

Event Update - IMF World Economic Outlook Update

July-2021

Diverging trends and slow vaccination delays EM recovery ...

In its latest update to the World Economic Outlook, the IMF kept world GDP growth forecast for 2021 unchanged at 6.0% but upgraded 2022 forecast by 50 bps to 4.9%. For 2021, however, at the regional levels, there were changes with offsetting diverging trends across the globe. The IMF now expects a faster growth in advanced economies, while emerging markets, especially those in the Asian region, are expected to see a delayed recovery that has now been pushed to next year. As a result, a V-shaped recovery with double digit growth expected previously in some of the EM economies are now much more gradual.

The diverging trends are mainly driven by the rate of vaccinations that has a direct impact on the pace of resumption of economic activity. According to the IMF, almost all advanced economies that have relatively better access to vaccines and are vaccinating at a much faster pace are expected to grow faster than previous expectations. On the other hand, countries with low rates of vaccinations and facing a threat of resurgence of Covid-19 and rising death tolls are expected to see a delayed recovery. Meanwhile, the upgraded forecast of 2022 reflects fiscal support measure expected especially in the US.

In terms of inflation, the IMF said that prices are expected to remain high and would return to pre-pandemic levels only next year. The current increase in inflation also has its roots in the low base of last year and as a result, commodity prices are seeing a broad-based recovery. However, the agency warned of rising risk of uncertainties and said that central banks, especially those in the emerging markets and developing economies, should avoid tightening and raising rates until there is more clarity on underlying pricing dynamics. The IMF said that a faster-than-expected increase in prices in advanced economies could result in rapid tightening on the monetary front and this coupled with a deteriorating pandemic situation in the emerging and developing markets along with tighter external financial conditions could push global economic growth lower.

The recovery in 2022 would continue to remain divergent as access to vaccine would vary across countries. Meanwhile, the handover from government funded growth to private sector is expected to remain smooth as excess savings are expected to be deployed more rapidly but downside risks to growth dominate in the near term.

Country/Regions	July-2021 Updated Forecasts				Rev. from April-2021	
Real GDP Growth	2019	2020	2021e	2022e	2021e	2022e
World Output	2.8%	-3.2%	6.0%	4.9%	0.0%	0.5%
Advanced Economies	1.6%	-4.6%	5.6%	4.4%	0.5%	0.8%
United States	2.2%	-3.5%	7.0%	4.9%	0.6%	1.4%
Euro Area	1.3%	-6.5%	4.6%	4.3%	0.2%	0.5%
EM and Developing Economies	3.7%	-2.1%	6.3%	5.2%	-0.4%	0.2%
China	6.0%	2.3%	8.1%	5.7%	-0.3%	0.1%
India	4.0%	-7.3%	9.5%	8.5%	-3.0%	1.6%
MENA	0.8%	-3.0%	4.1%	3.7%	0.1%	0.0%
Saudi Arabia	0.3%	-4.1%	2.4%	4.8%	-0.5%	0.8%
Sub-Saharan Africa	3.2%	-1.8%	3.4%	4.1%	0.0%	0.1%
Trade Volume Growth	2019	2020	2021e	2022e	2021e	2022e
World Trade Volume	0.9%	-8.3%	9.7%	7.0%	1.3%	0.5%
Advanced Economies	1.4%	-9.2%	8.9%	7.1%	0.4%	0.7%
EM and Developing Economies	-0.2%	-6.7%	11.1%	6.9%	2.8%	0.2%
Consumer Prices Change	2019	2020	2021e	2022e	2021e	2022e
Advanced Economies	1.4%	0.7%	2.4%	2.1%	0.8%	0.4%
EM and Developing Economies	5.1%	5.1%	5.4%	4.7%	0.5%	0.3%

Sources : IMF WEO Update - Jul-2021

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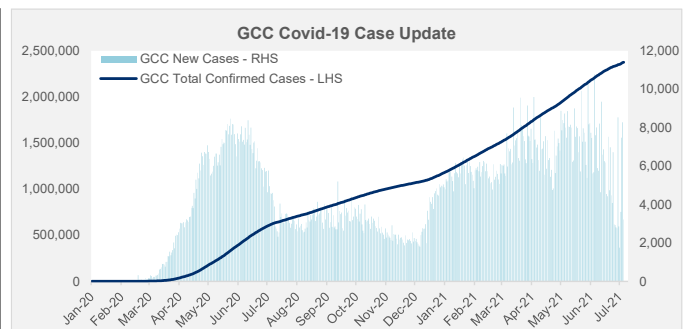
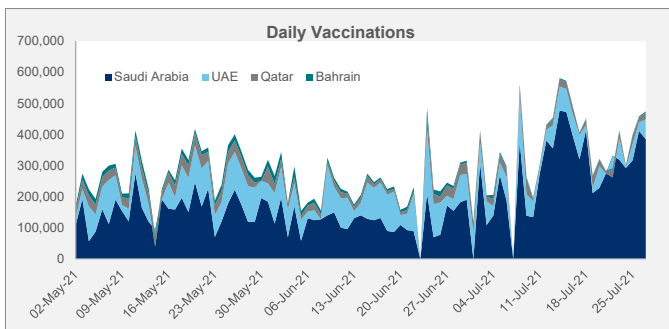
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Global Trade Volumes

Global trade volume growth witnessed an upward revision in the latest IMF forecast. World trade volume of goods and services is now expected to grow 130 bps faster in 2021 at 9.7% and 50 bps higher than previous forecast for 2022 at 7.0%. The revision of growth for both advanced economies and emerging market and developing economies were positive. However, the latter are expected to grow at a much faster pace with an upward revision of 280 bps for 2021 at a growth rate of 11.1% followed by an upward revision 20 bps for 2022 at a growth rate of 6.9%. Advanced economies, on the other hand, are expected to see a growth of 8.9% in 2021 (40 bps above previous forecast) and 7.1% in 2022 (70 bps above previous forecast). According to the IMF, services trade is expected to see a slower recovery than goods trade as travel restrictions continue to remain in place in several countries.

Vaccine rollout - Advanced Economies vs. Emerging Market & Developing Economies

According to the IMF, around 40% of the population of advanced economies has been fully vaccinated as compared to around 11% in emerging markets and even lesser in low income countries. As a result, the global average currently stands at around 12.5%. The difference in vaccination efforts is the key reason for the diverging growth in the two blocs, as described by the IMF. Almost all advanced economies are expected to see further normalization of economic activity later this year, whereas countries with low rate of vaccination would most likely see resurgent infections.



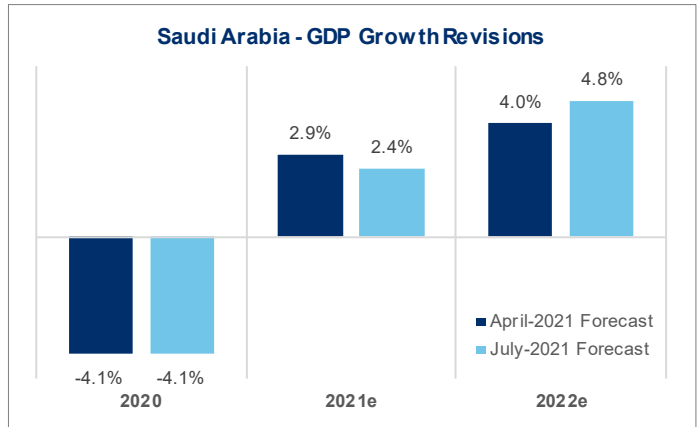
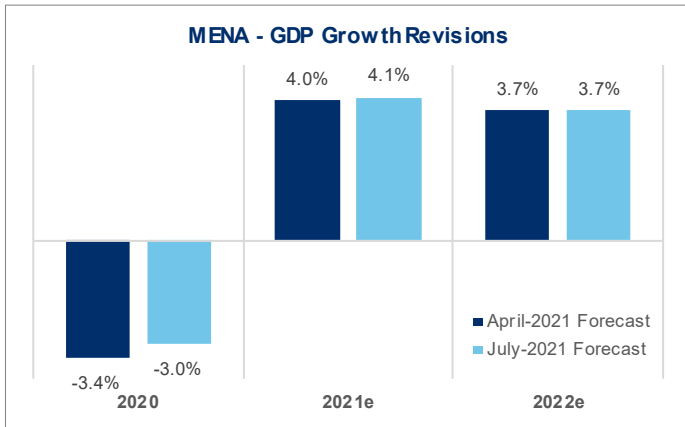
Source : Bloomberg, Kamco Invest Research

Vaccination efforts in the GCC remained upbeat and were some of the best performing globally in terms of the pace of vaccinations. Recent reports suggested that UAE become the most vaccinated nation in the world and trends in the rest of the GCC countries, including that in Bahrain and Qatar, remained strong. We believe that the dependence on international travel was one of the key reasons for the region to adopt a fast paced vaccination program, in addition to a need to restart the economy.

Monetary Policy and Fiscal Support

On the fiscal front, the revised growth rates for US and Euro Area assumes additional fiscal support, whereas fiscal deficits in most emerging markets are expected to decline in 2021. The proposed American Jobs Plan and American Families Plan would support growth in the US by increasing infrastructure investment and strengthening the social safety net. This would boost GDP growth by 30 bps in 2021 and 110 bps in 2022 in the US in addition to spillover effects on other trading partners. On the other hand, the Next Generation EU grants and loans would support economies in the EU Area. In terms of monetary policy, despite the recent inflationary trend seen in the US that has revived talks of earlier-than-expected increase in rates, the IMF expects major central banks to leave policy rates unchanged at current levels until the end of 2022.

In the Emerging Markets, the growth rate for India witnessed a downward revision of 300 bps for 2021 with growth now expected at 9.5%, still one of the fastest globally this year. The revision reflected the severe second wave of Covid-19 during March-May-2021 followed by an expected drag in recovery for the rest of the year. On the other hand, China’s marginal downward revision of 30 bps reflects reduction in public investment and overall fiscal support.



Source : IMF WEO Update - Jul-2021

Growth for the MENA region was largely unchanged with a 10 bps upward revision for 2021 and growth now seen at 4.1% while 2022 forecast was at 3.7%. Robust economic activity in some countries in the region resulted in the slight upgrade for 2021, including in Morocco, partially offset by a 50 bps downward revision in growth in Saudi Arabia. The revision in growth rate for the Kingdom reflected the lowered oil production due to the voluntary cuts undertaken by Saudi Arabia that was partially offset by higher non-oil growth rate expected during the year. For 2022, Saudi Arabia is expected to see a faster growth with expectation now upgraded by 80 bps to 4.8%, higher than the projection for the overall MENA region that is expected to grow by 3.7% next year.

A coordinated global effort would result in faster recovery

The IMF stressed that a global coordinated strategy in fighting the pandemic would be strengthen global prospects, lower divergences, limit adverse spillovers and ease policy space constraints at the country level. And as a priority, the IMF reiterated that a global coordinated vaccine rollout with equitable distribution even to countries with limited access would be essential in saving lives, prevent new variants from emerging and add trillions to the global economic recovery. The agency along with World Bank and the WTO have endorsed a proposal to vaccinate at least 40% of the population in every country by the end of 2021 and at least 60% by mid-2022. According to the IMF, fiscal policy needs to prioritize health spending while on the monetary front, central banks should avoid tightening until there is more clarity on prices.

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