

Global growth for 2019 and 2020 lowered by the IMF: Global real GDP growth is estimated to decline to 3.5% in 2019 and pick up marginally to 3.6% in 2020, as per IMF's latest World Economic Outlook update. Growth projections for 2019 and 2020 were trimmed by 20 bps and 10 bps from estimates published by the IMF in Oct-18. The drop in real GDP growth expectations for 2019 was driven by broad based reductions to growth in most economies, with very few economies expected to grow faster than estimates in Oct-18. Growth for Advanced Economies is now seen to be lower in 2019, driven mainly by a lower growth rate for the Euro Area than estimated last year. Emerging Market & Developing Economies also saw their growth reduced for 2019, as most regions barring Emerging and Developing Asia are expected to grow slower than estimated in Oct-18.

Global growth for 2018 left unchanged from Oct-18: The IMF retained its global real GDP growth estimate of 3.7% for 2018 from Oct-18, in its latest World Economic Outlook Update in January-19, despite a 10 bps drop in the growth of Emerging Market & Developing Economies to 4.6% y-o-y in 2018, and a similar drop in the growth of Advanced Economies, now estimated at 2.3% (-10 bps) for 2018. Growth for 2018 was weaker in Europe and Asia, as per the IMF. The slowdown of growth in H2-18 is expected to continue for the next few quarters, and have led to the lower growth forecasts for 2019 and 2020.

Non-oil GDP to drive GCC growth in 2019 & 2020 despite potential for oil-GDP revision: Saudi Arabia's real GDP growth for 2018 at 2.3% y-o-y comes in above the earlier forecast from Oct-18 (+2.2%), as per the IMF, largely driven by a pickup in non-oil activity for the year. Real GDP expectations for 2019 was brought down by 60 bps, to 1.8% from October-18 estimates, which we ascribe to a drop in oil GDP. KAMCO Research had estimated IMF's real oil-GDP estimates for the GCC in 2019 (IMF REO: Nov-19) to be on the higher side, as the forecast had factored in an oil production growth of 0.58 mb/d from 2018. For 2020 however, IMF raised Saudi Arabia's GDP growth higher by 20 bps to 2.1% from Oct-18 (1.9%). KAMCO Research expects non-oil economic activity in the region to continue to develop in the near term, while oil-GDP forecasts have room for downward revisions, if OPEC+ countries announce an extension to the oil production cut agreement post H1-19.

IMF Estimates	Current Estimates			Revisions by IMF		Previous Estimates	
	Jan-19			2019 F	2020 F	Oct-18	
Real GDP Growth	2018 E	2019 F	2020 F	2019 F	2020 F	2019 F	2020 F
Percentage							
US	2.9%	2.5%	1.8%	0.0%	0.0%	2.5%	1.8%
Euro Area	1.8%	1.6%	1.7%	-0.3%	0.0%	1.9%	1.7%
UK	1.4%	1.5%	1.6%	0.0%	0.1%	1.5%	1.5%
Japan	0.9%	1.1%	0.5%	0.2%	0.2%	0.9%	0.3%
Russia	1.7%	1.6%	1.7%	-0.2%	-0.1%	1.8%	1.8%
China	6.6%	6.2%	6.2%	0.0%	0.0%	6.2%	6.2%
India	7.3%	7.5%	7.7%	0.1%	0.0%	7.4%	7.7%
Brazil	1.3%	2.5%	2.2%	0.1%	-0.1%	2.4%	2.3%
Saudi Arabia	2.3%	1.8%	2.1%	-0.6%	0.2%	2.4%	1.9%
Advanced Economies	2.3%	2.0%	1.7%	-0.1%	0.0%	2.1%	1.7%
Emerging Market & Developing Economies	4.6%	4.5%	4.9%	-0.2%	0.0%	4.7%	4.9%
MENA, Afghanistan & Pakistan	2.4%	2.4%	3.0%	-0.3%	0.0%	2.7%	3.0%
Real GDP Growth - Global	3.7%	3.5%	3.6%	-0.2%	-0.1%	3.7%	3.7%
Growth in other key economic drivers							
Percentage							
CPI - Advanced Economies	2.0%	1.7%	2.0%	-0.2%	0.0%	1.9%	2.0%
CPI - Emerging Market & Developing Economies	4.9%	5.1%	4.6%	-0.1%	0.0%	5.2%	4.6%
World Trade Volume	4.0%	4.0%	4.0%	0.0%	-0.1%	4.0%	4.1%

Source: IMF WEO Update January 2019

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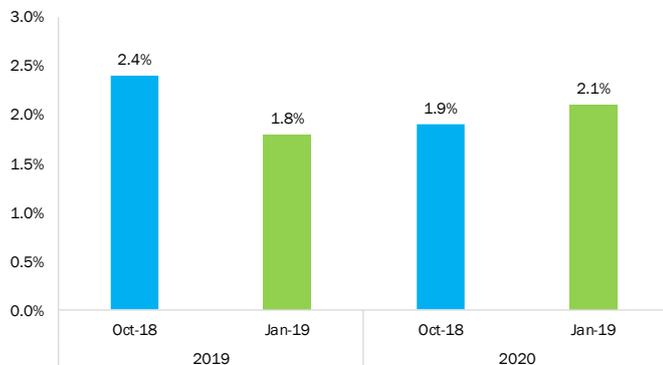
Growth of advanced economies lowered by 10 bps for 2019

Advanced economies are now forecasted to grow at 2.0% (-10 bps) in 2019, while the forecast for 2020 was left unchanged at 1.7%, as per the IMF, as US growth forecasts remained stable over 2019 (+2.5%) and 2020 (+1.8%). Euro Area growth was brought down by 30 bps for 2019 to 1.6%, driven by a downward revision (-60bps) to growth for Germany (1.3%) from lower private consumption, weak industrial production from the introduction of the revised auto emission standards, and muted foreign demand. The IMF expects weak domestic demand and higher borrowing costs in Italy to drive growth down to 1.5% (-10 bps) in 2019, while France's GDP growth was reduced to 0.6% (-40bps) from the impact of protests and lower industrial production. Global trade growth for 2018 (4.0%) is estimated to have been lower than Oct-18 expectations (4.2%), and the IMF expects the actual trade data to possibly have been helped by front-loading of imports, ahead of US-China tariff hikes. Growth of global trade in terms of volumes of goods and services was left unchanged at 4.0% each for 2019, while the corresponding growth for 2020 was brought down by 10 bps, as trade volume growth for Advanced Economies was lowered by 10 bps to 3.3%.

Emerging Market and Developing Economies sees downward revision of 20 bps for 2019

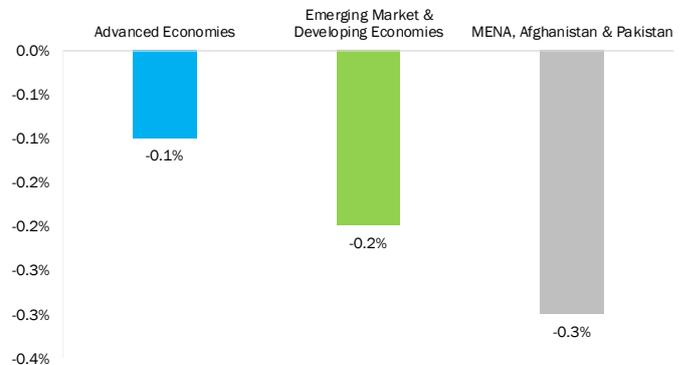
Real GDP growth forecasts of Emerging Market & Developing Economies were lowered to 4.5% (-20bps) in 2019, but left unaltered for 2020 (4.7%), by the IMF. The lowered forecast for 2019 was mainly driven by a 130 bps downward revision of growth for Emerging and Developing Europe to 0.7%, which in turn is expected to be driven by a contraction in Turkey's economy. Growth for Emerging & Developing Asia for 2019 and 2020 was kept stable from October-18 estimates, as China's growth expectations was left unchanged for 2019 and 2020 at 6.2% for each year. India's real GDP growth for 2019 was raised by the IMF to 7.5% (+10 bps), on gains from lower oil prices, easing inflation and slower monetary tightening. Growth for Latin America is now expected to be lower by 20 bps each for 2019 (+2%) and 2020 (+2.5%). Key drivers for the downward revision are lower growth for Mexico over 2019-20, a more severe contraction in Venezuela, and a contraction of Argentina's economy in 2019, as tighter policies slow domestic demand. For the MENA region including Afghanistan and Pakistan, growth was lowered by 30 bps to 2.4% in 2019, from lower oil GDP, tightening financing conditions in Pakistan and US sanctions on Iran, while growth for 2020 was left unchanged.

KSA Real GDP Growth – 2019 & 2020



Source: IMF WEO Update January 2019, KAMCO Research

Revision in 2019 GDP Growth from Oct -18 to Jan-19



Source: IMF WEO Update January 2019, KAMCO Research

Fiscal funding flexibility bodes well for the GCC in 2019

IMF assumes average oil prices to decline in 2019 (USD 58.95/bbl) based on oil price futures; from an average of USD 68.58/bbl achieved over 2018. In 2019, however, a marginal decline to USD 58.74/bbl is forecasted. Oil markets are still faced with fragile factors like OPEC+ production output, global trade, Iran sanctions and the economic situation in Venezuela, and these factors would keep oil prices under check and in a tight range during 2019. Having said that, non-oil economic growth in the GCC is expected to continue going forward against the backdrop of stabilizing oil prices and an expansion in budget spending. Moreover, fixed income markets remain conducive for GCC sovereign issuers in 2019 for primary market issuances, if they decide to take that route, given the expectation of slower pace of interest rate hikes in 2019 by the US Fed as compared to 2018, and the inclusion of the five GCC countries into the JP Morgan Emerging Market Bond Index (EMBI).

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