

Event Update - IMF Releases 2015 World Economic Outlook

April-2015

The latest IMF World Economic Outlook (WEO) released in April-15 highlights the uneven regional economic growth underlying the overall global growth expectations that remains unchanged for 2015 at 3.5% and a slightly higher at 3.8% for 2016. According to the new estimates, the outlook for advanced economies is improving but there is no change in the growth expectations for 2015 and 2016.

On the other hand, growth expectation within the emerging markets and developing economies has changed drastically from the January-15 expectations. The biggest change is recorded for Commonwealth of Independent States (CIS) that are now expected to contract at a higher rate of 2.6% in 2015 followed by a marginal growth of 0.3% in 2016.

MENA economies are expected to grow at a slower pace of 2.7% in 2015 and 3.7% in 2016 led by weaker activity in some major oil exporters because of the sharp drop in oil prices. Meanwhile, Emerging and Developing Asia is expected to grow at a slightly faster pace whereas Latin America & Caribbean are expected to decelerate. Nevertheless, emerging markets and developing economies continue to account for more than 70% of global growth in 2015.

In addition to legacy issues from the financial and the Euro area crises that led to weak banks and high levels of public, corporate, and household debt, two major factors i.e. the decline in oil price and exchange rate movements, that have been lingering since the second half of 2014, continue to dominate current economic climate. Lower oil prices are expected to provide a boost to growth globally and in many oil importers but will weigh on activity in oil exporters whereas the swing in exchange rates across major currencies that came as a result of lower oil prices and the subsequent changes in monetary policies, should be beneficial to the global outlook especially for countries with more difficult macroeconomic conditions and less policy space.

IMF Estimates	Real GDP			Consumer Prices			Current Account Balance		
		Projections			Projections			Projections	
	2014	2015	2016	2014	2015	2016	2014	2015	2016
World	3.4%	3.5%	3.8%	3.5%	3.2%	3.3%	-	-	-
MENA	2.4%	2.7%	3.7%	6.5%	6.2%	6.4%	7.0%	-2.0%	0.0%
Oil Exporters	2.4%	2.4%	3.5%	5.6%	5.6%	6.0%	10.0%	-1.0%	1.7%
Saudi Arabia	3.6%	3.0%	2.7%	2.7%	2.0%	2.5%	14.1%	-1.0%	3.7%
Iran	3.0%	0.6%	1.3%	15.5%	16.5%	17.0%	3.8%	0.8%	1.2%
UAE	3.6%	3.2%	3.2%	2.3%	2.1%	2.3%	12.1%	5.3%	7.2%
Algeria	4.1%	2.6%	3.9%	2.9%	4.0%	4.0%	-4.3%	-15.7%	-13.2%
Iraq	-2.4%	1.3%	7.6%	2.2%	3.0%	3.0%	-3.5%	-9.6%	-3.6%
Qatar	6.1%	7.1%	6.5%	3.0%	1.8%	2.7%	25.1%	8.4%	5.0%
Kuwait	1.3%	1.7%	1.8%	2.9%	3.3%	3.6%	35.3%	15.7%	19.3%
Oil Importers	3.0%	4.0%	4.4%	9.2%	7.0%	6.6%	-4.0%	-4.2%	-4.5%
Egypt	2.2%	4.0%	4.3%	10.1%	10.3%	10.5%	-0.8%	-3.3%	-4.3%
Morocco	2.9%	4.4%	5.0%	0.4%	1.5%	2.0%	-5.8%	-3.4%	-3.3%
Sudan	3.4%	3.3%	3.9%	36.9%	19.0%	10.5%	-5.2%	-4.2%	-3.9%
Tunisia	2.3%	3.0%	3.8%	4.9%	5.0%	4.1%	-8.9%	-6.4%	-5.2%
Lebanon	2.0%	2.5%	2.5%	1.9%	1.1%	2.8%	-24.9%	-22.2%	-21.7%
Jordan	3.1%	3.8%	4.5%	2.9%	1.2%	2.5%	-7.0%	-7.6%	-6.6%

Source: International Monetary Fund (IMF) April 2015 and October 2014 WEO Reports.

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MENA growth to remain subdued...

The IMF expects modest improvement in economic growth in the MENA region in 2015 as against a backdrop of tepid growth in 2014 due to declining oil prices, raging conflicts, and continued policy uncertainty. However, estimates for oil exporters has seen substantial downward revision due to the large losses from lower oil prices, which requires most oil exporters to recalibrate their medium-term fiscal consolidation plans. Across the region, lower oil prices create conditions for continuing subsidy reforms to build fiscal space for growth enhancing spending. Moreover, as seen from recent budget announcements, we don't expect the region's oil exporters to drastically cut their spending plans in the near term. More specifically, the GCC economies are expected to rely on their large buffers of fiscal surpluses made during the last five years.

Forecasts for Saudi Arabia has been revised up by 20 bps as compared to January-15 estimates; however, it is down by almost 150 bps relative to the October-14 WEO half of which is due to the rebasing of real GDP data whereas the remaining change is due to oil price weakness which could also result into fiscal deficit in 2015 and 2016 for the Kingdom. Estimates for the remaining GCC economies have also been revised downward relative to October-14 WEO, with the steepest GDP revision for UAE that is down by 130 bps for 2015 and 2016 to 4.5% and 4.4%, respectively. Meanwhile, Qatar is expected to be the fastest growing economy on the back of infrastructure investments. On the other hand, Kuwait is expected to see slowest GDP growth in the GCC at 1.7% in 2015 down by 10 bps from previous estimates, and 1.8% in 2016 in-line with the previous estimates.

IMF Estimates	Previous Estimates Jan-15 / Oct-14			Revisions by IMF	2014	2015 F	2016 F	Current Estimates Apr-15		
	2014	2015 F	2016 F					2014	2015 F	2016 F
Real GDP Growth										
<i>Percentage</i>										
Saudi Arabia	3.6%	2.8%	2.7%	0.0%	0.2%	0.0%		3.6%	3.0%	2.7%
United Arab Emirates	4.3%	4.5%	4.4%	-0.7%	-1.3%	-1.3%		3.6%	3.2%	3.2%
Qatar	6.5%	7.7%	7.8%	-0.4%	-0.6%	-1.4%		6.1%	7.1%	6.5%
Kuwait	1.4%	1.8%	1.8%	-0.1%	-0.1%	0.0%		1.3%	1.7%	1.8%
Oman	3.4%	3.4%	3.6%	-0.5%	0.0%	-0.5%		2.9%	4.6%	3.1%
Bahrain	3.9%	2.9%	3.1%	0.9%	-0.3%	-0.7%		4.7%	2.7%	2.4%
Real GDP Growth for MENA	2.6%	3.8%	4.5%	-0.1%	-1.1%	-0.8%		2.4%	2.7%	3.7%
Inflation, Avg. CPI										
<i>Percentage</i>										
Saudi Arabia	2.9%	3.2%	3.4%	-0.2%	-1.2%	-1.0%		2.7%	2.0%	2.5%
United Arab Emirates	2.2%	2.5%	3.0%	0.1%	-0.4%	-0.7%		2.3%	2.1%	2.3%
Qatar	3.4%	3.5%	3.6%	-0.3%	-1.7%	-0.9%		3.0%	1.8%	2.7%
Kuwait	3.0%	3.5%	4.0%	-0.1%	-0.2%	-0.4%		2.9%	3.3%	3.6%
Oman	2.8%	2.8%	3.3%	-1.8%	-1.8%	-0.7%		1.0%	1.0%	2.6%
Bahrain	2.5%	2.4%	2.5%	0.0%	-0.3%	-1.0%		2.5%	2.1%	1.5%
Inflation in MENA	7.5%	8.0%	7.4%	-1.0%	-1.8%	-1.0%		6.5%	6.2%	6.4%
Current account balance										
<i>Percentage of GDP</i>										
Saudi Arabia	15.1%	12.4%	10.9%	-1.0%	-13.4%	-7.1%		14.1%	-1.0%	3.7%
United Arab Emirates	11.1%	11.8%	10.9%	0.9%	-6.5%	-3.7%		12.1%	5.3%	7.2%
Qatar	27.1%	23.2%	18.1%	-1.9%	-14.8%	-13.2%		25.1%	8.4%	5.0%
Kuwait	40.8%	38.6%	37.7%	-5.5%	-22.9%	-18.4%		35.3%	15.7%	19.3%
Oman	9.9%	5.6%	2.8%	-7.7%	-20.6%	-15.8%		2.2%	-15.0%	-13.0%
Bahrain	7.0%	6.4%	5.3%	-1.7%	-8.4%	-6.0%		5.3%	-2.1%	-0.7%
CA Balance/ % of GDP for MENA	8.6%	6.8%	5.7%	-1.5%	-8.8%	-5.7%		7.0%	-2.0%	0.05%

Source: IMF April 2015 and October 2014 WEO Reports.

IMF Estimates			Old Projections		Revisions by IMF		New Projections	
Real GDP Growth	2013	2014	2015 F	2016 F	2015 F	2016 F	2015 F	2016 F
Percentage								
World GDP	3.4%	3.4%	3.5%	3.7%	0.0%	0.1%	3.5%	3.8%
Advanced Economies	1.4%	1.8%	2.4%	2.4%	0.0%	0.0%	2.4%	2.4%
United States	2.2%	2.4%	3.6%	3.3%	-0.5%	-0.2%	3.1%	3.1%
Euro Area	-0.5%	0.9%	1.2%	1.4%	0.3%	0.2%	1.5%	1.6%
China	7.8%	7.4%	6.8%	6.3%	0.0%	0.0%	6.8%	6.3%
India	6.9%	7.2%	6.3%	6.5%	1.2%	1.0%	7.5%	7.5%
Sub-Saharan Africa	5.2%	5.0%	4.9%	5.2%	-0.4%	-0.1%	4.5%	5.1%
MENA	2.3%	2.4%	3.2%	3.8%	-0.5%	-0.1%	2.7%	3.7%

Source: IMF WEO April-2015, KAMCO Research

Oil price to remain a key factor in economic growth...

OPEC oil price has declined by almost 50% from its 2014 peak primarily due to demand/supply factors further affected by geopolitical tensions. According to the IEA, even with aggregate demand developments taken into account, oil demand has fallen short of expectations. Oil prices are expected to remain well below the October 2014 WEO baseline into the medium term (projected prices for 2019 declined from \$93 to \$73 a barrel). At the same time, uncertainty about the future path of oil prices adds to the significant downside risk to expected economic growth.

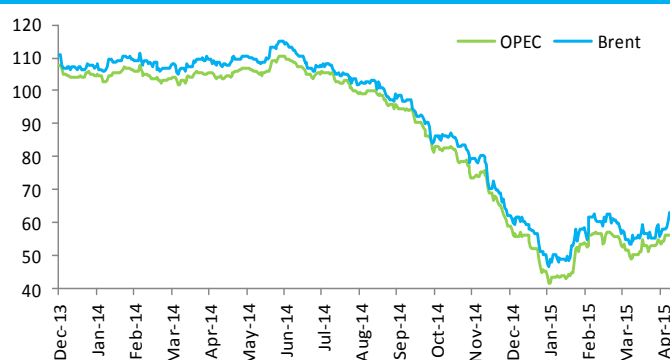
Exchange rate movements highlights changing growth expectations and varying monetary policies...

The significant movement in exchange rate over the past several months highlights the changes in expectations about growth and monetary policy across major economies as well as the large decline in oil prices. Movements in real effective exchange rates in recent months have broadly reflected changes in growth forecasts as well as differences in the exposure to lower oil prices. Among major currencies, the USD has appreciated remarkably against the currencies of major advanced economies implying that most countries experienced a somewhat smaller decline in oil prices relative to the headline USD figure. The renminbi and the Swiss franc have appreciated substantially whereas the euro and the yen have both depreciated.

Inflation expectations remain subdued...

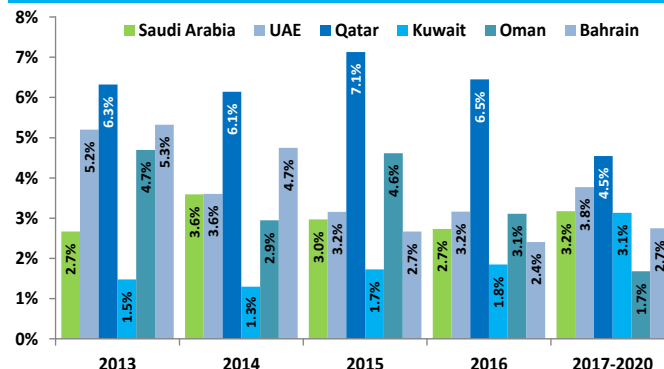
Inflation is projected to decline in 2015 in both advanced economies and most emerging market and developing economies, reflecting primarily the impact of the decline in oil prices. In fact, headline inflation turned negative in the Euro area in December-14 stabilizing somewhat after the ECB's recent actions. With regard to emerging markets, lower prices for oil and other commodities (including food, which has a larger weight in the consumer price index of emerging market and developing economies) have generally contributed to reductions in inflation, with the notable exception of countries suffering sizable exchange rate depreciations, such as Russia. Similarly, in the GCC, as highlighted in our recently published Quarterly Economic Report, inflation seem to be moderating amid cooling of prices of essential commodities in the region.

Oil Prices Movement (USD/B)



Source: Bloomberg

GDP Growth Rates in the GCC



Source: IMF WEO April-2015, KAMCO Research

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