

Event Update - IMF World Economic Outlook

July-2022

GDP forecast slashed due to geopolitical conflict, inflation and covid restrictions...

In its latest World Economic Outlook report, the IMF highlighted higher uncertainty related to global economic prospects vs. its previous forecast. The agency highlighted several key challenges facing the world currently that includes the Russia-Ukraine conflict and the wide-ranging repercussions of measures to counter it, including the impact of the resulting additional sanctions on Russia; rising food and energy prices; higher-than-expected inflation in the major economies, and higher than anticipated slowdown in China due to covid-19 outbreak and lockdowns.

The IMF once again lowered its forecast for global real GDP growth rate for 2022 by 40 bps and by 70 bps for 2023 from its previous forecast. World GDP is now expected to grow by 3.2% in 2022 and decline to 2.9% growth rate in 2023. The downward revisions were made to growth rates for both Advanced Economies as well as Emerging Market and Developing Economies. However, the latter witnessed a smaller downward revision of 20 bps to an expected growth of 3.6% in 2022 and 50 bps to 3.9% for 2023. On the other hand, growth estimates for Advanced Economies witnessed a steeper downward revision of 80 bps to 2.5% for 2022 and 100 bps for 2023 to 1.4%.

That said, there were some significant upward revisions also led by the ongoing global disruptions. The real GDP growth for Saudi Arabia was unchanged for 2022 at 7.6% followed by 3.7% expected growth in 2023 after undergoing an upward revision of 10 bps. Growth for the Middle East and North Africa region underwent a negative revision of 10 bps for 2022 to an expected growth of 4.9% and 20 bps to 3.4% for 2023, down from 5% in 2022 and 3.6% in 2023, according to WEO report published in April 2022.

Country/Regions	July-2022 Updated Forecasts				Rev. from April-2022	
Real GDP Growth	2020	2021	2022e	2023e	2022e	2023e
World Output	-3.1%	6.1%	3.2%	2.9%	-0.4%	-0.7%
Advanced Economies	-4.5%	5.2%	2.5%	1.4%	-0.8%	-1.0%
United States	-3.4%	5.7%	2.3%	1.0%	-1.4%	-1.3%
Euro Area	-6.3%	5.4%	2.6%	1.2%	-0.2%	-1.1%
EM and Developing Economies	-2.0%	6.8%	3.6%	3.9%	-0.2%	-0.5%
China	2.2%	8.1%	3.3%	4.6%	-1.1%	-0.5%
India	-6.6%	8.7%	7.4%	6.1%	-0.8%	-0.8%
MENA	-3.4%	5.8%	4.9%	3.4%	-0.1%	-0.2%
Saudi Arabia	-4.1%	3.2%	7.6%	3.7%	0.0%	0.1%
Sub-Saharan Africa	-1.6%	4.6%	3.8%	4.0%	0.0%	0.0%
Trade Volume Growth	2020	2021	2022e	2023e	2022e	2023e
World Trade Volume	-7.9%	10.1%	4.1%	3.2%	-0.9%	-1.2%
Advanced Economies	-8.8%	9.1%	5.3%	3.2%	-0.3%	-1.4%
EM and Developing Economies	-6.2%	11.7%	2.2%	3.3%	-1.8%	-0.9%
Consumer Prices Change	2020	2021	2022e	2023e	2022e	2023e
Advanced Economies	0.7%	3.1%	6.6%	3.3%	0.9%	0.8%
EM and Developing Economies	5.2%	5.9%	9.5%	7.3%	0.8%	0.8%

Sources : IMF WEO - July-2022

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U.S., China and India lead downgrades

GDP growth for the US was slashed by 140 bps, the biggest downward revision in Advanced Economies, to 2.3% in 2022 and 130 bps to 1.0% for 2023. The lowered forecast for the US reflected reduced household purchasing power and tightening monetary policy. Euro Area growth was lowered by 20 bps to 2.6% in 2022 vs. previous forecast of 2.8%. Growth expectations for Germany was lowered by 90 bps to 1.2% for 2022 and 190 bps to 0.8% for 2023. On the other hand, the IMF said that improved tourism and industrial activity in Italy are more than enough to offset the significant downgrades in France, Germany and Spain.

China's GDP growth was revised downward by 110 bps to 3.3% for 2022 and by 50 bps to 4.6 for 2023 primarily due to COVID-19 lockdowns and a deepening real estate crisis resulting in slowdown in the economy. The port city of Shanghai was under lockdown for two months in April and May, disrupting factory work, shipping, transport and daily consumption. India's growth was revised down by 80 bps for 2022 and 2023 to 7.4% and 6.1% reflecting less favorable external conditions meanwhile and more rapid policy tightening.

Higher energy prices

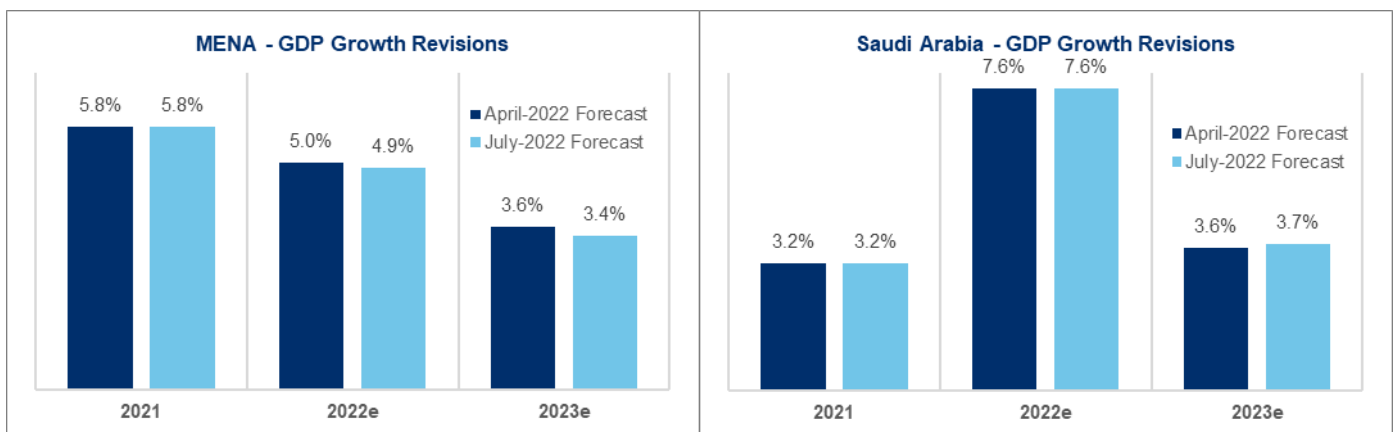
The growth forecast for the European Union was revised downward by 10 bps to 2.8% for 2022 and by 90 bps to 1.6% for 2023. The GDP growth forecast for Russia is expected to contract to 6.0% in 2022 followed by a contraction of 3.5% in 2023. With disruption in supply of inputs from Russia and Ukraine, major industrial sectors are affected in the region. The amount of Russian pipeline gas supplied to Europe has fallen sharply since April 2022, to about 40 % compared to last year's level, which is reflected in downward revisions to the latest forecasts compared with April WEO. The latest forecasts also expects the volume to further decline to lower levels by mid-2024, in line with major European economies' energy independence goals. The uncertain halt of exports of Russian gas to European economies in 2022 would significantly increase inflation worldwide resulting in higher energy prices, as per the IMF.

Global inflation and global food prices

Inflation was already a concern even before the Russia-Ukraine war led by elevated commodity prices and the Covid-19 led supply-demand imbalances. Inflation in the US had reached decade's high level forcing the regulators to set a path for accelerated monetary tightening as well as a faster pace of rate hikes. The urgency of such measures became even more relevant due to the war. For 2022, IMF has projected the inflation to be 6.6% for Advanced Economies and 9.5% for Emerging and Developing Economies, an upward revision of 0.9% and 0.8% points, respectively.

In United States the consumer price index rose by 9.1% in June compared to the previous year and it also rose 9.1% in the United Kingdom in May which is the highest inflation rates in these two countries in 40 years. In the Euro area, inflation in June reached 8.6%. In Emerging market and Developing Economies, second-quarter inflation is estimated to be 9.8% fueled by the higher food and energy prices and supply constraints in many sectors. Central banks of major Advanced Economies and several emerging market and developing economies raised interest rates more aggressively than expected in the April 2022 WEO.

Global Food Prices have stabilized in the recent months but remains higher compared to last year. The prime reason for the global food price inflation is due to the increase in the prices of cereal, such as wheat and particularly export restrictions in several countries resulted in global food price increases, although a few of these restrictions have recently lapsed.



Source : IMF WEO - July-2022

Global Trade

Global trade volume growth witnessed a downward revision in the latest IMF forecast. World trade volume of goods and services is now expected to decline 90 bps in 2022 to 4.1% and 120 bps in 2023 to 3.2%. The revision of growth for both Advanced Economies and Emerging market and Developing economies were revised. However, the latter are expected to decline with a downward revision of 180 bps for 2022 to a growth rate of 2.2% followed by a downward revision 90 bps for 2023 to a growth rate of 3.3%. Advanced economies, on the other hand, are expected to decline to 5.3% in 2022 (30 bps below previous forecast) and 3.2% in 2023 (140 bps below previous forecast). According to the IMF, global trade growth in 2022 and 2023 is expected to slow by more than previously expected, reflecting the decline in global demand and supply chain problems.

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