

**Global growth for 2018 and 2019 now seen stronger:** IMF pushed global growth estimates for the current year and next year higher in its World Economic Outlook (WEO) released in January-18, from its last update in October-17. Growth projections for 2018 and 2019 were increased by 20 bps each, and are now expected to reach 3.9% for both the years, as the outlook now factors in higher global growth momentum and in particular higher US growth from US tax policy changes. Meanwhile, faster growth in the Euro Area, Japan along with favorable global financial markets and investment sentiment were main drivers for an upward revision of the growth for Advanced Economies in 2018 and 2019.

**Global growth in 2017 was higher than estimated in October-17:** Global growth for 2017 is estimated at 3.7%, and is expected to have come in 50 bps higher than registered in 2016, and 10 bps higher than estimated in October-17. Growth was broad-based according to the IMF, as 120 countries or 75% of the world GDP witnessed a pickup in growth in 2017. Main drivers of higher growth came from Europe and Asia in 2017, even as the growth of both Advanced Economies and Emerging & Developing Economies were pushed up by 10 bps each. Global trade growth in 2017 grew as well, from higher investment activity from Advanced Economies and higher manufacturing output from Asian economies.

**Non-oil GDP to drive growth for Saudi Arabia in 2018 and 2019:** Saudi Arabia's GDP is estimated to have receded in 2017 by 0.7% as per the IMF, down from the 1.7% growth registered in 2016, due to lower oil-GDP from oil production cuts. Real GDP growth expectations for 2018 and 2019 are however projected to be higher at 1.6% and 2.2%, than earlier expected in October-17. For 2018, while diversification efforts in the GCC are expected to continue, stronger global trends like higher trade volumes, investment activity pickup and increased manufacturing output are positives as well for oil prices as this should translate into higher oil revenues and trade balances in our view. That said, risks to oil prices do exist from the impending higher production from US, Libya, Nigeria and Venezuela.

IMF Estimates	Current Estimates			Revisions by IMF		Previous Estimates	
	Jan-18					Oct-17	
Real GDP Growth	2017E	2018 F	2019 F	2018 F	2019 F	2018 F	2019 F
<i>Percentage</i>							
US	2.3%	2.7%	2.5%	0.4%	0.6%	2.3%	1.9%
Europe	2.4%	2.2%	2.0%	0.3%	0.3%	1.9%	1.7%
UK	1.7%	1.5%	1.5%	0.0%	-0.1%	1.5%	1.6%
Japan	1.8%	1.2%	0.9%	0.5%	0.1%	0.7%	0.8%
Russia	1.8%	1.7%	1.5%	0.1%	0.0%	1.6%	1.5%
China	6.8%	6.6%	6.4%	0.1%	0.1%	6.5%	6.3%
India	6.7%	7.4%	7.8%	0.0%	0.0%	7.4%	7.8%
Brazil	1.1%	1.9%	2.1%	0.4%	0.1%	1.5%	2.0%
<b>Saudi Arabia</b>	<b>-0.7%</b>	<b>1.5%</b>	<b>2.2%</b>	<b>0.5%</b>	<b>0.6%</b>	<b>1.0%</b>	<b>1.6%</b>
Advanced Economies	2.3%	2.3%	2.2%	0.3%	0.4%	2.0%	1.8%
Emerging Market & Developing Economies	4.7%	4.9%	5.0%	0.0%	0.0%	4.9%	5.0%
<b>MENA, Afghanistan &amp; Pakistan</b>	<b>2.5%</b>	<b>3.6%</b>	<b>3.5%</b>	<b>0.1%</b>	<b>0.0%</b>	<b>3.5%</b>	<b>3.5%</b>
<b>Real GDP Growth - Global</b>	<b>3.7%</b>	<b>3.9%</b>	<b>3.9%</b>	<b>0.2%</b>	<b>0.2%</b>	<b>3.7%</b>	<b>3.7%</b>
<i>Growth in other key economic drivers</i>							
<i>Percentage</i>							
CPI - Advanced Economies	1.7%	1.9%	2.1%	0.2%	0.1%	1.7%	2.0%
CPI -Emerging Market & Developing Economies	4.1%	4.5%	4.3%	0.1%	0.2%	4.4%	4.1%
World Trade Volume	4.7%	4.6%	4.4%	0.6%	0.5%	4.0%	3.9%

Source: IMF WEO Update January 2018

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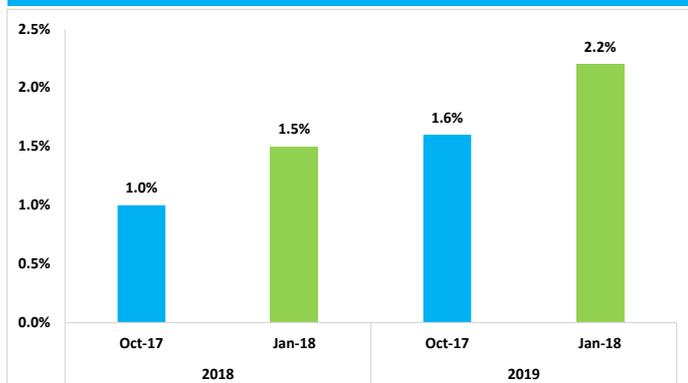
### Growth of advanced economies now forecasted to be stronger for 2018 and 2019

Advanced economies are now forecasted to grow at 2.3% and 2.2% in 2018 and 2019, respectively, as per the IMF, driven mainly by US growth of 2.7% (+40bps) in 2018 and 2.5% (+60bps) in 2019. Growth momentum in the US would continue from 2017 further supported by higher external demand, the impact of the tax reform (reduction of corporate taxes) and the temporary allowance for full expensing of investment. On the other hand, strong domestic demand and higher external demand are expected to drive stronger Euro Area growth especially, in Germany, Italy and The Netherlands. Advanced economies in Asia that are linked to global trade and investment should also witness faster growth from higher activity. A supplementary budget in 2018 and high external demand should drive Japan's GDP growth to 1.2% in 2018 (+0.5%) and 0.9% (+0.1%) in 2019. Global trade growth in 2017 grew as well, from higher investment activity from advanced economies and higher manufacturing output from Asian economies. For 2018 and 2019, global trade volumes of goods and services are now expected to grow at 4.6% (+60bps) and 4.4% (50 bps) as a continuation of aforementioned trends are expected.

### Emerging Market and Developing Economies to see change in regional contribution

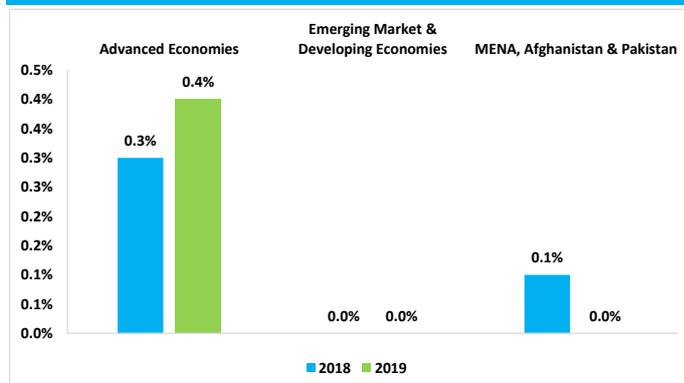
Although the growth rates for Emerging & Developing Economies were left unchanged at 4.9% in 2018 and 5.0% in 2019, growth constituents differed from the October-17 update. Emerging and Developing Asia, which accounts for over 50% of global growth is estimated to grow at 6.5% in 2018, and slightly faster at 6.6% (+0.1%) in 2019, mainly from higher growth from China reflecting stronger external demand. Meanwhile, faster growth in Emerging & Developing Europe was ascribed to higher growth in Poland and Turkey, where easy financial conditions and stronger export demand from the Euro Area is expected to drive growth in 2018 (4.0%) and 2019 (3.8%) higher by 50 bps each. For Latin America, an improved outlook for Mexico benefiting from stronger U.S. demand, a firmer recovery in Brazil, and favorable effects of stronger commodity prices and financing condition for some commodity exporting countries are expected to drive higher growth (+0.2%) in 2019 (2.6%), which are more than likely to offset further downward revisions for Venezuela. For the MENA region (including Afghanistan and Pakistan) growth is expected to pick up to 3.6% (+0.1%) in 2018 while growth for 2019 was left unchanged.

KSA Real GDP Growth – 2018 & 2019



Source: IMF WEO Update January 2018, KAMCO Research

Revision in GDP Growth from Oct -17 to Jan -18



Source: IMF WEO Update January 2018, KAMCO Research

### GCC non-oil sector initiatives to continue in 2018

IMF assumes average oil prices to improve by USD 7.2/bbl in 2018 (USD 59.9/bbl) based on oil price futures; from an average of USD 52.7/bbl achieved over 2017. In 2019 however, a marginal decline to USD 56.4/bbl is forecasted. IMF's oil price assumptions are below consensus mean and median oil analyst estimates for 2018 which are around USD 60/bbl. This should give enough room for GCC countries to go ahead with their fiscal consolidation and diversification plans in 2018 in our view. The upward revision of 2018 real GDP growth for Saudi Arabia, would imply that non-oil GDP growth would be higher for the year, than estimated in October-17 (1.3%), as oil GDP is expected to remain stable in 2018 as compared to 2017, due to the continuation of production cuts. The estimates were revised upwards despite lower oil production, as non-oil activity is expected to pickup from higher diversification efforts given prevailing higher oil price environment, and from government plans to raise public spending in 2018. Moreover, GCC sovereigns are likely to take the bond market route yet again to plug in fiscal deficit balances in 2018 and to lock in lower cost of funding, as more tightening of interest rates are expected globally in 2018. Further if oil prices would sustain over USD 60/bbl, and if the USD is expected to remain relatively stable, we expect current account balances to improve further in 2018 for major oil exporters in the region.

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