KAMCO INVEST

Investment Strategy & Research

Event Update - IMF Releases World Economic Outlook

October-2023

Soft landing eyed as global growth remains resilient...

In its latest world economic outlook report, the IMF lowered world real GDP forecast by 10 bps for 2024 to 2.9% vs. its expectations in July-2023 and kept the forecast unchanged for 2023 at 3.0%. The lowered forecast for next year reflected downward revisions to growth forecast for Euro Area, China and the Sub-Sahara Africa regions that was partially offset by upward revisions to forecasts for the US and the MENA regions. The IMF highlighted that `the impact of higher services inflation, tighter monetary policy and energy prices have resulted in a slowdown in economic growth this year as compared to last year. Growth in China was lowered mainly highlighting the impact of the slowdown in the country's real estate market as well as lower consumer confidence, although several welcome measures were implemented recently and were announced this week that are expected to support economic growth.

Growth projections for the MENA region was lowered for 2023 to 2.0% mainly led by a downward revision to growth forecast for Saudi Arabia by 110 bps to 0.8% as well as for other oil exporters. The decision by the OPEC+ producer to slash production resulted in the lowered estimates. Projection for the next year, however, was raised to 3.4% for the MENA region and to 4.0% for Saudi Arabia (upward revision of 120 bps) reflecting unwinding of some of the announced production cuts. Forecast for Brent crude oil was also raised by the IMF to USD 80.5/b for 2023 and to USD 79.9/b for 2024 reflecting the recent rally in prices.

The IMF highlighted that global growth has slowed and remains uneven and the divergence seems to be growing and reaching pre-pandemic growth now seems out of reach, especially for the Emerging Markets and Developing economies. However, the agency said that a soft landing in economic growth is now expected as inflation is brought under control without a significant downturn in activity. That said, tight labor market especially in advanced economies with historically low unemployment rates is causing economic activity to remain elevated and supporting inflation, although real wages have remained below pre-pandemic levels.

Country/Regions	Oct-2023 Updated Forecasts			Rev. from July-2023	
Real GDP Growth	**2022**	**2023e**	**2024e**	**2023e**	**2024e**
World Output	3.5%	3.0%	2.9%	**0.0%**	-0.1%
Advanced Economies	2.6%	1.5%	1.4%	**0.0%**	**0.0%**
United States	2.1%	2.1%	1.5%	0.3%	0.5%
Euro Area	3.3%	0.7%	1.2%	-0.2%	-0.3%
EM and Developing Economies	4.1%	4.0%	4.0%	**0.0%**	-0.1%
China	3.0%	5.0%	4.2%	-0.2%	-0.3%
India	7.2%	6.3%	6.3%	0.2%	**0.0%**
MENA	5.6%	2.0%	3.4%	-0.6%	0.3%
Saudi Arabia	8.7%	0.8%	4.0%	-1.1%	1.2%
Sub-Saharan Africa	4.0%	3.3%	4.0%	-0.2%	-0.1%
Trade Volume	**2022**	**2023e**	**2024e**	**2023e**	**2024e**
World Trade Volume	5.1%	0.9%	3.5%	-1.1%	-0.2%
Imports - Advanced Economies	6.7%	0.1%	3.0%	-1.8%	-0.1%
Imports - EM and Developing Economies	3.2%	1.7%	4.4%	-0.2%	-0.5%
Exports - Advanced Economies	5.3%	1.8%	3.1%	-1.0%	-0.1%
Exports - EM and Developing Economies	4.1%	-0.1%	4.2%	-1.3%	0.1%
Consumer Prices	**2022**	**2023e**	**2024e**	**2023e**	**2024e**
Advanced Economies	7.3%	4.6%	3.0%	-0.1%	0.2%
EM and Developing Economies	9.8%	8.5%	7.8%	0.2%	1.0%

Sources : IMF WEO Oct-2023

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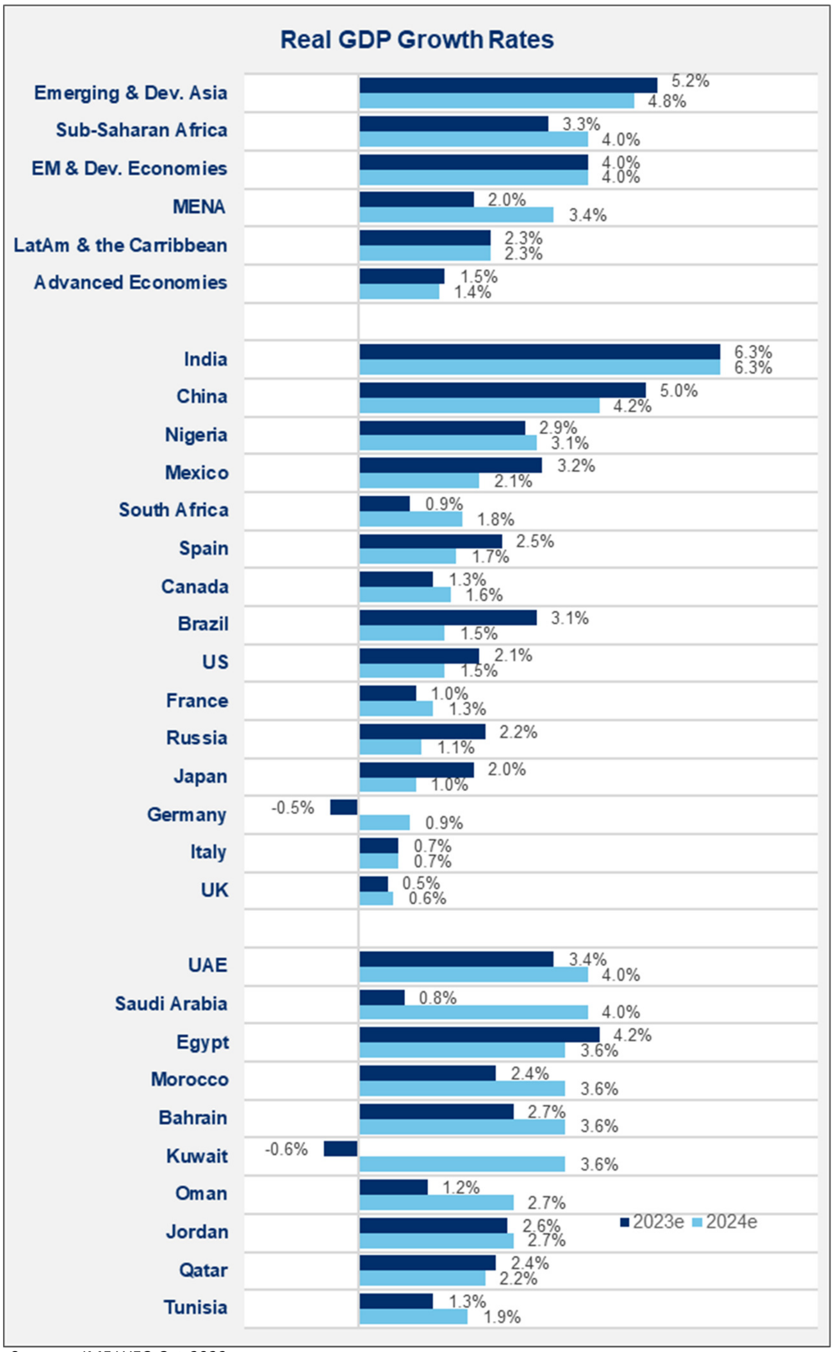
Advanced economies to see slower growth

Despite seeing resilient growth post the pandemic, Advanced economies are forecasted to lead the decline in annual average growth in 2023 with stronger services activity being countered by weaker manufacturing and other unexpected factors. Development in these economies is expected to be mostly stable in 2024 and pick up in 2025. Real GDP growth in Advanced economies was kept unchanged at 1.5% and 1.4% for 2023 and 2024, respectively. On the other hand, growth for Emerging Market and Developing Economies is expected to be higher at 4.0% for 2023 and 2024 (lowered by 10 bps compared to the July-2023 estimates). The United States has seen the strongest recovery among Major Economies, where the GDP for 2023 is forecasted to exceed its pre-pandemic levels after an upward revision of 30 bps for 2023 to reach 2.1% followed by another upward revision of 50 bps to 1.5% in 2024. In contrast, growth in the Euro Area was revised down by 20 bps to 0.7% in 2023 and by 30 bps to 1.2% in 2024.

Growth expectations for Germany was slashed by 20 bps and the economy is expected to contract by 0.5% in 2023 followed by marginal growth of 0.9% in 2024 (after a downward revision of 40 bps) due to the weakening of interest-rate-sensitive sectors and sluggish demand from trading partners. Growth in Japan is expected to be 60 bps faster vs. previous expectation to reach 2.0% in 2023 and is expected to be steady at 1.0% in 2024 buoyed by pent-up demand, increase in inbound tourism, accommodative policies, and a recovery in car exports that had previously been constrained by supply chain concerns.



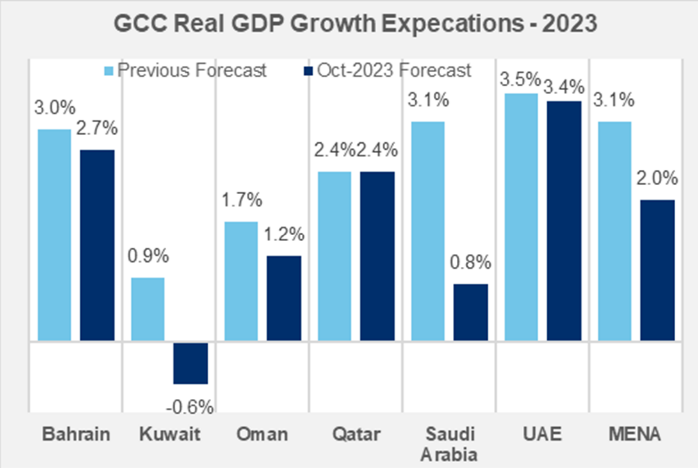
Sources : IMF WEO Oct-2023

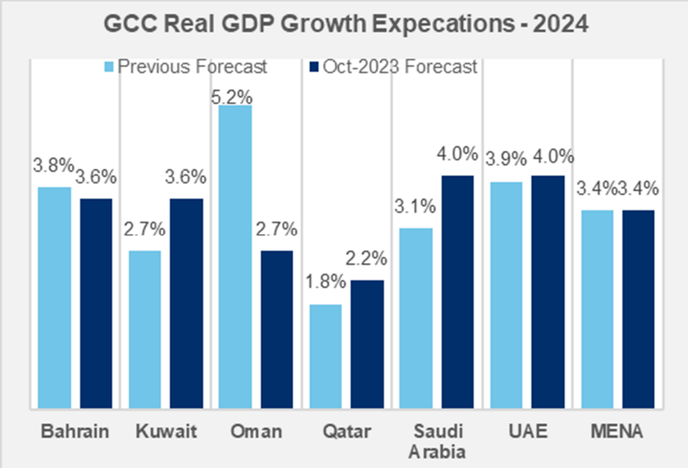
Low income developing countries witnessed a downward revision of 50 bps and 10 bps to 4.0% and 5.1% in 2023 and 2024, respectively. Higher interest rates and declining currencies have worsened the issues faced by low-income countries, putting more than half of them at high risk of already experiencing distress, according to the IMF.

Meanwhile, China's GDP growth was revised downward by 20 bps to 5.0% for 2023 and by 30 bps to 4.2 for 2024. Following an early 2023 boom associated with COVID-19 reopening, China's growth impetus faded and the growth fell from 8.9% in Q1-2023 to 4.0% in Q2-2023. The drop in the 2023 was mainly due to the economic slack and falling energy and food costs. The real estate sector crisis in the country is the primary factor that is impeding growth. On the other hand, the projection for India's GDP growth has been revised upward by 20 bps for 2023 citing stronger-than-anticipated consumption during April-June, and is forecasted to be 6.3% in both 2023 and 2024.

MENA to witness slow growth

Real GDP growth for the MENA region was revised downward by 60 bps to 2.0% for 2023 followed by an upward revision of 30 bps to 3.4% for 2024. A sharper than anticipated downturn in Saudi Arabia's growth from 8.7% in 2022 to 0.8% in 2023, with a negative adjustment of 110 bps points to the latter, is expected to be the main reason for the lowering of growth in 2023 for the MENA region. GDP growth forecast for Saudi Arabia for 2023 was revised downward in light of production cuts, both voluntary as well as the agreed OPEC+ cuts. Nevertheless, private investment related to the implementation of large scale





Source : IMF WEO Oct-2023

projects in the Kingdom continues to drive non-oil GDP growth which remained elevated and stable compared to earlier forecasts.

Growth prospects for the Middle East & Central Asia region was revised downward by 50 bps for 2023 to 2.0% but was revised upward by 20 bps to 3.4% for 2024. Real GDP forecast revisions for the GCC countries were mixed for 2023. Kuwait's GDP growth estimates was slashed by 150 bps to -0.6% in 2023 while growth rates for UAE and Bahrain for 2023 also underwent downward revisions of 10 bps and 30 bps to a growth of 3.4% and 2.7%, respectively. For 2024, real GDP expectations for the overall MENA region was revised downward by 30 bps to 3.4% reflecting revised forecasts for certain GCC countries.

Near-term inflation outlook is stabilizing; long-term outlook remains unchanged

Global headline inflation is expected to decelerate from 8.7% in 2022 to 6.9% in 2023 and 5.8% in 2024. Inflation in Services sector remained steady as the activity in the sector reached almost at par with pre-pandemic levels, especially in sectors like tourism. This came as a result of higher demand for services-intensive industries that has resulted in higher services inflation. However, a slowdown in the services sector in 2024, in line with the manufacturing sector, is expected to lead to a decline in services inflation next year.

According to surveys of professionals, near-term inflation expectations started to climb in 2021 in both Advanced and Emerging markets, and then picked up speed in 2022 as actual price growth picked up. Although headline inflation has since dropped due to a decrease in supply chain disruptions and a fall in commodity prices. However, core inflation has been proving to be more persistent. Central banks are concerned about high inflation as it affects interest rate decisions that keeps the inflation high.

Global trade slowdown

World trade volume growth is expected to fall from 5.1% in 2022 to 0.9% in 2023 before rising to a growth of 3.5% in 2024, (below the 2000–2019 average of 4.9%). The expected drop in 2023 reflects not just the trend of global demand, but also shifts in its composition towards domestic services, the lag effects of dollar appreciation as well as growing trade barriers. According to the IMF, Countries enacted over 3,000 new trade barriers in 2022 up from less than 1,000 in 2019.

Imports were revised downward by 180 bps and 10 bps for Advanced Economies to 0.1% for 2023 and to 3.0% for 2024. For the Emerging Market and Developing Economies, imports growth was lowered by 20 bps and 50 bps to 1.7% for 2023 and to 4.4% for 2024. On the other hand, exports from Advanced Economies is expected to grow by 1.8% (-100 bps) in 2023 and 3.1% (-10 bps) in 2024. For Emerging Market and Developing Economies, exports are expected to contract by 0.1% in 2023 after a 130 bps downward revision followed by an upward revision of 10 bps for 2024 to a growth rate of 4.2%.

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