

Event Update - IMF World Economic Outlook

April-2021

Global real GDP growth to see stronger recovery...

The IMF further increased global growth forecast for 2021 from 5.5% expected in Jan-2021 to 6.0%, the fastest pace of recovery on record based on IMF data since 1980. The agency also lowered its 2020 contraction estimate from 3.5% expected in Jan-2021 to 3.3% in its latest estimates. The revisions for 2020 reflected better-than-expected growth during 2H-2020 mainly led by the easing of restrictions and the adaptation to pandemic life. The revisions for 2021 and 2022 were broadly positive across the globe, barring a few exceptions, and IMF expects a faster vaccine-led growth during 2H-2021. Highlighting the strong policy response to the pandemic, the IMF said that the impact of the pandemic would be less severe as compared to the global financial crisis of 2008, especially in the case of advanced economies.

Economic trends are expected to remain divergent across countries in terms of speed of recovery and the long term damages from the pandemic. Advanced countries are expected to see a faster-than-expected recovery mainly led by the financial support resulting in an additional growth of 80 bps to reach 5.1% this year as compared to previous forecast of 4.3% growth. On the other hand, emerging market and low-income developing economies are expected to see a bigger impact of the pandemic and are expected to see more significant medium-term declines. For the medium term, the IMF expects global GDP growth to moderate to 3.3% led by the impact on supplies from the pandemic as well as legacy issues related to labor force growth in advanced economies and some emerging market economies. Risks related to short-term growth are expected to be balanced with significant increase in savings in some countries due to lack of spending that could be deployed pretty quickly vs. the impact on corporate and individual balance sheets and the outcomes of expiration of the loan moratoriums.

In its suggestions for near-term policy actions, the IMF said policy actions would depend on the stage at which a country is currently in terms of virus spread and vaccination efforts as well as structural characteristics of the economy. Easing of restrictions is advised once vaccinations are widespread and spare capacity in health care systems reach pre-pandemic levels. However, in general, **the policy actions should be initially aimed at prioritizing health care spending, well-targeted fiscal support and accommodative monetary policy.** In the next stage of recovery, governments need to focus on limiting long-term damage to the economy by increasing productive capacity via public investment and improving overall efficiency.

Country/Regions	Apr-2021 Forecasts				Rev. from Jan-21	
Real GDP Growth	2019	2020	2021e	2022e	2021e	2022e
World Output	2.8%	-3.3%	6.0%	4.4%	0.5%	0.2%
Advanced Economies	1.6%	-4.7%	5.1%	3.6%	0.8%	0.5%
United States	2.2%	-3.5%	6.4%	3.5%	1.3%	1.0%
Euro Area	1.3%	-6.6%	4.4%	3.8%	0.2%	0.2%
EM and Developing Economies	3.6%	-2.2%	6.7%	5.0%	0.4%	0.0%
China	5.8%	2.3%	8.4%	5.6%	0.3%	0.0%
India	4.0%	-8.0%	12.5%	6.9%	1.0%	0.1%
Middle East and Central Asia	1.4%	-2.9%	3.7%	3.8%	0.7%	-0.4%
Saudi Arabia	0.3%	-4.1%	2.9%	4.0%	0.3%	0.0%
Sub-Saharan Africa	3.2%	-1.9%	3.4%	4.0%	0.2%	0.1%
Trade Volume Growth	2019	2020	2021e	2022e	2021e	2022e
World Trade Volume	0.9%	-8.5%	8.4%	6.5%	0.3%	0.2%
Advanced Economies - Exports	1.3%	-9.5%	7.9%	6.4%	1.0%	0.2%
EM & Dev. Economies - Exports	0.5%	-5.7%	7.6%	6.0%	-0.7%	-0.2%
Advanced Economies - Imports	1.7%	-9.1%	9.1%	6.4%	1.1%	0.4%
EM & Dev. Economies - Imports	-1.0%	-8.6%	9.0%	7.4%	-1.1%	0.3%
Consumer Prices Change	2019	2020	2021e	2022e	2021e	2022e
Advanced Economies	1.4%	0.7%	1.6%	1.7%	0.3%	0.2%
EM and Developing Economies	5.1%	5.1%	4.9%	4.4%	0.7%	0.2%

Sources : IMF WEO - Apr-2021

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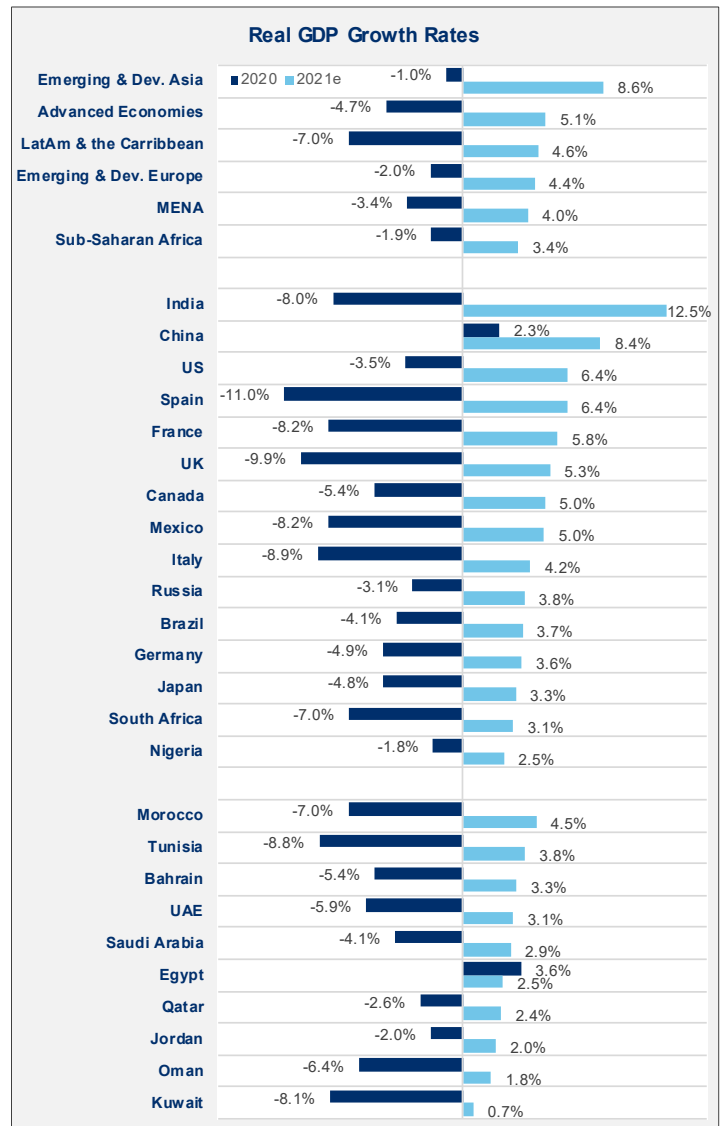
Global Trade Volumes

Trade volumes of goods and services are also expected to show similar trends as GDP growth. According to the IMF, while merchandise trade volumes have recovered to pre-pandemic levels, international trade in services are yet to see a similar recovery. The IMF expects higher overall trade volume in 2021 and 2022 with a positive revision of 30 bps to a growth of 8.4% in 2021, the highest since the recovery year of the global financial crisis followed by 6.5% in 2022 (revision of 20 bps). However, the revision came mainly on the back of better-than-expected volumes in advanced economies partially offset by a worsening trade in emerging market and developing economies.

Advanced Economies vs. Emerging Market & Developing Economies

The estimates for 2020 also underwent changes across the board and mostly upward revisions led by a faster recovery seen during 2H-2020. Countries that were proactive in spending and other targeted reforms have seen much better upward revisions. Similarly, the efforts on the vaccination front and the speed of administration are expected to determine the economic recovery in the near term.

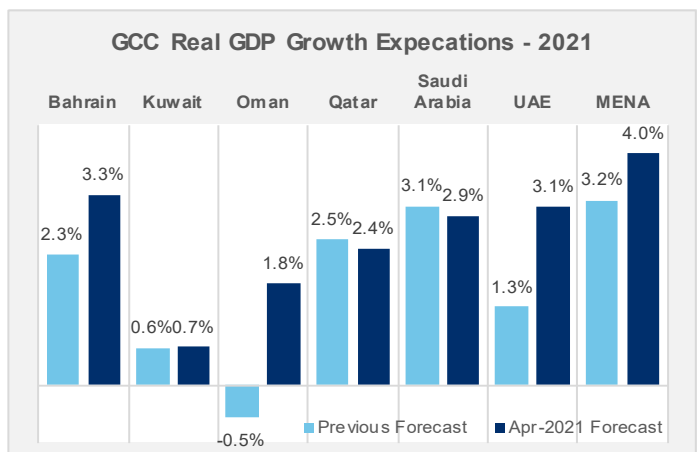
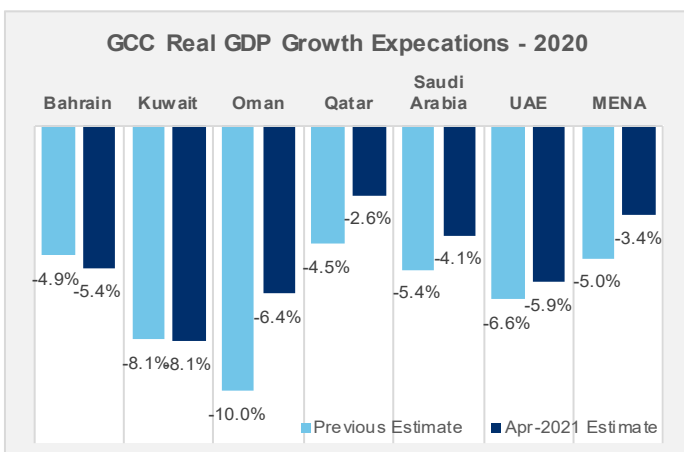
In terms of country-specific growth, Canada followed by the US have seen the biggest revision to their expected growth rates in 2021 by 140 bps and 130 bps, respectively, with US expected to outstrip pre-covid GDP growth rate this year. While the bulk of the countries in advanced economies are expected to return to pre-covid growth in 2022, in emerging market and developing economies much of the recovery is expected to come in 2023, although China achieved this feat in 2020 itself. US and Spain are expected to lead recoveries from among major advanced economies with growth of 6.4% in 2021 for the two countries followed by France at 4.8%. In the emerging market and developing economies, India is expected to see the biggest recovery at 12.5% (+100 bps as compared to previous forecast) followed by 6.9% growth in 2022, also one of the highest globally for the year.



Source : IMF WEO - Apr-2021

MENA & GCC GDP Growth

Growth for the Middle East and Central Asia region also underwent a positive revision of 70 bps for 2021 to reach a growth of



Source : IMF WEO - Apr-2021

3.7%. However, for 2022, the expected growth was lowered by 40 bps to 3.8%. Saudi Arabia's growth in 2021 was revised upward by 30 bps for 2021 to 2.9% and was unchanged at 4.0% for 2022. The trend in revisions for the MENA countries for 2021 GDP growth rates were divergent, and while globally the trend was showing positive revisions, the bulk of the countries in the MENA region underwent downward revisions. Iraq and Jordan's downward revisions of 140 bps each were the biggest in the region while on the positive side, Oman and UAE underwent the biggest positive revisions of 230 bps and 180 bps, respectively. Oman is now expected to see a growth in 2021 of 1.8% as against previous forecast of a contraction of 50 bps. Except for Qatar's marginal downward revision of 10 bps, the rest of the GCC countries have shown positive revisions and the overall region is expected to show positive growth in 2021.

Uncertainty would result in divergent growth expectations...

Despite the positive revisions to growth rates, uncertainty continues to prevail as countries grapple to deal with the second and third wave of virus spread with newer strains and uncalculated impact. A number of countries have reimposed restrictions as we write this report while some are in the process of gradually lifting it. As a result, growth rates would remain divergent across economies for 2021 and 2022. Moreover, countries and sectors that are heavily reliant on tourism and commodity exports and other contact intensive occupations and services are seeing particularly higher loss in output.

Moreover, the much needed policy support measures have supported the economy so far, but the scaling back of these measures would have a significant impact on near-term risk and growth. This is especially true as debt levels are currently at historical levels and interest rates are at one of the lowest levels. The easy availability of funding has resulted in stretched valuations and a disconnect between the financial markets and economic growth. Sectors like banking are particularly vulnerable to rising leverage in the corporate sector and needs to be managed with utmost caution due to its far reaching impact on other sectors.

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