Flash by EIC

SCB Economic Intelligence Center

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IMF cuts global GDP in 2018 and 2019 amid looming risks of trade war

Event

- International Monetary Fund (IMF) has released World Economic Outlook report in October 2018 and cut the global growth forecast in 2018 and 2019 to 3.7% from the July forecast at 3.9% according to the lower expected expansion in several countries as well as increasing risks to the global economic expansion, especially the impact of a trade war.

Analysis

IMF cuts global GDP amid increasing risks of trade war, specific-country economic vulnerability and continuously tightening global financial conditions. Compared with the forecast from July (Figure 1), economic growth forecasts in major economies in 2018 were revised down, especially in Eurozone, Emerging Market (EM) and developing countries. In 2019, the US and China will expand approximately 2.5% and 6.2% respectively, declining from the previous forecast by 0.2% in both countries, as a result of trade war, while Eurozone and Japan will expand approximately 1.9% and 0.9% respectively (Figure 2). For EM countries, each region will broaden in the different directions in 2018 and 2019. Emerging Asia will experience good economic expansion at approximately 6.5% and 6.3% respectively. Growth rate of the world trade volume, however, was revised down to 4.2% (declining from the previous round by 0.6%) in 2018 and 4% (declining from the previous round by 0.5%) in 2019. This reflects the significant impact of increasing risks from trade war. Moreover, the economic growth of EM will slow down next year mostly because China, Brazil, Mexico and South Africa's growth were cut and EM with economic vulnerability, such as Turkey and Argentina, are facing the currency crisis and entering a recession. Meanwhile, global financial tightening caused by policy rate hikes in several countries (Figure 3) and the impact of the US trade protectionism policies starting to affect will fuel risks to overall global growth next year.

- IMF cut the US economic forecast in 2019 as a result of trade protectionism policy. IMF maintained the forecast of the US economic growth in 2018 at 2.9%, citing that strong economic fundamentals and fiscal stimulus, will support the US economy to grow beyond its potential. In 2019, however, The US economic growth was revised down to 2.5% (previously 2.7%). The primary risk is the US trade protectionism policy imposing tariff on Chinese imports worth USD 200 billion, which then triggered China's retaliation. After 2019, the US economy is likely to slow down as the effects of the fiscal policy end and the monetary policy moves toward normalization.

- **Chinese economic growth to slow down going forward**. IMF adjusted China's economic growth in 2019 to 6.2% (down from 6.4%). The revision was attributed to an escalating trade war with the US together with the control of shadow banking and lending in some sectors which result in an economic slowdown. The recent economic figures also showed a growth deceleration, such as domestic consumption, investment and industrial production. Meanwhile, export growth is set to moderate next year since the US will raise tariff on Chinese imports – worth USD 200 billion -- from 10% to 25% starting from January 1, 2019. In addition, a falling investor confidence and uncertainties arising from trade war will pressure the Chinese Yuan to further depreciate.

- **Economic fundamentals in Emerging Markets, particularly in Asia, remain strong, yet the risks to growth arise.** The growth prospect of Emerging Asia remains firm, but trade war risk will pressure ASEAN-5 economies (Malaysia, Indonesia, Philippines, Singapore and Thailand) to slightly slow down from 5.3% in 2018 to 5.2% in 2019. Furthermore, the effect from trade war, tightening financial conditions following Fed rate hikes, as well as the financial crisis in Turkey and Argentina, will dampen investor confidence toward assets in Emerging Markets. These might lead to capital outflows from the EM, especially Emerging Asian countries like Indonesia who is now facing a twin deficit, capital outflows and currency depreciation.

- **Trade war effects on the US and Chinese economy will more pronounced next year, specifically to the Chinese economic growth.** IMF estimated the trade war impacts based on the US tariff hikes and retaliation from its trade partner. The US tariff hikes included a 10% imposed on steel, 25% on aluminum, 25% on USD-50-billion imports from China and another 10% on USD-200-billion Chinese imports. The retaliations included China's response by enforcing tariff on the same value of US products, and the latest round when China raised import tariff by average 7% on imports from the US worth USD 200 billion. According to the IMF, trade war effects on the global economic growth – particularly the US and China -- will become more evident in 2019. Apart from the already-enforced tariffs, the US may impose another 25% tariff on the remaining USD-267-billion imports from China. This will make the total amount of Chinese imports subject to tariff hikes become as high as USD 500 billion. Meanwhile, China has a room to strike back with tariff on the US products worth USD 130 billion. If combining effects from further trade protectionism measure, trade war will dampen the US economic growth by 0.2% in 2019 and 0.27% in 2020. For China, the growth is expected to decline by 1.16% in 2019 and 0.95% in 2020.

Implication

- **EIC's view on Thai economy is in line with the IMF's new estimation.** IMF revised up the Thai economic growth forecast from 3.9% to 4.6% in 2018 and from 3.8% to 3.9% in 2019. It is in the same direction of Thai economic growth forecast by EIC at 4.5% and 4.0% in 2018 and 2019, respectively. IMF's growth forecasted reflected that the recent Thai economy has performed better than before, and Thailand is the only country in ASEAN-5 that IMF revised up estimations both for this year and next year. Even though IMF has forecasted that Thai economic growth will slightly slow down in the future, such growth rate is in still in a decent shape comparing to the past five years (2013 – 2017), with average growth of 2.8% annually. Recovering domestic and international demand will remain key supports for the Thai economy but we need to monitor the impact and the risks from the world trade volume, which IMF evaluated deceleration next year caused by the economic slowdown in developed countries, trade war, as well as tightening monetary conditions. Thailand business sectors still need to monitor both the positive and negative impacts such as the relocation of manufactures from Chinese business to Thailand and the negative impacts such as the slowdown of Chinese economy and the world trade when the trade war becomes more severe.

- **Tighter financial conditions in major economies fuel risks to EM countries. EIC views that the debt burdens on EM countries need to be monitored.** Rising interest rates and tighter financial conditions in developed countries might cause the reassessment of investors' portfolios. The severe movement of the currencies and the slowdown of capital inflows in EM countries, especially in the countries having weak economic stability. In EIC's view, the economic vulnerability of EM countries has stemmed from debt burden. As the interest rates increase and the financial liquidity reduce, EM countries will face the risks from the higher debt burdens. According to Institute of International Finance (IIF), it indicated that debt to GDP ratios of the EM countries increase continuously, especially in business sector debt and foreign currency debt, which expanded rapidly over the past period and will be directly affected from the increasing interest rate, and continuous appreciation of USD. Nevertheless, Thailand economic stability remains resilient, as in 2017, Thailand has current account surplus at 11% per GDP, approximate 3 times reserves for short-term external debts and has low rate of foreign currency debt comparing to the other countries in the EM group.

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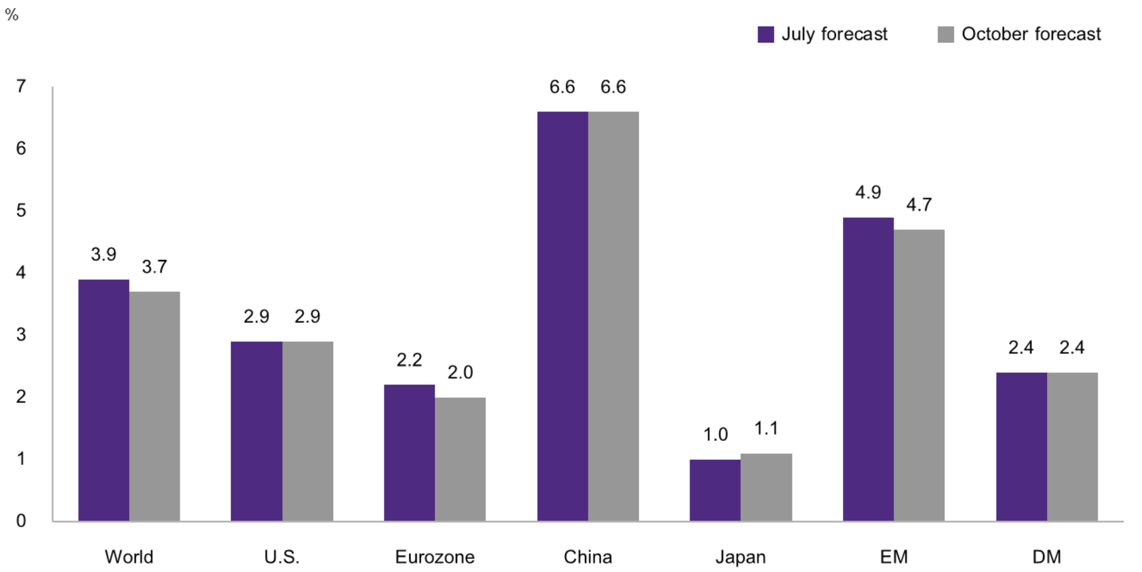
Figure 1: The IMF cut its 2018 GDP forecast for the world, euro area and EM, especially Turkey and Argentina, which facing currency crisis.

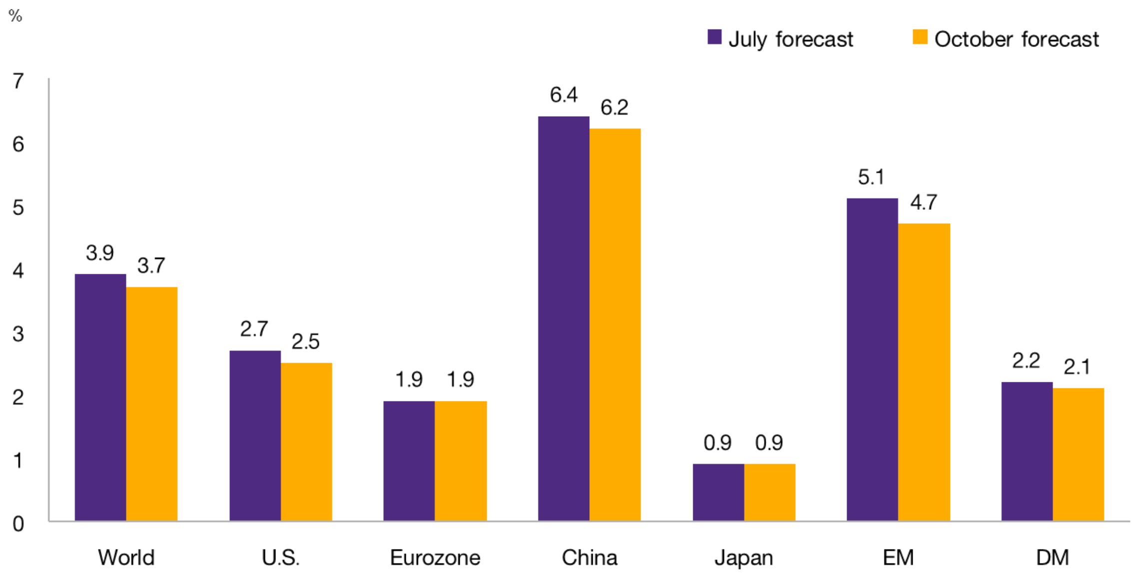
World economic growth forecast 2018 by IMF



Source: IMF's World Economic Outlook report (October 2018)

Figure 2 : Most region's forecasts were revised down in 2019 as global risks are becoming more pronounced.

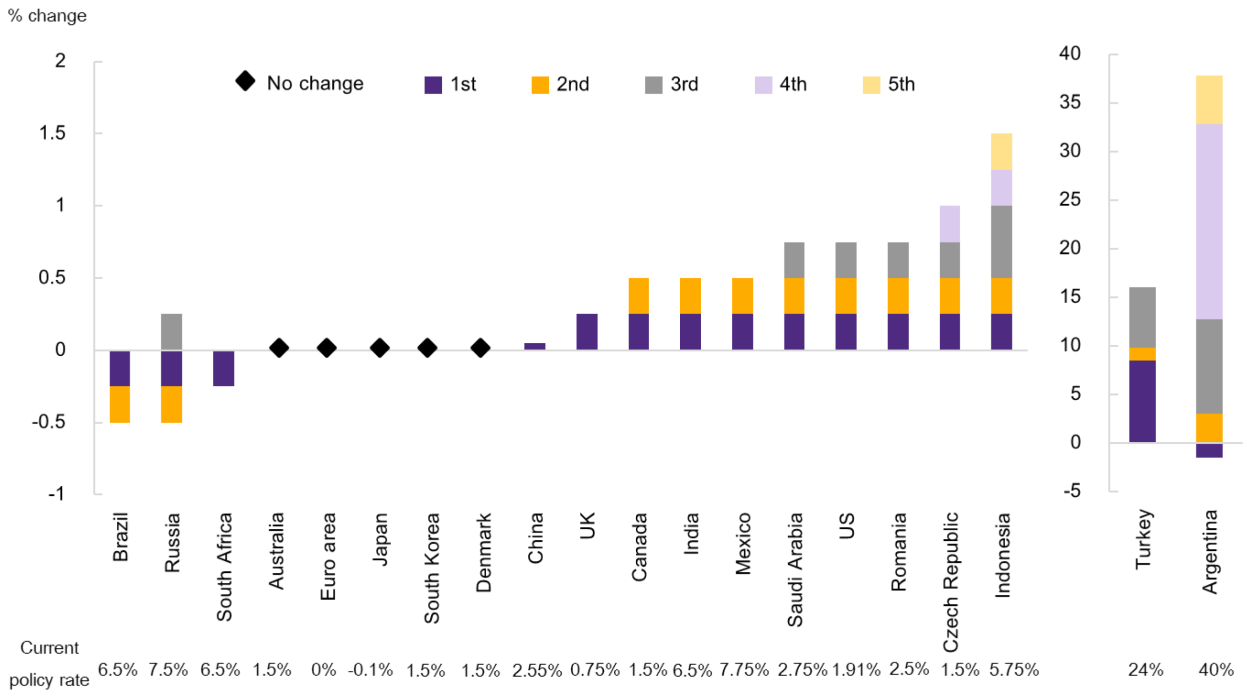
World economic growth forecast 2019 by IMF



Source: IMF's World Economic Outlook report (October 2018)

Figure 3: Central Banks in many countries have raised policy rates since beginning of 2018.

Policy rates change in 2018



Source: EIC analysis based on data from IMF, Bloomberg และ CEIC as of October 12, 2018