Event Update - IMF Releases World Economic Outlook

October-2019

Downward revisions for near term growth mainly due to trade slowdown…

GDP growth rates for a majority of economies and for the world was lowered by the IMF in its latest World Economic Outlook report. The agency asserted that global economy is in a synchronized slowdown due to a number of reasons and pointed at **trade war being one of the primary reasons for the revisions followed by lower demand.** The IMF said that **global manufacturing activity and trade have been hit hard led by higher tariffs in addition to trade policy uncertainty.** According to the agency, the announced tariffs, primarily between the US and China, could lower global economic output by 0.8% or USD 700 Bn by 2020. The report said that 1H-19 trade volume growth was already down to 1%, the weakest level since 2012. **On the positive side, the agency said that the Services sector continues to remain strong despite the headwinds although there were signs of softening in the sector in the US and Europe.**

In the report, the **IMF downgraded growth forecasts for both Advanced Economies as well as Emerging & Developing Economies.** Global growth expectations were lowered by 20 bps for 2019 and 10 bps for 2020. The revised global GDP growth estimates came in 3% for 2019, its slowest pace since the global financial crises and 3.4% for 2020. **The revisions primarily reflected rising trade barriers, elevated uncertainty related to trade and geopolitics, low productivity and an aging population in advanced economies and trade and domestic policy uncertainty in emerging market and developing economies.**

For the Emerging Market & Developing Economies, GDP growth was revised downwards by 20 bps for 2019 to 3.9% and 10 bps for 2020 to 4.6%. The IMF said that the region would remain the key driver of growth in 2020 by the downward revision in 2019 and the relatively slow growth rate was due to trade and domestic policy uncertainties, and to a structural slowdown in China. On the other hand, growth estimates for Advanced Economies was lowered by 20 bps for 2019 to 1.7%, whereas 2020 growth rate was unchanged at 1.7%. Growth in the US stayed afloat despite trade conflict related challenges on the back of policy stimulus. In the Euro Area, a decline in exports has resulted in lower growth while Brexit continues to affect UK's economic growth.

IMF Estimates	Current Estimates Oct-19			Revisions by IMF		Previous Estimates Jul-19	
Real GDP Growth	**2018**	**2019 F**	**2020 F**	**2019 F**	**2020 F**	**2019 F**	**2020 F**
Percentage							
US	2.9%	2.4%	2.1%	-0.2%	0.2%	2.6%	1.9%
Euro Area	1.9%	1.2%	1.4%	-0.1%	-0.2%	1.3%	1.6%
UK	1.4%	1.2%	1.4%	-0.1%	0.0%	1.3%	1.4%
Japan	0.8%	0.9%	0.5%	0.0%	0.1%	0.9%	0.4%
Russia	2.3%	1.1%	1.9%	-0.1%	0.0%	1.2%	1.9%
China	6.6%	6.1%	5.8%	-0.1%	-0.2%	6.2%	6.0%
India	6.8%	6.1%	7.0%	-0.9%	-0.2%	7.0%	7.2%
Brazil	1.1%	0.9%	2.0%	0.1%	-0.4%	0.8%	2.4%
Saudi Arabia	**2.4%**	0.2%	2.2%	**-1.7%**	**-0.8%**	**1.9%**	**3.0%**
Advanced Economies	2.3%	1.7%	1.7%	-0.2%	0.0%	1.9%	1.7%
Emerging Market & Developing Economies	4.5%	3.9%	4.6%	-0.2%	-0.1%	4.1%	4.7%
MENA	**1.1%**	**0.1%**	**2.7%**	**-0.6%**	**-0.4%**	**0.7%**	**3.1%**
Real GDP Growth - Global	**3.6%**	**3.0%**	**3.4%**	**-0.2%**	**-0.1%**	**3.2%**	**3.5%**
Growth in other key economic drivers	**2018**	**2019 F**	**2020 F**	**2019 F**	**2020 F**	**2019 F**	**2020 F**
Percentage							
CPI - Advanced Economies	2.0%	1.5%	1.8%	-0.1%	-0.2%	1.6%	2.0%
CPI -Emerging Market & Developing Economies	4.8%	4.7%	4.8%	-0.1%	0.1%	4.8%	4.7%
World Trade Volume	3.6%	1.1%	3.2%	-1.4%	-0.5%	2.5%	3.7%

Source: IMF WEO October 2019

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Disparities within a country and its impact on economic growth…

The report analyzed how regional disparities within a country can limit economic growth in advanced countries vs. other countries. It placed special emphasis on country-specific policy making in reducing technology and trade shock-led unemployment related issues through open markets. According to the report, a declining pace of regional convergence with rising disparities in some advanced economies within the countries in terms of labor market resulted in poor regional performance. As per the findings of the report, national structural policies and place-based policies related to employment should be enforced and one that encourages more open and flexible markets, which may narrow regional disparities.

Accelerated structural reforms needed to set emerging markets and developing countries on the growth path…

The report analyzed how the pace of structural reforms in emerging markets and developing economies has slowed down during the early part of this century as compared to the pace during the last decade of the 19th century. This is more applicable to in low-income developing countries in across sub-Saharan Africa region whereas it may not be as effective in MENA and APAC regions. The IMF believes that a comprehensive reform package aimed at six key areas including domestic finance, external finance, trade, labor markets, product markets, and governance could push economic growth by 7 percentage points over the next six years thereby averaging at more than 1 percentage increase every year.

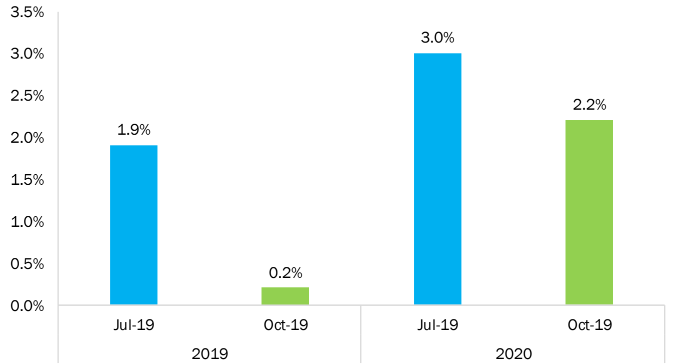
It also identifies the timing of implementation of these reforms depending on the governance structure and the economic cycle the country is in. The report says that the earlier a government adopts these reforms the better as it takes at least three years to show the impact of the reforms, although some particular reforms may start showing results earlier. Also, when the when macroeconomic conditions are strong, the policy changes are more effective as compared to when the conditions are normal or weak.

On the other hand, the order in which the reforms are implemented is also essential to have a profound impact. According to the report, good governance forms the base for better implementation of the other five reforms, so strengthening governance an essential requirement. This should be simultaneously implemented or succeeded by a combination of trade, financial, labor, and product market reforms to have the maximum impact.

MENA growth forecasts revised downwards

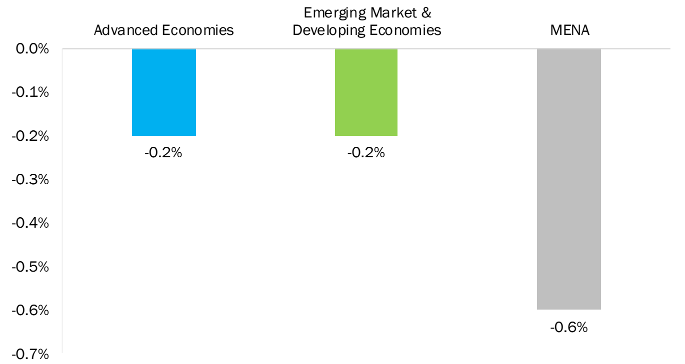
GDP growth for the MENA region was slashed for 2019 by 60 bps and for 2020 by 40 bps as compared to the Jul-19 estimates to 0.1% and 2.7%, respectively. The lower growth estimates by the IMF reflects a steep fall in oil GDP in Saudi Arabia which is projected to decline against the backdrop of the extension of the OPEC+ agreement and a generally weak global oil market. The recent attacks on Saudi Arabia's oil facilities adds uncertainty to the near-term outlook. In the GCC, Saudi Arabia's GDP growth was lowered for 2019 and 2020 to 0.2% (-170 bps) and 2.2% (-80 bps), respectively. The y-o-y growth in 2020 for Saudi Arabia is expected to be driven by a pick-up in non-oil economic activity and projected increase in oil production in 2020. Growth estimate for Kuwait for 2019 was lowered to 0.6%, while UAE is expected to grow at 1.6%. Bahrain and Qatar are expected to lead in the GCC in terms of real GDP growth of 2.0% each in 2019. Outside the GCC, Egypt is expected to grow 5.5% in 2019 and 5.9% in 2020, up from 5.3% in 2018, driven by a recovery in tourism and improved confidence indicators. According to the IMF, a number of MENA countries in the emerging market universe are expected to show recoveries or lower recessions in 2020 including Turkey and Iran while others MENA countries are expected to show faster growth rates including Saudi Arabia.

Saudi Arabia Real GDP Growth – 2019 & 2020



Source: IMF WEO October 2019, KAMCO Research

Revision in 2019 GDP Growth from Jul-19 to Oct-19



Source: IMF WEO October 2019, KAMCO Research

Lower investment spending coupled with a trade volume decline

The synchronized slowdown globally had one key characteristic, i.e. weak industrial output. This slowdown was reflected in the automobile production and sales with global vehicle purchases falling by 3% in 2018. The trend was profound in countries like China wherein the expiring of tax incentives on vehicles led to a decline in demand, new emission standards in the Euro Area led to a decline in that region as well as new taxes in India that has seen record decline in car sales. Once again, the US-China trade war was another key factor for the slowdown in industrial activity and trade.

According to IMF, the volume of global trade grew at 1% y-o-y during 1H-19, the slowest rate of growth since 2012. This came on the back of a decline in investment spending which was affected by increased impact of trade tensions on business sentiments in the manufacturing sector. As a result, world trade volume growth was lowered down by 140 bps to 1.1% for 2019 and by 50 bps for 2020 to 3.2%. In terms of regional trends, the trading activity was weak in both Advanced Economies as well as Emerging Market and Developing Economies.

Regional growth revised downwards, World trade forecast lowered

Growth for Advanced Economies was lowered by the IMF for 2019, as estimates for all the Euro Area countries were lowered. Growth in Germany and France were lowered to 0.2% (-20 Bps) and 1.2% (-10 bps), respectively. Weak exports have dragged the activity in the Euro Area since early 2018, while domestic demand has stayed firm. Meanwhile, US real GDP growth was also revised downwards by 20 bps amid growing tensions between the United States and China on trade and technology. The IMF expects that with historically low unemployment rate and inflation being at almost the target level coupled with a combination of accommodative monetary policy and vigilant financial regulation would be supportive for economic growth and limit downside risks.

In Asia, China's real GDP growth for 2019 was revised down by 10 bps to 6.1%, as the IMF expects growth will be impacted negatively by the escalating tariffs. India's real GDP growth was also lowered for 2019 to 6.1% (-90 bps) in 2019 mainly from the negative impact on growth from an environment of uncertainty coupled with concerns relating to the country's non-banking financial sector.

Oil price and forecast

Oil prices in 2019 have stayed well above the IMF oil price average for 2018 of USD 68.33/bbl. Latest forecasts based on oil futures by the IMF are estimated at USD 61.78/bbl for 2019 and USD 57.94/bbl. In April-19 the oil prices reached a yearly peak of USD 71/bbl and soon fell to USD 55/bbl by August-19. The intermittent surge in oil prices came on the back of supply cuts and geopolitics. KAMCO Research expects oil prices to remain range bound in the near term and traded at sub-USD70/b levels in the long run owing to a number of fragile factors and persistent oversupply in the market.

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