KAMCO Research

Event Update - IMF Releases World Economic Outlook Update

January-2016

Global growth to be more gradual than forecasted in Oct-15: *IMF revised its global growth estimates lower, in its World Economic Outlook (WEO) released in January-16, after slashing growth expectations three times in 2015. Global growth was revised downwards, albeit marginally by 20 bps for both 2016 & 2017, and current growth expectations are projected at 3.4% for 2016 and 3.6% for 2017.*

Global GDP growth in 2015 remained modest at 3.1%. *The subdued growth in 2015 was largely ascribed to a reduction in growth clocked by emerging and developing economies, as growth figures fell for the fifth consecutive year. Average growth in emerging markets and developing economies, which contribute to over two-thirds of the growth globally fell by 60 bps from the previous year to 4.0% in 2015. The slowdown and rebalancing of economic activity in China, lower prices for commodities and energy products are likely to remain themes which influence the outlook for 2016 and 2017, as per the IMF.*

Saudi Arabia's growth for 2016 & 17 revised lower by 100bps : *Economic growth in Saudi Arabia for 2015 was estimated at 2.5%, as per the IMF. Real GDP growth expectations for 2016 & 17 is projected to be lower at 1.2% and 1.9% respectively, and were revised lower by 100 bps each from Oct-15 forecasts, largely ascribed to the drop in oil revenues that the agency expects oil exporting countries to be affected from.*

Sufficient headroom remains for implementation of diversification plans: *KAMCO Research believes that there is sufficient headroom in the medium term for Saudi Arabia to expedite and implement its diversification plans, and move its revenue sources away from oil in the long term. Various avenues for financing these plans exist, and in our view if combined well, this would overhaul the existing model based on oil revenues and public expenditure. Optimization of reserves and government expenditure, along with divestment options in state owned enterprises, subsidy cuts on utilities, and additional revenues through taxes, be it Value Added Tax (VAT) or on specific goods, or real estate fees, remain options that are keenly looked into to plug the gap in oil revenues.*

IMF Estimates	Current Estimates Jan-16			Revisions by IMF		Previous Estimates Oct-15	
Real GDP Growth	**2015**	**2016 F**	**2017 F**	**2016 F**	**2017 F**	**2016 F**	**2017 F**
Percentage							
US	2.5%	2.6%	2.6%	-0.2%	-0.2%	2.8%	2.8%
Europe	1.5%	1.7%	1.7%	0.1%	0.0%	1.6%	1.7%
UK	2.2%	2.2%	2.2%	0.0%	0.0%	2.2%	2.2%
Japan	0.6%	1.0%	0.3%	0.0%	-0.1%	1.0%	0.4%
Russia	-3.7%	-1.0%	1.0%	-0.4%	0.0%	-0.6%	1.0%
China	6.9%	6.3%	6.0%	0.0%	0.0%	6.3%	6.0%
India	7.3%	7.5%	7.5%	0.0%	0.0%	7.5%	7.5%
Brazil	-3.8%	-3.5%	0.0%	-2.5%	-2.3%	-1.0%	2.3%
Saudi Arabia	**3.4%**	**1.2%**	**1.9%**	**-1.0%**	**-1.0%**	**2.2%**	**2.9%**
Advanced Economies	1.9%	2.1%	2.1%	-0.1%	-0.1%	2.2%	2.2%
Emerging Market & Developing Economies	4.0%	4.3%	4.7%	-0.2%	-0.2%	4.5%	4.9%
MENA, Afghanistan & Pakistan	**2.5%**	**3.6%**	**3.6%**	**-0.3%**	**-0.5%**	**3.9%**	**4.1%**
Real GDP Growth - Global	**3.1%**	**3.4%**	**3.6%**	**-0.2%**	**-0.2%**	**3.6%**	**3.8%**
Growth in other key economic drivers	**2015**	**2016 F**	**2017 F**	**2014 E**	**2015 F**	**2016 F**	**2017 F**
Percentage							
CPI - Advanced Economies	0.3%	1.1%	1.7%	-0.1%	0.0%	1.2%	1.7%
CPI -Emerging Market & Developing Economies	5.5%	5.6%	5.9%	0.5%	1.0%	5.1%	4.9%
World Trade	2.6%	3.4%	4.1%	-0.7%	-0.5%	4.1%	4.6%

Source: IMF WEO Update January 2016

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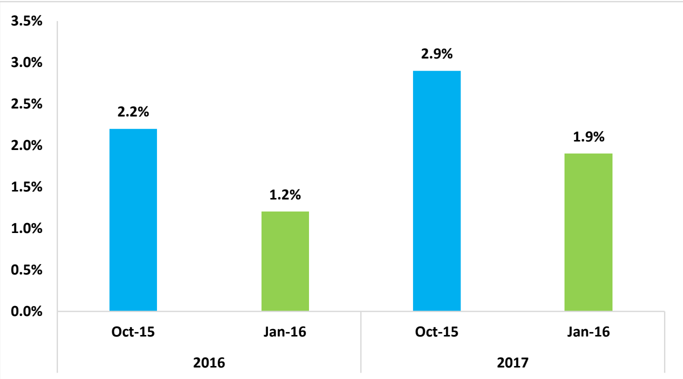
More sanguine on the growth of advanced economies…

Key drivers for the lower estimates of global growth were revisions to growth of emerging markets and developing economies, as the IMF cited that the backdrop for these economies is expected to remain challenging. However, IMF expects advanced economies to continue on their recovery path, and further estimate a further narrowing of the output gap from potential GDP. Inflation in advanced economies is likely to grow from 0.3% per annum in 2015 to 1.1% and 1.7% in 2016 and 2017, as deflationary concerns alleviate.

…. however most regions saw their growth forecasts revised downwards from Oct -15...

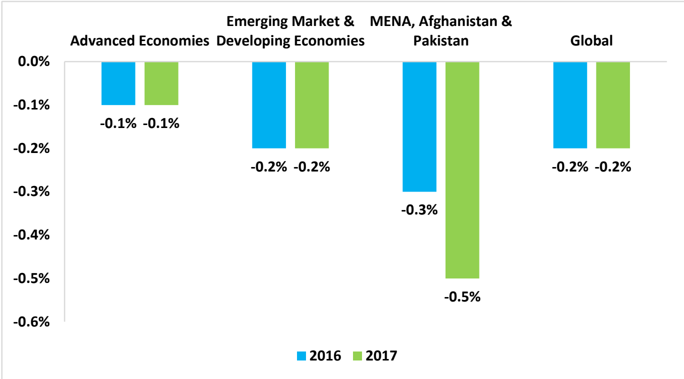
Most revisions of growth forecasts by the IMF in Jan-16 as against its expectations from Oct-15 were negative, as global Real GDP growth was brought down by 20 bps for 2016 & 17. The MENA, Afghanistan and Pakistan region saw the largest drop in growth expectations with negative revisions of 30 bps and 50 bps for 2016 & 17 respectively, largely affected by the expectations of a drop in oil prices for oil exporting GCC countries. However, even post the revision, the region is set to grow at a faster pace in 2016 & 2017, than the 2.5% real GDP registered in 2015, as the IMF expects growth of 3.6% per annum over the period. Advanced economies saw the least revisions to the downside, as accommodative financial conditions and benefits accrued from lower oil prices helped retain forecasts for these economies.

KSA Real GDP Growth –2016 & 2017



Source: IMF WEO Update January 2016, KAMCO Research

Revision in GDP Growth from Oct –15 to Jan-16



Source: IMF WEO Update January 2016, KAMCO Research

Implementation remains key

IMF reduced real GDP forecasts for Saudi Arabia by 100 bps for 2016 & 17, and also forecast oil prices to drop by USD 17.6/barrel in 2016, from an average of USD 50.9/barrel achieved over 2015. Further, a partial recovery of USD 14.9/barrel is forecasted for 2017. They further mentioned that oil price concerns and geopolitical risks continue to weigh on the outlook for the Middle East.

Despite the concerns, KAMCO Research believes that Saudi Arabia has ample fiscal space to maneuver with, as the country evaluates options to achieve its target of diversification targets of moving beyond oil as its single dominant source of revenues. Global consultant Mckinsey estimates Saudi Arabia’s financial and non financial assets to be over USD 1 Trillion, excluding oil reserves, which should serve as a good source of funding, in our view to buoy the non-oil economy. The country is also reportedly evaluating divestment options of its state owned corporations, such as the downstream business of Aramco to fund the gap in fiscal expenditure. Other fiscal revenue side initiatives in terms of taxation and fees are also being reviewed, the prominent one being the implementation of VAT. Initiatives that are already implemented include the hike in prices of petroleum products of upto 50%, increase in prices of utilities such as electricity, water sewage etc., and on the real estate side the Shoura council in Nov –15 agreeing on a 2.5% annual tax for undeveloped land in urban areas. We expect other GCC countries to also follow Saudi Arabia’s lead in expenditure rationalization, prioritizing key infrastructure projects and expediting initiatives towards diversification of their economies.

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