sharp decline in consumption and a collapse in investment. The overall spending by emerging market and developing economies stood at a much smaller scale as compared to advanced economies at about 3.5% of GDP in discretionary measures and more than 2% in liquidity support.



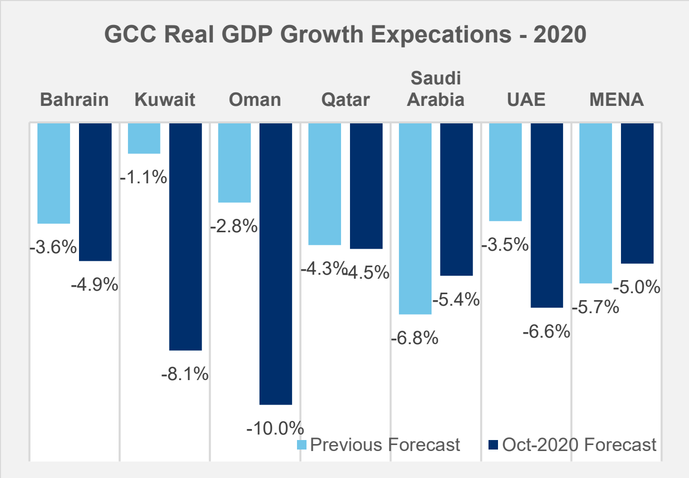
Source : IMF WEO Oct-2020

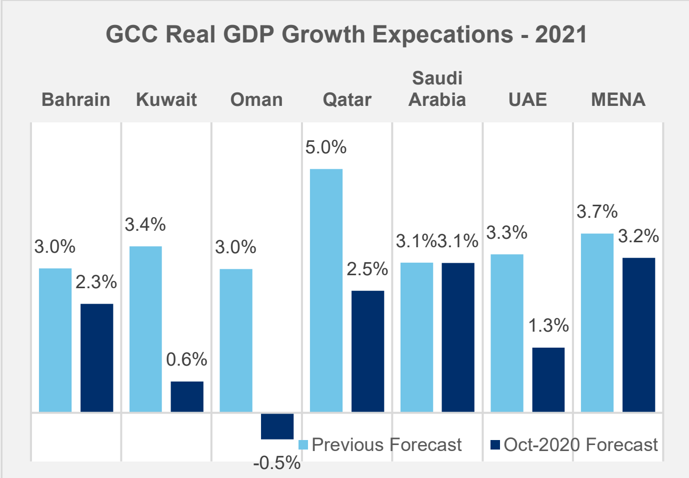
Rise in case counts casts doubts on the pace of recovery in Q4-2020...

After a cheerful kickstart to economy post the lockdowns that was reflected in Q2-2020 growth, economies are cautious about the activity for the remainder of the year. Number of confirmed cases has risen significantly in most of the economies that is forcing countries to reinstate partial lockdowns in some cases or a slowed reopening. The slowdown in seen particularly in the services sector due to the rising infections, whereas manufacturing activity growth continues to remain robust. According to the IMF, this recession has particularly affected the services sector, which saw smaller growth declines than the manufacturing sector during previous recessions. Sectors that are reliant on personal interactions are heavily affected, including wholesale and retail trade, hospitality and arts and entertainment and without a vaccine, the recovery in these sectors would be difficult.

Global trade flow to remain subdued in the coming years...

World trade volume is expected to decline by 10.4% in 2020, similar to the decline seen during the global financial crisis, led by weak final demand from consumers and firms across the globe that will lead to a decline in exports and imports. Trade volumes are expected to recover to a growth of 8.3% in 2021 and slightly more than 4% in the coming years. FDI flows are expected to be impacted and its share as a percentage of GDP is expected to remain well below the levels seen during the pre-pandemic decade.





Source : IMF WEO Oct-2020

GCC countries mostly witnessed downward revisions in GDP growth, barring Saudi Arabia...

Real GDP forecast revisions for the GCC countries were mostly negative for both 2020 and 2021. Barring Saudi Arabia, the rest of the countries in the GCC witnessed downward revisions ranging from -720 bps in the case of Oman for 2020 to -10 bps for Qatar. For 2021, the revisions were modest, but once again focused on countries other than Saudi Arabia. According to the IMF, Oman is expected to see the steepest decline in real GDP during 2020 by 10%, the steepest decline on record based on IMF data since 1980. The overall MENA region is expected to see a decline of 5% in 2020, an upward revision of 70 bps, followed by growth of 3.2% in 2021.

SMEs will see a harder hit to growth...

The impact of the economic slowdown on SMEs is expected to be relatively severe as compared to its impact on larger businesses due to limited buffers and access to credit. Moreover, when compared to previous recessions, the impact on SMEs in this recession is particularly severe as SMEs are prevalent in the hardest hit sectors including restaurants, hotels and arts and entertainment. This will be most likely reflected in job creation in the sector as well as liquidity and solvency risks leading to rising bankruptcy risks amongst SMEs. As a result, a much larger government support would be required in addition efforts to avoid unwarranted bankruptcies. Also, due to the significant impact of SMEs on the overall economic growth, the sector would require an extended support, including equity like injections in countries that have the fiscal space.

Medium-term growth expected to shrink due to the after-effects of the pandemic...

According to the IMF, despite a bounce back in growth in 2021, GDP growth in the medium term is expected to be much smaller at 3.5%, a reduction from what was expected during the pre-pandemic years. The slowdown is expected to be seen in both emerging market and developing economies as well as in advanced economies. Growth in advanced economies is expected to slow to 1.7% over the medium term whereas emerging markets and developing economies it will reach 4.7%. The effects of the stunted growth will be felt in labor markets as well as human capital accumulation as school closures during the pandemic posed a significant new challenge. Economies in the medium term are expected to see higher sovereign debt coupled with lower tax collections as output is expected to be impacted.

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