

Event Update - IMF Releases World Economic Outlook

October-2021

Global GDP forecast trimmed on rising risks...

The latest update to the IMF's World Economic Outlook showed scars of the Covid-19 pandemic affecting the pace of growth in 2021, with the effects of the Delta variant mainly affecting output in low income countries. The revisions also reflected the impact of access of vaccine and the pace of vaccination with countries with higher rates of vaccination expected to grow faster than countries that are still struggling to vaccinate the bulk of the population. Moreover, the lasting impact of the pandemic also led to supply chain disruption that is reflected in the rising inflation rates and commodity prices.

The IMF highlighted that although the aggregate World GDP forecast underwent a marginal revision, the changes in growth forecasts for some countries were significant. **World GDP is now expect to clock a growth of 5.9% in 2021 vs. previous expectation of 6.0% growth, whereas the growth in 2022 was unchanged at 4.9%. Revisions by the IMF largely showed downgrades for 2021 mainly for Advanced Economies and upward revisions for 2022.**

According to the IMF, only Advanced Economies are expected to reach or exceed pre-pandemic levels in 2022, although supply disruptions would affect near-term growth. Growth in the rest of the regions are expected to remain below 2019 levels even next year. **Low-income developing economies are expected to see the biggest output gap of 6.7% next year vs. pre-pandemic levels followed by Emerging markets and developing economies (excluding China) with a gap of 5.5%.**

Supply disruptions remains one of the key policy concerns that is led by a combination of 1) lower output due to the pandemic and weather related disruptions and 2) higher pent-up demand post pandemic. This has resulted in shortages of key components and rising food prices have both led to inflation concerns.

The IMF believes that the vaccinations should be the foremost policy priority for governments globally to safeguard against new variants of the virus. This would require adequate and uninterrupted supply of vaccines as well as further investments to fund research, testing, therapeutics and genomic surveillance. In terms of monetary policy, the IMF said that central banks should wait for more clarity on underlying price dynamics before increasing rates.

Country/Regions	Oct-2021 Updated Forecasts				Rev. from July-2021	
Real GDP Growth	2019	2020	2021e	2022e	2021e	2022e
World Output	2.8%	-3.1%	5.9%	4.9%	-0.1%	0.0%
Advanced Economies	1.6%	-4.5%	5.2%	4.5%	-0.4%	0.1%
United States	2.2%	-3.4%	6.0%	5.2%	-1.0%	0.3%
Euro Area	1.3%	-6.3%	5.0%	4.3%	0.4%	0.0%
EM and Developing Economies	3.7%	-2.1%	6.4%	5.1%	0.1%	-0.1%
China	6.0%	2.3%	8.0%	5.6%	-0.1%	-0.1%
India	4.0%	-7.3%	9.5%	8.5%	0.0%	0.0%
MENA	0.8%	-3.2%	4.1%	4.1%	0.0%	0.4%
Saudi Arabia	0.3%	-4.1%	2.8%	4.8%	0.4%	0.0%
Sub-Saharan Africa	3.2%	-1.7%	3.7%	3.8%	0.3%	-0.3%
Trade Volume	2019	2020	2021e	2022e	2021e	2022e
World Trade Volume	0.9%	-8.2%	9.7%	6.7%	0.0%	-0.3%
Imports - Advanced Economies	2.0%	-9.0%	9.0%	7.3%	-0.7%	-0.3%
Imports - EM and Developing Economies	-0.9%	-8.0%	12.1%	7.1%	0.7%	0.0%
Exports - Advanced Economies	1.2%	-9.4%	8.0%	6.6%	0.0%	0.0%
Exports - EM and Developing Economies	0.4%	-5.2%	11.6%	5.8%	0.8%	-0.9%
Consumer Prices	2019	2020	2021e	2022e	2021e	2022e
Advanced Economies	1.4%	0.7%	2.8%	2.3%	0.4%	0.2%
EM and Developing Economies	5.1%	5.1%	5.5%	4.9%	0.1%	0.2%

Sources : IMF WEO Oct-2021

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Advanced Economies to see constrained growth this year...

The downward revision to growth forecast for 2021 mainly reflected a curtailed growth in Advanced Economies that was partially offset by positive revisions in commodity-exporting Emerging Market and Developing Economies. Growth in Advanced economies was slashed by 40 bps for 2021 and increased by 10 bps for 2022. On the other hand, growth for Emerging Market and Developing Economies was raised by 10 bps for 2021 and lowered 10 bps for 2022.

GDP growth for the US was slashed by 100 bps, the biggest downward revision in Advanced Economies, to 6.0% in 2021, whereas 2022 growth was raised by 30 bps to 5.2%. The lowered forecast for the US reflected higher inventory usage during Q2-2021 due to supply disruptions followed by some softening in consumption during Q3-2021. In contrast, Euro Area is expected to grow at a faster pace of 5.0% in 2021 vs. previous forecast of 4.6%. Growth expectations for Germany was also lowered by 50 bps due to shortage of key inputs that affected manufacturing activity, while the downward revision of Japan was mainly due to rising covid-19 cases and the related containment measures in Q3-2021.

Low income developing countries witnessed a downward revision of 90 bps mainly due to the slow rollout of vaccines. According to the IMF, the region would require an investment of around USD 200 Bn to fight the pandemic and a further USD 250 Bn to reach pre-pandemic economic activity.

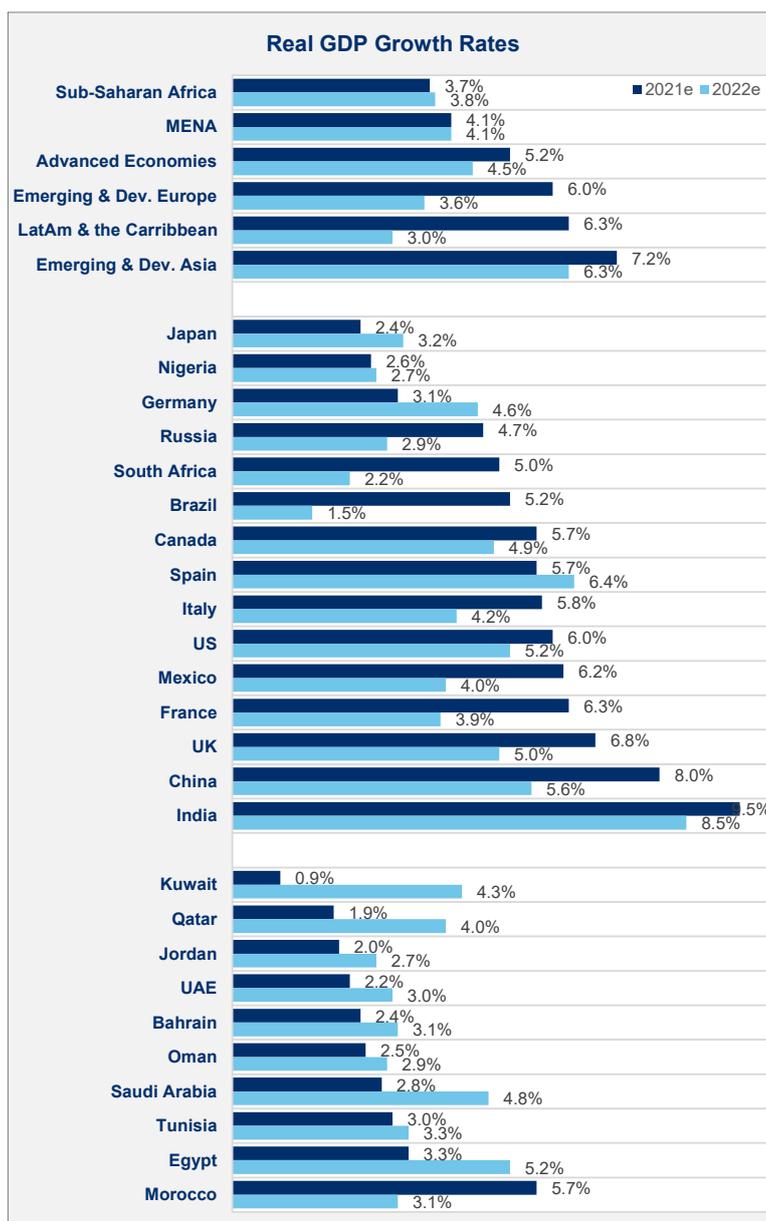
Meanwhile, China is now expected to grow at a slightly slower rate of 8.0% in 2021 as compared to previous forecast of 8.1% due to a higher-than-expected decline in public investment. Medium-term world GDP growth beyond 2022 is expected to decline to 3.3% with advanced economies expected to reach pre-pandemic growth mainly aided by an increase in policy support in the US whereas emerging market and developing economy would likely face challenges led by less policy support and slower vaccine rollouts.

During the year, the growth during 1H-2021 was in-line with expectations with higher-than-expected growth in Q1-2021 was followed by some shortage led softening in Q2-2021. The third quarter also witnessed softening which spread to other sectors.

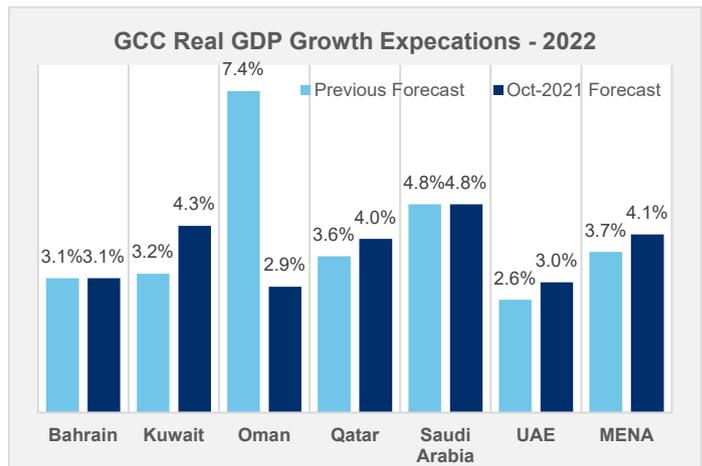
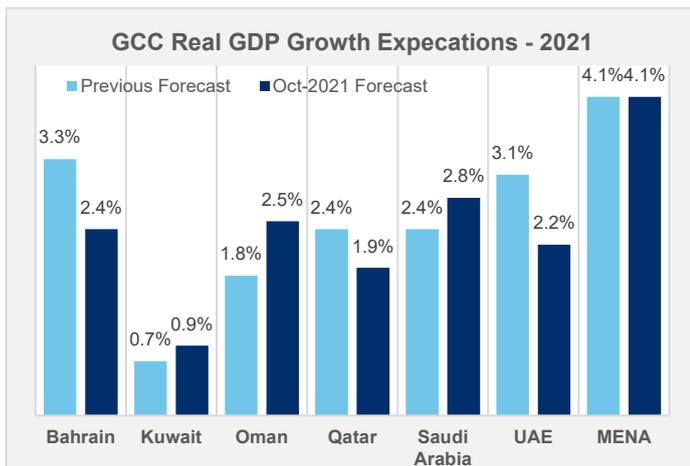
Growth in the Middle East region supported by higher commodity prices

GDP forecasts for the MENA region was unchanged for 2021 at 4.1% and was raised for 2022 by 40 bps to a constant growth rate of 4.1%. The unchanged forecast for 2021 reflected better growth in some commodity exporters offset by the impact of pandemic. Growth prospects for some oil exporters in the region were lowered for 2021, which resulted in a 10 bps downward revision for the oil exporting group to a growth of 4.5%. For the oil importers, growth was raised by 120 bps to a growth of 3.6% in 2021.

Real GDP forecast revisions for the GCC countries were remained mixed for 2021 and largely positive for 2022. Growth rates for Oman, Saudi Arabia and Kuwait witnessed upward revisions of 70 bps, 40 bps and 20 bps, respectively, and was slashed by 90 bps for Bahrain and UAE and by 50 bps for Qatar. Bahrain is expected to see the fastest growth in the region in 2021 at 3.3% closely followed by UAE at 3.1% and Saudi Arabia and Qatar at 2.4% each. For 2022, Oman's GDP growth underwent a steep downward revision of 450 bps to 2.9% while average growth for the overall region is expected to be around 3.7%.



Source : IMF WEO Oct-2021



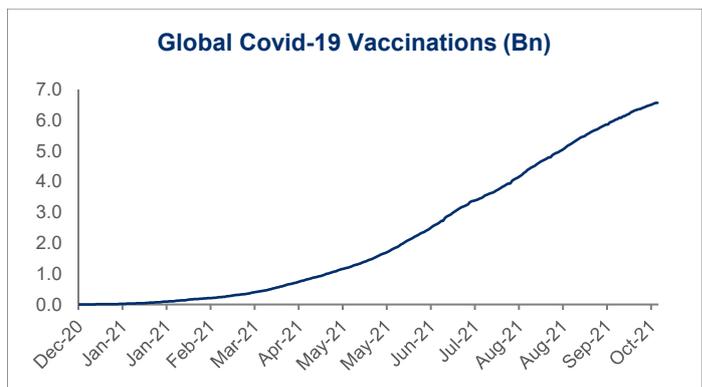
Source : IMF WEO Oct-2021

Inflation to remain a concern in the near term...

Consumer prices are expected to remain elevated in the near-term, at least till the end of 2021 and are expected to decline to pre-pandemic levels of around 2% by mid-2022, according to the IMF. Moreover, the release of excess savings that was accumulated during the pandemic can also result in higher private spending, that would further support inflation. The higher inflation numbers are contributed by both core inflation and headline inflation constituents, but food and energy prices are main reasons for the increase. In terms of regional impact, Advanced Economies and Emerging & Developing Economies are seen the bulk of the price increase mainly led by higher commodity prices globally that is led by higher demand and supply shortages. The Bloomberg Commodity index is up 31.5% so far this year with key commodities like Iron, Copper trading at multi-year high levels. There are shortages across product lines, including global chip supplies that are resulted in higher prices and delayed deliveries from products ranging from cars, consumer electronics and computer products. According to the IMF, risks of sustained higher inflation come from a prolonged supply disruption, commodity and housing price shocks and long-term capital expenditure commitments. Higher inflation also risks Emerging Market & Developing economies with capital outflows and currency depreciations whereas Advanced Economies were particularly also affected by higher wage growth.

Vaccinations remain the key to future path of world growth...

After bottoming during June-2021, the new variant of Covid-19 has resulted in rising new cases, averaging at over 600,000 new daily cases globally, resulting in extended or new restrictions. Data shows that the epicenter of new cases keeps shifting across regions and unless there is a collective effort to contain the spread, the time and effort required to would intensify. The IMF once again highlighted the importance of vaccinations and its impact on global growth. The agency said that the noticeable difference between vaccinations in advanced economies and most Emerging Market and Developing Economies is led by lack of supply and export restrictions. Around 58% of the population in Advanced Economies is fully vaccinated as against 36% in emerging market economies and less than 5% in low-income developing countries. The difference in vaccination rates is expected to further reinforce the divergence in economic progress. Moreover, the delay in containing the spread of virus also poses a threat to health and economic recoveries across the globe.



Source : Bloomberg

Global trade flow to remain upbeat in the coming years...

World trade volume is expected to grow by 9.7% in 2021 led by resumption of economic activity, supported by the elevated levels of exports and imports. The pace of growth is expected to decelerate to 6.7% in 2022 and moderate to 3.5% over the medium-term. Imports were revised downward by 70 bps for Advanced Economies to 9.0% for 2021 and to 7.3% for 2022, down by 30 bps. For the Emerging Market and Developing Economies, imports is expected to increase by 70 bps to 12.1% for 2021 and to 7.1% for 2022. On the other hand, exports from Advanced Economies are expected to clock a growth of 8.0% in 2021 (unchanged from previous forecast) followed by a growth of 6.6% for 2022. However, exports are expected to grow at a much faster pace from Emerging Market and Developing Economies with an upward revision of 80 bps for 2021 to a growth rate of 11.6% followed by a downward revision of 90 bps for 2022 with a growth rate of 5.8%.

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