Event Update - IMF World Economic Outlook

April-2023

Global GDP forecast is revised downward despite fall in inflation ...

In its latest World Economic Outlook report, the IMF highlighted the gradual recovery of the global economy from both the pandemic and Russia Ukraine conflict. China opening its economy to generate positive spillover, with supply chain interruptions easing, and the impact of war on energy and food markets starting to fade. Simultaneously, most central bank's significant tightening of monetary policy to bring it back to normal. The crisis of two specialized regional banks in the United States in March-2023, as well as the loss of trust in Credit Suisse have roiled financial markets, all these consequences have downgraded the global economy forecast for the year.

The IMF lowered its forecast for global real GDP growth rate for 2023 and 2024 by 10 bps from its previous forecast. World GDP is now expected to grow by 2.8% in 2023 and 3.0% in 2024 which is the lowest medium-term forecast since 1990. The IMF also stated that the global economy is not expected to recover to pre-pandemic growth rates in the medium time, according to current forecasts. The downward revisions were also made for Emerging Market and Developing Economies. On the other hand, Growth estimates for Advanced Economies witnessed an upward revision of 10 bps to 1.3% for 2023 and remained unchanged for 2024 to 1.4%.

According to the IMF, 90% of Advanced Economies are expected to witness a drop in growth in 2023. With the sharp slowdown, Advanced Economies are anticipated to have higher unemployment which is 0.5% increase from 2022 to 2024 on average. On the other hand, growth expectation for EM and Developing Economies witnessed a downward revision of 10 bps for 2023 to an expected growth of 3.9% ,there was no change in forecast for 2024 and the growth is expected to reach 4.2% next year. In 2023, economic slowdown is most pronounced in Advanced Economies, particularly the Eurozone and the United Kingdom, where GDP is forecasted to decline to 0.8% and -0.3%, respectively, before rebounding to 1.4% and 1% next year. Despite a 0.5% negative revision, many emerging market and developing economies were anticipated to improve, with year-end growth increasing to 4.5% in 2023 from 2.8% in 2022.

Country/Regions	Apr - 2023 Forecasts			Rev. from Jan-23	
Real GDP Growth	**2022**	**2023e**	**2024e**	**2023e**	**2024e**
World Output	3.4%	2.8%	3.0%	-0.1%	-0.1%
Advanced Economies	2.7%	1.3%	1.4%	0.1%	0.0%
United States	2.1%	1.6%	1.1%	0.2%	0.1%
Euro Area	3.5%	0.8%	1.4%	0.1%	-0.2%
EM and Developing Economies	4.0%	3.9%	4.2%	-0.1%	0.0%
China	3.0%	5.2%	4.5%	0.0%	0.0%
India	6.8%	5.9%	6.3%	-0.2%	-0.5%
Middle East and Central Asia	5.3%	2.9%	3.5%	-0.3%	-0.2%
Saudi Arabia	8.7%	3.1%	3.1%	0.5%	-0.3%
Sub-Saharan Africa	3.9%	3.6%	4.2%	-0.2%	0.1%
Trade Volume Growth	**2022**	**2023e**	**2024e**	**2023e**	**2024e**
World Trade Volume	5.1%	2.4%	3.5%	0.0%	0.1%
Advanced Economies - Exports	5.2%	3.0%	3.1%	0.4%	0.2%
EM & Dev. Economies - Exports	4.1%	1.6%	4.3%	-0.6%	-0.4%
Advanced Economies - Imports	6.6%	1.8%	2.7%	-0.1%	0.2%
EM & Dev. Economies - Imports	3.5%	3.3%	5.1%	0.2%	0.7%
Consumer Prices Change	**2022**	**2023e**	**2024e**	**2023e**	**2024e**
Advanced Economies	7.3%	4.7%	2.6%	0.1%	0.0%
EM and Developing Economies	9.8%	8.6%	6.5%	0.5%	1.0%

Sources : IMF WEO - Apr-2023

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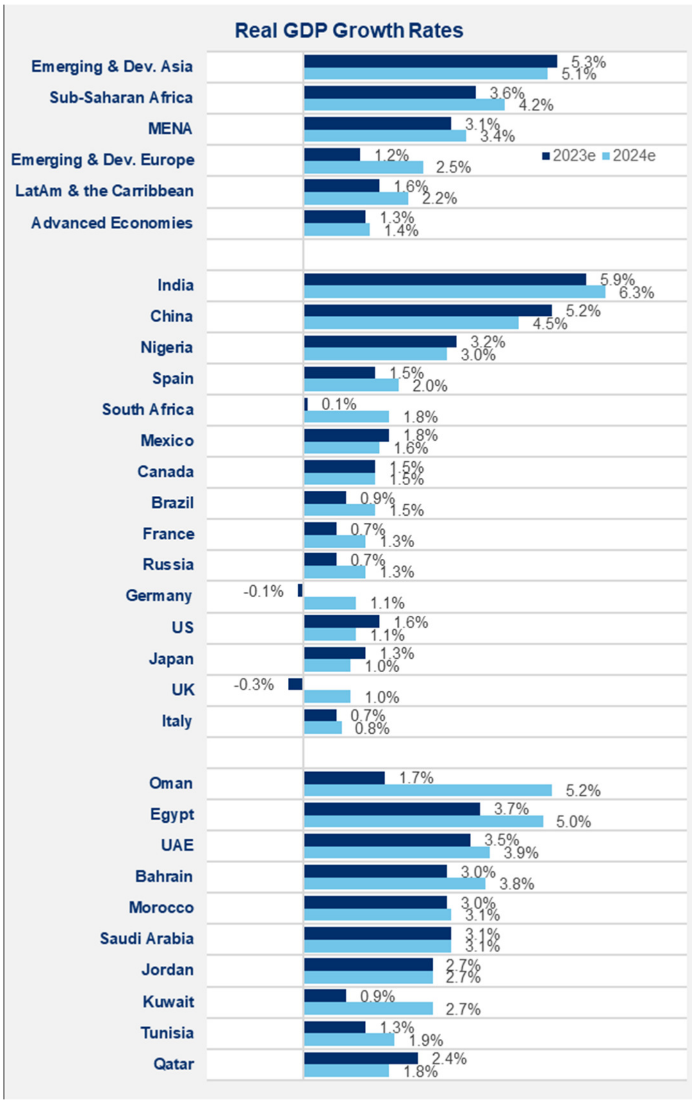
Advanced economies to see modest growth this year…



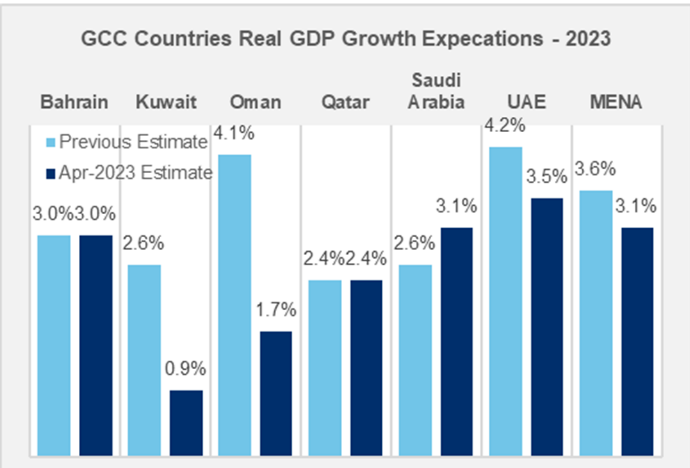
Source : IMF WEO - Apr-2023

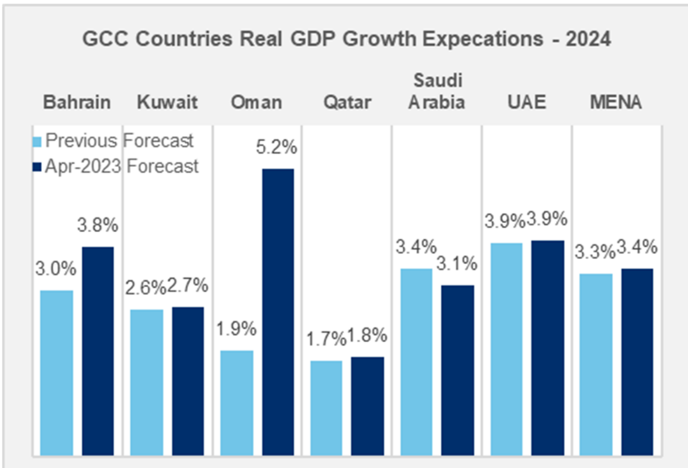
The moderate upward revision to growth forecast for 2023 mainly reflected a positive growth in Advanced Economies that was partially offset by negative revisions in commodity-exporting Emerging Market and Developing Economies. Growth in Advanced economies was raised by 10 bps for 2023 and remained unchanged for 2024. On the other hand, growth for Emerging Market and Developing Economies was slashed by 10 bps for 2023 and kept unchanged for 2024. GDP growth for the US witnessed an upward revision of 20 bps and 10 bps to 1.6% in 2023 and 1.1% in 2024 respectively.

Meanwhile, Euro Area is expected to grow by 10 bps to 0.8% in 2023 vs. previous forecast of 0.7%. In contrast, growth expectations for Germany were slashed by 20 bps to -0.1% in 2023, a reversal from the slight growth forecasted in its previous update of the WEO in January-2023 and lowered by 30 bps to 1.1% for 2024.

Growth in Japan is expected to decline by 50 bps to 1.3% in 2023 and was trimmed by 10 bps to 1.0% in 2024. The United States, the eurozone, and Japan suffer the most significant decreases in growth compared to the baseline around 0.4% lower in 2023. According to the IMF, Countries with higher trade exposures to the US such as Mexico and Canada were affected compared to those with lower exposures such as China are less affected.

Low income developing countries witnessed a downward revision of 20 bps to a growth of 4.7% for 2023 and 5.4% to 2024. Meanwhile, China's GDP growth is expected to be steady at 5.2% for 2023 and to 4.5% for 2024, primarily due to the reopening of its economy which is expected to generate positive spillovers. As the country's COVID limitations were eventually loosened, many outbreaks resulted in decrease in mobility and economic activity due to Q4 - 2022 heightened worries of spreading. Supply difficulties also resurfaced, albeit briefly, resulting to an increase in supplier delivery times. The economic activity in 2022 was hampered by declining real estate sales and investment. As COVID-19 wave decreased in January -2023, the mobility returned to normal, and high-frequency economic indicators such as retail sales and trip bookings began to rise after Chinese government has responded with a number of significant measures. Meanwhile, India's growth was revised down by 20 bps for 2023 to 5.9% and trimmed 50 bps to 6.3% for 2024. The IMF said that the world economy is expected to grow at less than 3% this year, whereas India and China expected to account for half of global growth in 2023.





Source : IMF WEO - Apr-2023

MENA & GCC GDP Growth

Growth for the Middle East and North Africa region was slashed by 10 bps for 2023 and 2024 to an expected growth of 3.1% and 3.4%, respectively. This comes after an estimated growth of 5.3% in 2022 that was led by strong domestic demand and a rebound in oil production. The curtailed growth projected for 2023 reflects tight policies to restore macroeconomic stability, the agreed upon OPEC+ cuts and the fallout from the recent deterioration in global financial condition, according to the IMF. MENA oil exporters are expected to see a growth of 3.1% in 2023 from 5.7% in 2022 as focus shifts to non-oil sectors as the key drivers of growth. The IMF said that the recently announced surprise cuts by the OPEC+ will lower growth for the GCC region but will have a positive outcome on fiscal and external positions as higher oil prices offset the impact of lower growth.

For emerging markets in the MENA region, the IMF said that growth in expected to fall to 3.4% this year from 5.1% last year. This will include a 1.3% growth rate for low-income countries in the MENA region as they struggle with high commodity prices, macroeconomic instability and country-specific fragilities. Saudi Arabia's growth was revised upward by 50 bps for 2023 to 3.1%. However, for 2024, the expected growth was lowered by 30 bps to 3.1%. The trend in revisions for the MENA countries for 2023 GDP growth rates were expected to slow, in contrast, the bulk of the countries are expected to show upward revisions for 2024.

Real GDP growth for Kuwait and Oman in 2023 was revised downward by 170 bps to 0.9% and 240 bps to 1.7%, respectively. UAE growth is expected to fall by 70 bps to 3.5%. There was no change in forecast for Bahrain and Qatar with growth expected to reach 3.0% and 2.4%, respectively. For the year 2024, Oman is expected to grow by 330 bps to 5.2%, followed by Bahrain which is expected to grow by 80 bps to 3.8%. Kuwait and Qatar are forecasted to grow by 10 bps to 2.7% and 1.8%, whereas UAE remains the same.

Inflation to fall at a slower pace

Since mid-2022, global headline inflation has seen a declining trend, supported by the drop in fuel and energy commodity prices, particularly in the United States, the Eurozone, and Latin America. To dampen demand and lower underlying core inflation, the majority of central banks around the world have been raising interest rates faster and more synchronously since 2021. Inflation, excluding volatile food and energy costs, has been dropping at a three-month rate in most major economies, but at a slower rate than headline inflation. The IMF has forecasted the inflation to decline from 8.7% in 2022 to 7.0% in 2023, which is higher than 0.4% than that of January 2023 forecast and further decline to 4.9% in 2024.

Despite stronger-than-expected wage growth, the contraction in headline and core inflation may halt before reaching target levels due to the extraordinarily tight labor markets in many nations. If the crisis in Ukraine escalates along with an even stronger-than-expected economic recovery in China, these effects might reverse the projected decline in commodity prices, increase headline inflation, and spill over into core inflation and inflation expectations. Such circumstances could force central banks in major economies to tighten policies even further and keep a restrictive stance for a long time, which would be negative for financial stability and economy.

Global Trade Volumes

Trade volumes of goods and services are also expected to show similar trends to GDP growth. The IMF expects the global trade volume growth to reach 2.4% in 2023 and 3.5% in 2024, mirroring the slowdown in global demand after two years of rapid catch-up growth from pandemic increases and the impact of the Ukraine war, which caused a widening in oil and other commodity trade balances. Global balances are likely to gradually narrow over the medium term as commodity prices fall.

World trade volume growth is expected to slow from 5.1% in 2022 to 2.4% in 2023. The pace of growth is expected to accelerate to 3.5% in 2024, an upward revision of 10 bps which is higher than what was projected for 2024 in the Jan WEO Report, mainly reflecting the trends in global output growth. Imports were revised downward by 10 bps for Advanced Economies to 1.8% for 2023 and to 2.7% for 2024, up by 20 bps. For the Emerging Market and Developing Economies, imports are expected to increase by 20 bps to 3.3% for 2023 and to 5.1% for 2024 (70 bps).

On the other hand, exports from Advanced Economies are expected to clock a growth of 3.0% (40 bps) in 2023 followed by a growth of 3.1% (20 bps) for 2024. However, exports are expected to decline for Emerging Market and Developing Economies with a downward revision of 60 bps for 2023 to a growth rate of 1.6% followed by a downward revision of 40 bps for 2024 to a growth rate of 4.3%.

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