Event Update - IMF Releases World Economic Outlook Update

July-2018

Global growth forecasts retained from April-18 expectations: IMF kept global GDP growth estimates for 2018 and 2019 unchanged at 3.9% for both years, in its World Economic Outlook (WEO) update released in July-18. However, the agency mentioned that growth has become less synchronized across both Advanced Economies and Emerging Market and Developing economies, and alluded to the emergence of more downside risks to the global economy.

Advanced Economies growth for 2018 lower than Apr-18 forecasts: Regionally, the growth of Advanced Economies was lowered by 10 bps for 2018 (2.4%) from their April-18 forecast, but 2019 GDP growth was left unchanged (2.2%). Key factors that led to the reduction of growth in 2018 was ascribed to moderation of growth witnessed in the Euro Area, Japan and the UK in early 2018. Growth of Emerging Market and Developing Economies as a group was kept stable from April-18, but the outlook for individual economies was recalibrated based on the expected impact from emerging global trends like rising oil prices, USD appreciation, global trade and geopolitical developments.

Saudi Arabia's growth for 2018 raised by 20 bps: IMF estimates Saudi Arabia's GDP growth for 2018 to be higher by 20 bps at 1.9%. GDP growth forecast for 2019 (1.9%) was left unchanged. However, we believe that 2019 growth forecasts still have room for revisions, as the oil GDP forecast depends on the nature of the OPEC+ agreement in 2019, and global trade developments in the near term.

Oil demand and price signaling from global events significant for the GCC: The backdrop of current oil prices gives GCC countries ample flexibility in terms of their ongoing fiscal consolidation plans and managing their current accounts balances. However, more protectionist global trade policies and mounting trade tensions could impact the region through lower global oil demand and volatility in oil prices. This should push GCC countries to expedite their diversification plans, and their individual fiscal consolidation plans targeting both additional revenues and expense optimization going forward.

IMF Estimates	Current Estimates Jul-18			Revisions by IMF		Previous Estimates Apr-18	
Real GDP Growth	**2017**	**2018 F**	**2019 F**	**2017 F**	**2018 F**	**2018 F**	**2019 F**
Percentage							
US	2.3%	2.9%	2.7%	0.0%	0.0%	2.9%	2.7%
Europe	2.4%	2.2%	1.9%	-0.2%	-0.1%	2.4%	2.0%
UK	1.7%	1.4%	1.5%	-0.2%	0.0%	1.6%	1.5%
Japan	1.7%	1.0%	0.9%	-0.2%	0.0%	1.2%	0.9%
Russia	1.5%	1.7%	1.5%	0.0%	0.0%	1.7%	1.5%
China	6.9%	6.6%	6.4%	0.0%	0.0%	6.6%	6.4%
India	6.7%	7.3%	7.5%	-0.1%	-0.3%	7.4%	7.8%
Brazil	1.0%	1.8%	2.5%	-0.5%	0.0%	2.3%	2.5%
Saudi Arabia	**-0.9%**	**1.9%**	**1.9%**	**0.2%**	**0.0%**	**1.7%**	**1.9%**
Advanced Economies	2.4%	2.4%	2.2%	-0.1%	0.0%	2.5%	2.2%
Emerging Market & Developing Economies	4.7%	4.9%	5.1%	0.0%	0.0%	4.9%	5.1%
MENA, Afghanistan & Pakistan	**2.2%**	**3.5%**	**3.9%**	**0.1%**	**0.2%**	**3.4%**	**3.7%**
Real GDP Growth - Global	**3.7%**	**3.9%**	**3.9%**	**0.0%**	**0.0%**	**3.9%**	**3.9%**
Growth in other key economic drivers	**2017**	**2018 F**	**2019 F**	**2017 F**	**2018 F**	**2018 F**	**2019 F**
Percentage							
CPI - Advanced Economies	1.7%	2.2%	2.2%	0.2%	0.3%	2.0%	1.9%
CPI -Emerging Market & Developing Economies	6.7%	5.7%	5.4%	1.1%	1.1%	4.6%	4.3%
World Trade	5.1%	4.8%	4.5%	-0.3%	-0.2%	5.1%	4.7%

Source: IMF, KAMCO Research

Source: IMF WEO Update July 2018

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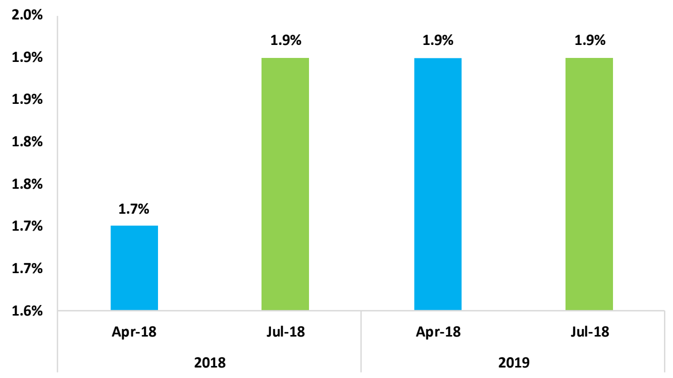
US growth kept intact; other key advanced economies to grow slower in 2018

US growth was left unchanged for 2018 and 2019. IMF expects the fiscal stimulus along with strong private demand to keep growth higher, while lower unemployment rate reaches multi-decade lows and creates inflationary pressure. The Euro Area is expected to be slower by 20 bps and 10 bps in 2018 (2.2%) and 2019 (1.9%), than estimated in April-18. France and Italy are expected to grow slower than expected earlier, as per the IMF, as activity in France during Q1-18 was weaker than expected, while lower domestic demand is expected to impact Italy in a period of political uncertainty. Germany's GDP forecasts for 2018 was also lowered by 30 bps to 2.2%. Lower activity in early 2018 also led to a downward revision of UK's GDP growth to 1.4% for the current year. The contraction witnessed in Japan during Q1-18 was behind the 10bps downward revision for the country's 2018 GDP growth forecast (1.0%). However the IMF expects the Japanese economy to remain strong over the rest of 2018 and 2019, driven by strong private consumption, external demand and investment activity.

Emerging and developing economies' growth stable; but drivers see more revision

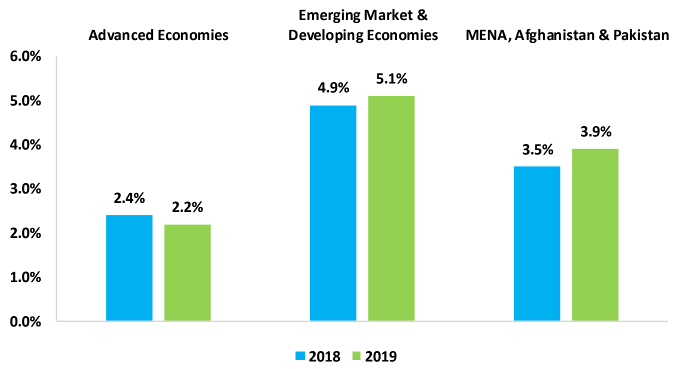
Emerging and developing economies are forecasted to grow at 4.9% in 2018 and 5.1% in 2019, in line with April-18 expectations. India and China remain the fastest growing large economies in the region, however, India's GDP growth for 2018 and 2019 were lowered by 10 bps and 30bps to 7.3% and 7.5% respectively due to effects of higher oil prices on domestic demand and faster than anticipated monetary tightening. MENAP (Middle East, North Africa, Afghanistan and Pakistan) growth for 2018 and 2019 was pushed up by 10 bps and 20 bps respectively to 3.5% and 3.9% respectively, driven by the improved outlook for oil exporting countries. Nevertheless, IMF stated that the outlook for oil importers remains fragile, while several economies still require significant fiscal consolidation improvements.

KSA Real GDP Growth - 2018 & 2019



Source: IMF WEO Update July 2018, KAMCO Research

Regional GDP Growth - 2018 & 2019



Source: IMF WEO Update July 2018, KAMCO Research

Current oil prices supportive for GCC fiscal initiatives, focus shifts towards 2019

IMF forecasts average oil prices to increase by USD 17.4/b in 2018, from an average of USD 52.8/b achieved over 2017 to USD 70.2/b, based on oil price futures. Further, a marginal decrease to USD 68.9/b is forecasted for 2019. Oil revenues for the GCC in 2018 are likely to be higher than budgeted by GCC countries, as prevailing oil prices are higher than the oil price assumptions of fiscal budgets. However, uncertainty still looms over the continuation of this trend into 2019, which could affects faster fiscal recoveries of GCC countries. Moreover, rate hikes and higher resultant interest rates are also likely in 2019. We believe this could prompt individual countries in the region to further expedite their fiscal consolidation plans in the latter part of 2018.

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