

Event Update - IMF Releases World Economic Outlook

June-2020

Estimates see steep downward revisions amid uncertainty and trade slowdown...

The IMF further lowered its forecast for global real GDP growth rates for 2020 by 190 bps for 2020 and by 40 bps for 2021 from its previous forecast and highlighted the uncertainty surrounding the Covid-19 crisis. World GDP is now expected to decline by 4.9% this year and recover to a growth of 5.4% next year. The downward revisions reflect a higher-than-anticipated impact of the pandemic on economic growth rates in 1H-2020 and a more-than-gradual recovery from it during the remainder of the year and next year. The IMF highlighted that as with the previous forecast, its current forecast continues to be marred by uncertainty and grouped the impact into countries with declining infection rates vs. countries that are struggling to control the spread of infection. For the former, the recovery path is expected to be slower due to the severe hit during the first two quarters of the year and for the latter, economic activity will be affected by the continued lockdowns.

The GDP decline in Advanced Economies is expected to be even steeper as compared to previous estimates. The IMF revised its estimate for the group by -190 bps to a GDP decline of 8.0% in 2020. The US economy is now expected to contract by 8% (-190 bps) while Euro Area is forecasted to see a bigger contraction of 10.2% (-270 bps). For 2021, growth rate for Advanced Economies was only marginally revised up by 30 bps to a growth of 4.8% with the US expected to grow by 4.5% (-20 bps) whereas Euro Area growth is estimated to come in at 6.0% (+130 bps).

The estimates for Emerging Markets and Developing Economies were also lowered to a decline of 3% for 2020 (-200 bps) followed by a growth of 5.9% in 2021 (-70 bps). From amongst the key economies globally, only China is expected to see a growth in 2020 at 1.0% (-20 bps revision from previous estimates) followed by one of the highest growth rates of 8.2% for 2021 (-100 bps). Estimates for the Middle East and Central Asia region was lowered to a decline of 4.7% in 2020 (-190 bps) followed by a growth of 3.3% in 2021 (-70 bps). The IMF made one of the biggest downward revisions to GDP forecast for Saudi Arabia, lowering the Kingdom's GDP estimates by 450 bps to a steeper decline of 6.8% in 2020, whereas 2021 estimates saw a marginal upward revision of 20 bps to a growth of 3.1%. The biggest downward revision was made to GDP estimates for India which is now expected to decline by 4.5% in 2020 (a downward revision of 640 bps) followed by a growth of 6.0% in 2021 (-140 bps).

Country/Regions	June-2020 Updated Forecasts				Rev. from Apr-2020	
Real GDP Growth	2018	2019	2020e	2021e	2020e	2021e
World Output	3.6%	2.9%	-4.9%	5.4%	-1.9%	-0.4%
Advanced Economies	2.2%	1.7%	-8.0%	4.8%	-1.9%	0.3%
United States	2.9%	2.3%	-8.0%	4.5%	-2.1%	-0.2%
Euro Area	1.9%	1.3%	-10.2%	6.0%	-2.7%	1.3%
EM and Developing Economies	4.5%	3.7%	-3.0%	5.9%	-2.0%	-0.7%
China	6.7%	6.1%	1.0%	8.2%	-0.2%	-1.0%
India	6.1%	4.2%	-4.5%	6.0%	-6.4%	-1.4%
Middle East and Central Asia	1.8%	1.0%	-4.7%	3.3%	-1.9%	-0.7%
Saudi Arabia	2.4%	0.3%	-6.8%	3.1%	-4.5%	0.2%
Sub-Saharan Africa	3.2%	3.1%	-3.2%	3.4%	-1.6%	-0.7%
Trade Volume	2018	2019	2020e	2021e	2020e	2021e
World Trade Volume	3.8%	0.9%	-11.9%	8.0%	-0.9%	-0.4%
Advanced Economies	3.4%	1.5%	-13.4%	7.2%	-1.3%	-0.2%
EM and Developing Economies	4.5%	0.1%	-9.4%	9.4%	-0.5%	-0.7%
Consumer Prices	2018	2019	2020e	2021e	2020e	2021e
Advanced Economies	2.0%	1.4%	0.3%	1.1%	-0.2%	-0.4%
EM and Developing Economies	4.8%	5.1%	4.4%	4.5%	-0.2%	0.0%

Sources : IMF WEO Jun-2020

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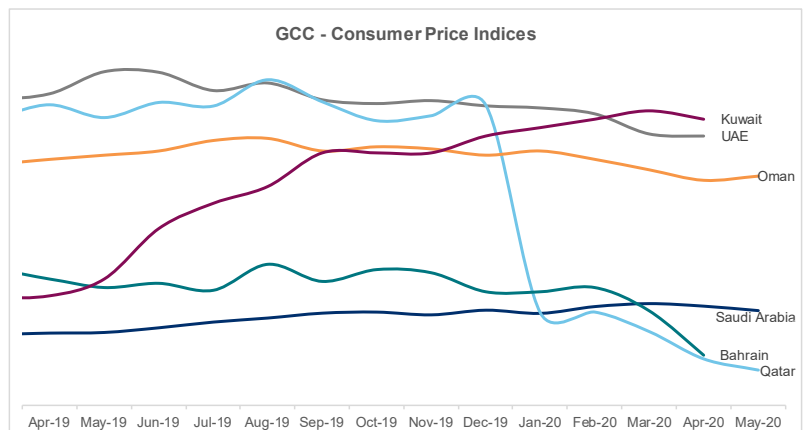
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Declining trade to affect demand and prices...

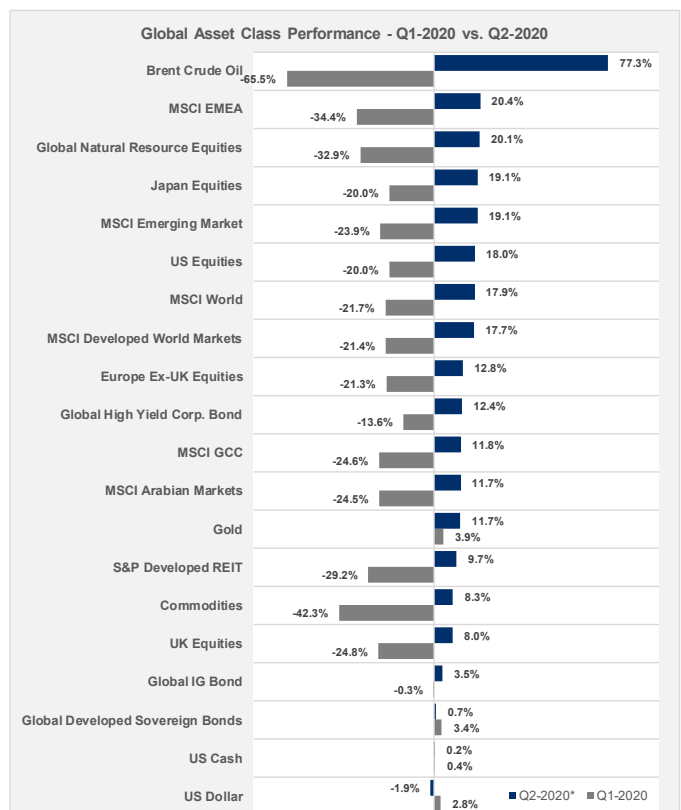
The Covid-19 pandemic affected global trade severely during Q1-2020 resulting in a y-o-y decline of 3.5% during the quarter. The decline highlighted weak demand and a complete halt to sectors like tourism, hospitality and commercial airlines. For the full year, global trade is expected to see a steep contraction of 11.9% in 2020 followed by an increase of 8% in 2021 led by a gradual pickup in domestic demand. Meanwhile, a decline in consumption and aggregate demand as well as fuel prices was reflected in a fall in inflation rates in both Advanced and Emerging economies. Average inflation in advanced economies declined by around 130 bps in 2020 to 0.4% as of April-2020, whereas in emerging market economies it has declined by 120 bps to 4.2% highlighting weaker activity and low commodity prices. Consumer price trends in the GCC is expected to follow the broader global trends with almost all the GCC economies see a declining price trend over the last few months. In the UAE and Saudi Arabia, prices of food & beverages, textile, communication, and recreation went up that partially offset the steep decline in prices of transport, utilities and household sectors.



Sources : Government Data, Bloomberg, Kamco Invest Research

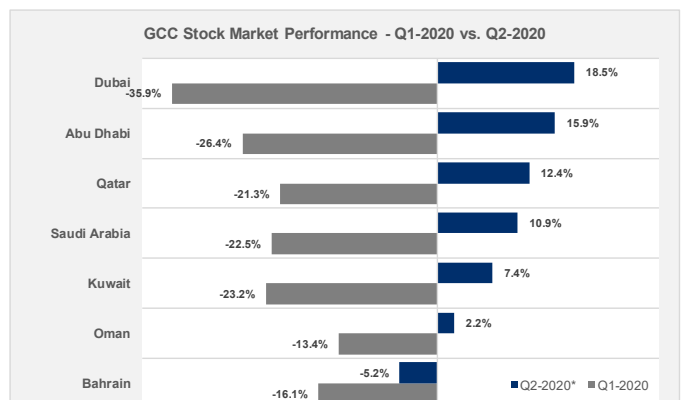
Financial markets recover from Q1-2020 lows but remain cautious to second wave of pandemic...

Meanwhile, the impact on the financial markets were contained to an extent that the recent recovery in sentiments appears somewhat disconnected from shifts in underlying economic prospects. The commodity index has also recovered from its March-2020 lows with oil now hovering around USD 40/b. In addition, exchange rates have also stabilized and the flight of capital from emerging markets appear to be back with increasing investments. Almost all asset classes have recovered during Q2-2020 with most showing double digit returns during the quarter as compared to steep declines during Q1-2020. The recovery in GCC markets were partial as compared to the decline in Q1-2020 and modest at around 12% for the MSCI GCC Index in Q2-2020 with the biggest decliners of Q1-2020 showing the biggest recovery in Q2-2020. Nevertheless, financial markets continue to remain cautious as threat of a second wave of Covid-19 pandemic have already started showing signs in China, US and a number of other countries. This is also reflected in higher returns for gold as a safe haven asset. We believe that a successful launch of a vaccine for the virus would instill much firmer confidence in global financial markets.



Policy changes and reforms helped to lower severity of the crisis...

On the fiscal front, the IMF asserted that the countermeasures deployed by governments and central banks across the globe has helped in curbing the impact of the pandemic and contained near term losses both in terms of monetary expense as well as in terms of quality of life and unemployment. Also, financial assistance from the banking sector led by policy changes from the central banks have helped in supporting vulnerable sectors, especially in the MSME and SME space, by providing continued credit for businesses.



Sources : Bloomberg, Kamco Invest Research * As of 24-Jun-2020

According to the IMF, the overall fiscal measures announced globally stood at an estimated USD 11 trillion as compared to an estimate of USD 8 trillion in April-2020. Out of the total, around 50% or USD 5.4 Trillion are in the form of additional spending and forgone revenue, that directly impacts government finances. The remaining 50% is in the form of liquidity support initiatives, including loans, equity injections, and guarantees to support businesses. The lowering of rates and quantitative easing programs have limited the rise in borrowing costs and enhanced liquidity provisions. These measures are expected to continue until the end of 2021 resulting in higher fiscal deficits and debt-to-GDP ratios and gradually improving investment climate. According to the IMF, global public debt is expected to increase by 1900 bps to reach a record high of 101% of GDP in 2020-21 with average overall fiscal deficit expected to increase by 1000 bps from last year to reach 14% of GDP in 2020.

On the other hand, the pandemic had a severe impact on the global labor market affecting work hours lost equivalent to 130 million full time jobs during Q1-2020, according to the ILO. The impact in Q2-2020 is expected to be even more severe at 300 million full time jobs. Recovering from just a steep decline in employment would require extraordinary efforts and support from governments at the cost of fiscal performance. Also, economies that had already high unemployment rates would see several key policy changes with long term impact. Nevertheless, with the opening of the economies starting from the mid-May is expected to help ease the burden in the near-term.

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