

Event Update - IMF World Economic Outlook Update

January-2021

Vaccine rollout and economic rebound in 2H-2020 to push world GDP growth...

In its latest update to the World Economic Outlook, the IMF raised world GDP growth forecast for 2021 by 30 bps to 5.5% and kept 2022 forecast unchanged at a growth of 4.2%. The upward revision reflected hopes of a vaccine-led improvement in economic activity especially during 2H-2021 in addition to further monetary support in some large economies. That said, the IMF expressed its concerns and reiterated that the economic revival is subject to uncertainty related to the renewed wave of virus cases in several economies as well as the spread of the new variants. The GDP contraction for 2020 was also revised to a smaller decline of 3.5% as compared to the previous forecast of a decline of 4.4%. The revision incorporates stronger-than-expected growth in 2H-2020.

The better-than-expected recovery during 2H-2020 across regions and the release of vaccine during December-2020 led to the positive revisions by the IMF. This was further supported by additional policy measures that is expected to further support current year growth and next year. The announcement of significant fiscal support by some countries, including in the US and Japan, in addition to the Next Generation EU funds, would support economic activity in advanced economies and their trading partners. Nevertheless, the IMF believes that further efforts are required in terms of health related and economic policies to limit the damage and ensure sustained recovery in the coming years.

On the monetary policy front, the IMF expects major central banks to maintain their current policy rate till the end of 2022. This is also reflected in the mood of the markets that have reached record levels in a number of economies backed by positive prospects for 2021. Inflation, a key metric for central banks, is expected to remain subdued in 2021 and 2022. Prices are expected to remain below the central bank target rates in advanced economies at 1.3% in 2021 and at 1.5% in 2022. In emerging market and developing economies, inflation is also expected to remain below its historical averages at 4.2% for 2021 and 2022.

Commodity markets are also expected to see positive y-o-y growth in prices in 2021 with higher growth expected for metals. The estimates for oil price also underwent a strong upward revision of 21.2% for 2021 to USD 50.03/b, however, prices are forecasted to remain below 2019 levels. For 2022, oil price is expected to be lower vs. 2021 at USD 48.82/b.

Country/Regions	Jan-2021 Updated Forecasts				Rev. from Oct-2020	
Real GDP Growth	2019	2020	2021e	2022e	2021e	2022e
World Output	2.8%	-3.5%	5.5%	4.2%	0.3%	0.0%
Advanced Economies	1.6%	-4.9%	4.3%	3.1%	0.4%	0.2%
United States	2.2%	-3.4%	5.1%	2.5%	2.0%	-0.4%
Euro Area	1.3%	-7.2%	4.2%	3.6%	-1.0%	0.5%
EM and Developing Economies	3.6%	-2.4%	6.3%	5.0%	0.3%	-0.1%
China	6.0%	2.3%	8.1%	5.6%	-0.1%	-0.2%
India	4.2%	-8.0%	11.5%	6.8%	2.7%	-1.2%
Middle East and Central Asia	1.4%	-3.2%	3.0%	4.2%	0.0%	0.2%
Saudi Arabia	0.3%	-3.9%	2.6%	4.0%	-0.5%	0.6%
Sub-Saharan Africa	3.2%	-2.6%	3.2%	3.9%	0.1%	-0.1%
Trade Volume Growth	2019	2020	2021e	2022e	2021e	2022e
World Trade Volume	1.0%	-9.6%	8.1%	6.3%	-0.2%	0.9%
Advanced Economies	1.4%	-10.1%	7.5%	6.1%	0.4%	1.0%
EM and Developing Economies	0.3%	-8.9%	9.2%	6.7%	-1.0%	0.8%
Consumer Prices Change	2019	2020	2021e	2022e	2021e	2022e
Advanced Economies	1.4%	0.7%	1.3%	1.5%	-0.3%	-0.1%
EM and Developing Economies	5.1%	5.0%	4.2%	4.2%	-0.5%	-0.1%

Sources : IMF WEO Update - Jan-2021

Junaid Ansari

Head of Investment Strategy
and Research

+(965) 2233 6912

jansari@kamcoinvest.com

Global Trade Volumes

Global trade volume is expected to grow by 8.1% in 2021, a downward revision of 20 bps due to a downward revision of 100bps to growth for emerging market and developing economies to 9.2% that was partially offset by higher-than-expected growth in advanced economies (+40 bps). Next year, both the regions are expected to see stronger-than-expected growth that led to a positive revision of 90 bps to global trade volume growth to 6.3%. That said, services volume, including cross-border tourism and business travel, is expected to show slow recovery vs. merchandise volumes until case counts decline globally.

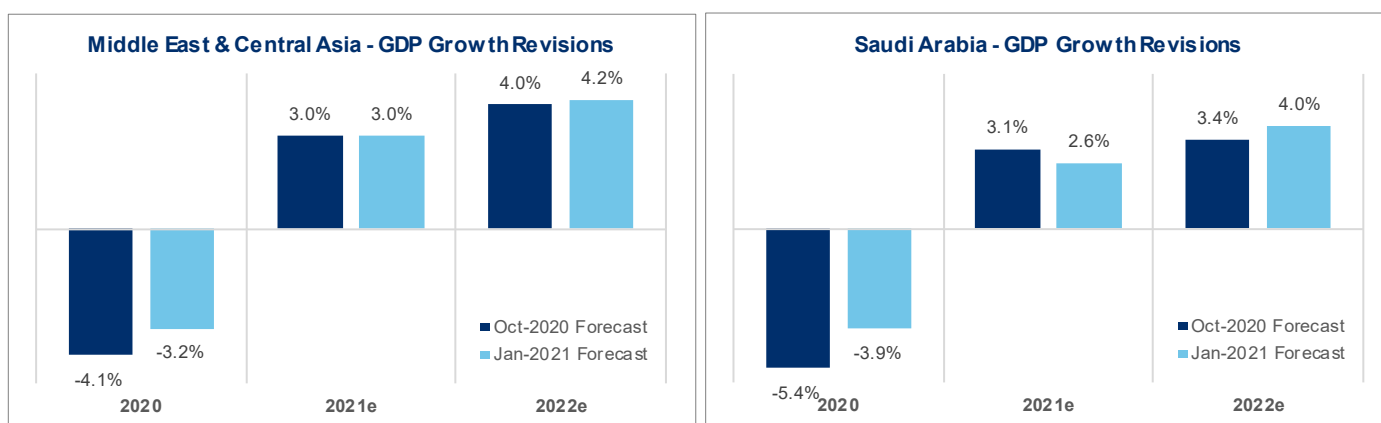
Quarterly GDP Performance

In terms of quarterly GDP performance, Q3-2020 numbers were stronger than expected due to the pent up demand across the board which resulted in recovery in private consumption and the adjustment to work from home led to additional spending. However, the increase in investment was relatively slow, except in China, and the bulk of one off expenditure showed signs of tapering off during Q4-2020. The trend is expected to continue during Q1-2021 till the time vaccines and therapies are more readily available that would allow contact-intensive occupations to see growth by Q2-2021.

Advanced Economies vs. Emerging Market & Developing Economies

According to the IMF, vaccine rollout is expected to result in initial availability in advanced economies and some emerging market economies by summer 2021, but it would be available across most economies only by 2H-2022. There are also chances of lockdowns to contain transmission of the new variant of the coronavirus. However, with increasing deployment of vaccines, improved therapies, testing and tracing, the transmission of virus is expected to be brought to low levels globally by the end of 2022 and the speed at which this is achieved would depend on country-specific circumstances.

Growth in advanced economies is expected to outpace their emerging market counterparts due to the expansive fiscal support announced by these countries in addition to widespread availability of vaccines. However, even in advanced economies, the rate of economic activity recovery is expected to vary. The US and Japan are expected to reach end-2019 levels by 2H-2021, whereas that in the Euro Area and UK are expected to remain below the said levels into 2022. Growth in the US was revised up by 200 bps from the previous forecast led by continued strong momentum seen during 2H-2020 and the additional fiscal support announced in December-2020. A similar fiscal package announcement in Japan at the end of last year resulted in the 80 bps upward revision in its growth in 2021. On the other hand, the Euro Area witnessed a slight decline in activity towards the end of 2020 due to rising infections that led to new stricter lockdowns that resulted in the 100 bps downward revision to the region's growth to 4.2% in 2021.



Source : IMF WEO Update - Jan-2021

A similar diverging trend in economic recovery is seen in emerging market and developing economies. China is expected to see continued positive growth in 2021 at 8.1%, a slight downgrade from 8.2% expected earlier by the IMF. India, on the other hand, witnessed a stronger-than-expected recovery in 2020 after the easing of lockdowns and the country is now expected to see double digit growth of 11.5%, an upward revision of 270 bps, from a low base of 2020 that is estimated to have seen a steep decline of 8.0%. Meanwhile, restrictions on air travel and tourism is expected to affect growth in oil exporting and tourism-based economies. This was reflected in the 50 bps downward revision in growth forecast for Saudi Arabia to 2.6% in 2021 but a higher growth of 4.0% (+60 bps) in 2022 as economic activity picks up. For the broader Middle East and Central Asia region, 2021 growth remained unchanged at 3.0% whereas an expected pickup in activity next year resulted in a 20 bps upward revision in growth for the region.

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Kamco Investment Company - K.S.C. (Public)

Al-Shaheed Tower, Khalid Bin Al-Waleed Street- Sharq

P.O. BOX : 28873, Safat 13149, State of Kuwait

Tel: (+965) 2233 6600 Fax: (+965) 2249 2395

Email : kamcoird@kamcoinvest.com

Website : www.kamcoinvest.com

Kamco Invest