

### Event Update - IMF World Economic Outlook Update

January-2023

#### Global growth raised marginally amid cautious optimism

In its latest World Economic Outlook report, the IMF highlighted continued impact of elevated inflation levels and the resultant rate hikes as well as the Russia/Ukraine war on growth during 2023. A resurgence of COVID-19 cases in China could also affect the ongoing recovery in the country, the agency highlighted. Nevertheless, the IMF said that the adverse forces have moderated vs. previous expectations especially led by pent-up demand from a number of economies, while a faster-than-expected decline in inflation could also be beneficial.

As a result, the IMF marginally raised World GDP growth expectations for 2023 by 20 bps to 2.9% but lowered 2024 forecast by 10 bps to 3.1%. The downward revisions were made to growth rates for both Advanced Economies as well as Emerging Market and Developing Economies. Growth expectation for EM and Developing Economies witnessed an upward revision of 30 bps for 2023 to an expected growth of 4.0% but a downward revision of 10 bps was made to the forecast for 2024 with growth expected to reach 4.2% next year. On the other hand, growth estimates for Advanced Economies witnessed an upward revision of 10 bps to 1.2% for 2023 and downward revision of 20 bps for 2024 to 1.4%.

The IMF revised the global growth for two large economies, the United States and China, for 2023 that are expected to grow faster than what was predicted in October last year. The IMF raised the growth forecast for US by 40 bps to a growth of 1.4% in 2023 followed by 20 bps downward revision to growth in 2024 that is expected to come in at 1.0%. The upward revision for 2023 indicates the spillover effects from 2022 domestic demand resilience. On the other hand, the downward revision for 2024 is due to Federal Reserve rate hikes, which is expected to reach a peak of around 5.1% in 2023. The IMF anticipates growth rate in the Euro Area to reach 1.6% in 2024 after hitting a low of 0.7% in 2023. The 20 bps upward revision to growth this year reflects lower wholesale energy prices, and new announcements of fiscal purchasing power support in the form of cash transfers and energy price controls. However, ECB's rate hikes and the decline in real incomes are expected to partially offset the overall growth.

| Country/Regions                    | Jan-2023 Updated Forecasts |      |       |       | Rev. from Oct-2022 |       |
|------------------------------------|----------------------------|------|-------|-------|--------------------|-------|
| Real GDP Growth                    | 2021                       | 2022 | 2023e | 2024e | 2023e              | 2024e |
| <b>World Output</b>                | 6.2%                       | 3.4% | 2.9%  | 3.1%  | 0.2%               | -0.1% |
| <b>Advanced Economies</b>          | 5.4%                       | 2.7% | 1.2%  | 1.4%  | 0.1%               | -0.2% |
| United States                      | 5.9%                       | 2.0% | 1.4%  | 1.0%  | 0.4%               | -0.2% |
| Euro Area                          | 5.3%                       | 3.5% | 0.7%  | 1.6%  | 0.2%               | -0.2% |
| <b>EM and Developing Economies</b> | 6.7%                       | 3.9% | 4.0%  | 4.2%  | 0.3%               | -0.1% |
| China                              | 8.4%                       | 3.0% | 5.2%  | 4.5%  | 0.8%               | 0.0%  |
| India                              | 8.7%                       | 6.8% | 6.1%  | 6.8%  | 0.0%               | 0.0%  |
| Middle East and Central Asia       | 4.5%                       | 5.3% | 3.2%  | 3.7%  | -0.4%              | 0.2%  |
| Saudi Arabia                       | 3.2%                       | 8.7% | 2.6%  | 3.4%  | -1.1%              | 0.5%  |
| Sub-Saharan Africa                 | 4.7%                       | 3.8% | 3.8%  | 4.1%  | 0.1%               | 0.0%  |
|                                    |                            |      |       |       |                    |       |
| Trade Volume Growth                | 2021                       | 2022 | 2023e | 2024e | 2023e              | 2024e |
| <b>World Trade Volume</b>          | 10.4%                      | 5.4% | 2.4%  | 3.4%  | -0.1%              | -0.3% |
| Advanced Economies                 | 9.4%                       | 6.6% | 2.3%  | 2.7%  | 0.0%               | -0.4% |
| EM and Developing Economies        | 12.1%                      | 3.4% | 2.6%  | 4.6%  | -0.3%              | 0.0%  |
|                                    |                            |      |       |       |                    |       |
| Consumer Prices Change             | 2021                       | 2022 | 2023e | 2024e | 2023e              | 2024e |
| Advanced Economies                 | 3.1%                       | 7.3% | 4.6%  | 2.6%  | 0.2%               | 0.2%  |
| EM and Developing Economies        | 5.9%                       | 9.9% | 8.1%  | 5.5%  | 0.0%               | 0.2%  |

Sources : IMF WEO Update - Jan-2023

**Junaid Ansari**

Head of Investment Strategy & Research

+(965) 2233 6912

[jansari@kamcoinvest.com](mailto:jansari@kamcoinvest.com)

**Vineetha K. Yeluri**

Analyst

+(965) 2233 6913

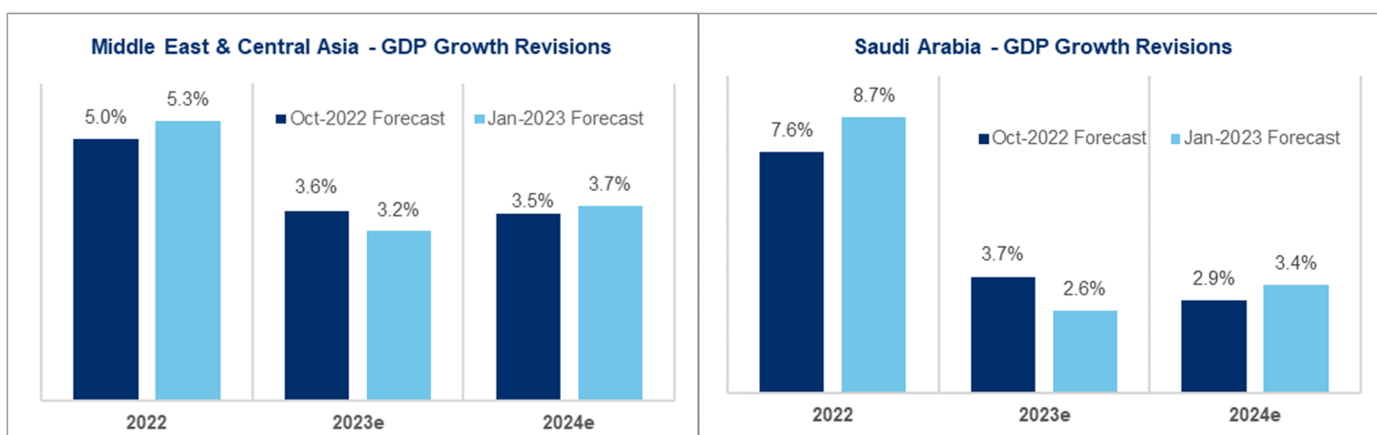
[vyeluri@kamcoinvest.com](mailto:vyeluri@kamcoinvest.com)

In contrast, growth in the United Kingdom is forecasted to decline by 0.6% in 2023, a 90 bps downgrade from October-2022 forecast, due to tighter financial conditions, monetary and fiscal policies, and still-high energy retail prices that are straining household budgets. For the Asia region, IMF upgraded China's forecast by 80 bps to 5.2% in 2023 after 3.0% growth in 2022, reflecting the improved mobility in the country. However, growth in 2024 is expected to decline to 4.5% due to slow structural reform progress. Growth forecast for India was retained at 6.1% in 2023 followed by a faster growth of 6.8% in 2024, buoyed by solid domestic demand despite external constraints.

The IMF forecasts the rate of global inflation to fall from 8.8% in 2022 to 6.6% in 2023 and 4.3% in 2024, albeit slightly higher than pre-pandemic levels of around 3.5% (2017-19). With greater variability in Emerging Market and Developing nations, upside inflation shocks have been most common in Advanced Economies, according to the IMF. However, the agency said that the 3Q-2022 saw unexpectedly strong household consumption, business investment, and economic growth prompting to better-than-expected resiliency to the European energy crisis. That said, the IMF said that core inflation, which includes more volatile energy and food costs, is although yet to peak in many countries, it has shown improvement with overall measures of inflation now declining in the majority of the countries.

### MENA Region

Growth in the MENA region was lowered by 40 bps to 3.2% for 2023 and revised upward by 20 bps to 3.5% for 2024. The downgrade for 2023 is mainly due to lower oil production in accordance with an OPEC+ agreement, but non-oil growth is likely to remain resilient. The downward revision for 2023 was also reflected in the forecast for Saudi Arabia that is now expected to grow by 2.6% this year, a downward revision of 110 bps, followed by 3.4% in 2024 with an upward revision of 50 bps.



Source : IMF WEO Update - Jan-2023

### Global Trade Volumes

Global trade volume is expected to grow by 2.4% in 2023, a downward revision of 10 bps, despite an easing of supply bottlenecks. The revision reflected downward revision to forecast for Emerging Market and Developing economies which is expected to slow by 30 bps to 2.6% in 2023, whereas the growth for the Advanced Economies was kept unchanged. Next year, Advanced Economies is expected to see downward revision of 40 bps to 2.7% while growth for the Emerging market and Developing Economies was kept unchanged. According to the IMF, Global trade growth and international commodity prices have declined as a result of China's slowdown.

### Global Growth

The forecasted weak growth in 2023 is mainly due to the conflict between Ukraine/Russia and the hike in central bank rates to combat inflation, particularly in advanced economies. On the other hand, growth in emerging market and developing economies is expected to have peaked in 2022. A complete reopening of the Chinese economy this year is also expected to support growth in China. The economies are predicted to see a faster growth in 2024 as a result of inflation slowing down and a gradual recovery from the consequences of the conflict in Ukraine. However, despite the easing of supply bottlenecks, it is predicted that world trade growth will follow the direction of global demand and fall to 2.4% in 2023 before increasing to 3.4% in 2024.

**Inflation is expected to ease**

According to the IMF, 84% of nations would have lower inflation in 2023 than they did in 2022. Global inflation is expected to decline from 8.8% in 2022 to 6.6% in 2023 and 4.3 in 2024, which is still higher than pre-pandemic levels of roughly 3.5%. The expected deflation which reflects falling worldwide gasoline and nonfuel commodity prices as a result of reduced global demand reflects the cooling effects of monetary policy tightening on underlying inflation, which is predicted to fall globally from 6.9% in the fourth quarter of 2022 to 4.5% in the fourth quarter of 2023.

Annual average inflation in advanced economies is expected to fall from 7.3% in 2022 to 4.6% in 2023 and 2.6% in 2024, whereas in emerging market and developing economies inflation is anticipated to fall from 9.9% in 2022 to 8.1% in 2023 and 5.5% in 2024, which is above the pre-pandemic level of 4.9%. In low-income developing countries, inflation is expected to fall from 14.2% in 2022 to 8.6% in 2024, remaining high but returning to pre-pandemic levels. A faster recovery in China's economy or higher-than-anticipated costs for food, gas, and oil as a result of the conflict in the Ukraine might push headline inflation up once more and trickle down to underlying inflation. Such changes can lead to a de-anchoring of inflation expectations and necessitate a stricter monetary policy, according to the IMF.

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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](mailto:kamcoird@kamcoinvest.com)

Website : [www.kamcoinvest.com](http://www.kamcoinvest.com)

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