Flash by EIC

SCB Economic Intelligence Center

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IMF cut global GDP in 2019 to 3.3%, warning of a higher risk to growth

Event

- The International Monetary Fund (IMF) announced its downward revision of global growth estimate in 2019 to 3.3%, down from 3.5%, and of global trade volume estimate to 3.4% from 4% as previously assessed in the World Economic Outlook in January 2019. The IMF views that there remain key risks to global growth including the trade protectionist measures, a slowdown of the Chinese economy following domestic economic reforms and trade war, a slowing growth of the Eurozone due to domestic factors in many member economies, Brexit uncertainty, and tightening global monetary conditions that continue to weigh down on global growth. As a result, roughly 70% of the global economy, which covers almost all key regions, faces a larger-than-expected slowdown of its economy in 2019.
- However, the IMF expects global growth to pick up in the second half of 2019, while in 2020, the global economy will be driven by developing and emerging markets (EM) whose economies will become more stable and expand well in 2020. In addition, there will also be supporting factors from monetary policy stances of central banks of major economies that will be more accommodative, China's economic stimulus measures through both fiscal and monetary policies that will gradually lend support to its growth, and factors holding down growth of the Eurozone which will likely ease such as a slowdown of the auto industry in Germany and the political turmoil in the region.

Analysis

- **IMF cuts its growth forecast in 2019 of developing markets (DM) led by the Eurozone, whose growth is likely to slow down more than expected given country-specific risks and Brexit uncertainty.** The IMF revised down its growth forecast for the Eurozone in 2019 to 1.3% (from 1.6%) (Figure 1) and cuts its growth forecasts for all major economies in the Eurozone given country-specific risks that continue from last year. These risks include, for example, a slowdown of the auto industry in Germany due to a new emission standard, a continual rise of Italian government bond yields since its public debt crisis, and the yellow vest protests in France, as well as Brexit uncertainty which is highly uncertain and has continued to eat away business confidence in the region. With regard to the US, its projection for growth in 2019 is adjusted downward to 2.3% (from 2.5%), reflecting a negative impact from the government shutdown in January 2019. However, the US economy overall still expands above its potential level. Meanwhile, Japan's economic growth is revised down to 1.0% (from 1.1%), where its industrial and export sectors were hit by a slowdown of the Chinese economy in the first quarter of 2019. This led to a fall in producer confidence. In 2020, the IMF assessed that DM economies will slow down to 1.7% from 1.8% in 2019, as positive effects from tax cuts in the US will begin to subside, while the Japanese economy may be pressured by an increase in consumption tax in October 2019.

- **IMF revised down its growth forecast of emerging markets (EM) in 2019 from a slowdown of the Chinese economy and economic downturn in some countries evolving since 2018.** The IMF reduced its growth forecast of EM in 2019 to 4.4% (from 4.5%), where regions with the biggest downward revision include Latin America and the Middle East. These countries still face pressures from a political turmoil, economic downturn in Argentina, Venezuela, and Iran following sanctions by the US, while supports from oil prices are expected to decline and adversely affect major oil-exporting countries such as Saudi Arabia and Iran. In 2020, EM economies are expected to expand around 4.8% driven mainly by economic stimulus measures in several economies and global trade that is likely to recover if the US-China trade war does not intensify.

- **IMF expects global growth to pick up in the second half of 2019 and continue in 2020, led by growth of EM economies,** whereas DM economies will likely continue to slow down. Global growth in 2020 will be driven by a better outlook of EM economies supported mainly by growth of China and India at 6.1% and 7.5%, respectively. China has stimulated its economy through expediting public investment and supporting the business sector, in tandem with a continued decrease in the reserve requirement ratio (RRR) in order to maintain stability and credit in the financial system. Similarly, India's monetary policy stance became more accommodative and fiscal stimulus measures are expected to be implemented to support the continuation of growth, especially in investment and consumption. Meanwhile, economies of many EM that experienced crises in 2018, including Turkey and Argentina, are expected to be more stable and recover beginning in the second half of 2019. Furthermore, global growth recovery in 2020 at 3.6% will also benefit from more accommodative monetary policy stances of central banks of major economies and declining downside risks to growth of the Eurozone if agreement on Brexit can be reached. Thus, in the medium term, the IMF forecasts growth in 2020 to continue expanding at around 3.6%.

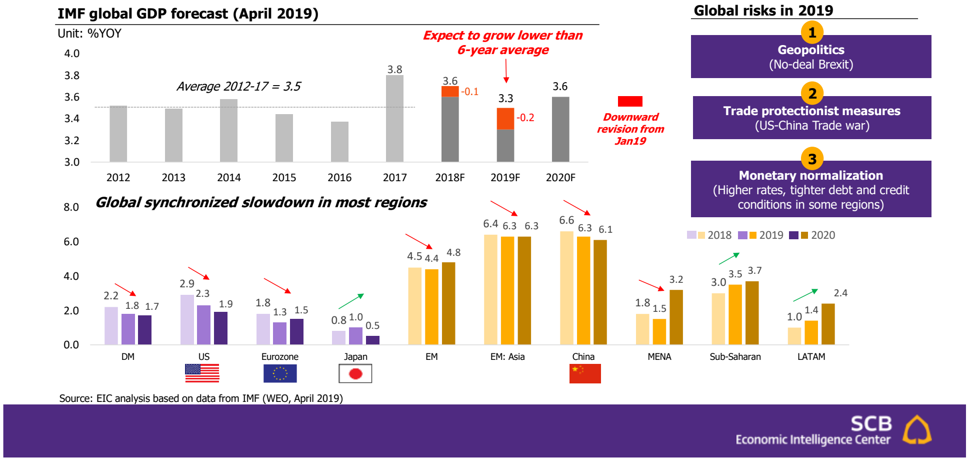
- **IMF sees high uncertainties on the global economy in 2019, but possibility of a recession is still low.** Trade protectionist measures will likely affect trade and investment in a broad manner, although the US has seen some progresses on the negotiation with China and on the USMCA which will replace NAFTA. However, there remain risks to global growth from the increase in import tariffs on auto and auto parts by the US, which is under consideration of President Trump. Meanwhile, the US has recently threatened to increase tariffs on imported goods from the EU for unfair trade practices worth approximately USD 11 billion as the EU subsidizes the aircraft industry within the region which affects the US aircraft industry. This has led to uncertainties on global trade policies and impacts on consumer confidence, while the private sector will likely deter consumption and investment in the period ahead. Moreover, considering uncertainties by region, in the Eurozone, Italian government bond yields remain high, reflecting risks that have not subsided and possibilities of the banking crisis in Italy if liquidity is to be tighter than expected. In addition, there remain risks of no-deal Brexit which will cause a severe impact on both supply chains and trade costs of the UK and countries in the EU. Meanwhile, in the US, the credit cycle is currently at the end of an upward cycle, considering rising share of private debt instruments with low credit ratings and the amount of covenant-lite loans that is more than in the past. This can increase default risks of businesses in the US if the US economy slow down more than expected.

Implication

- Higher risks in many aspects will be challenges to global growth recovery in the second half of 2019. Three main risks to keep an eye on include **1) trade protectionist measures** where issues to be monitored are the progress on the negotiation between the US and China and on the USMCA between the US, Canada, and Mexico, as well as decisions to raise import tariffs on auto and auto parts by the US president that has to be made before 18 May. Another risk is **2) the conclusion of Brexit deal**, particularly on the future shape of the UK-EU relationship. The UK and the EU recently agreed to postpone the deadline of Brexit until October 2019 in order to avoid no-deal Brexit and to provide the UK some time to conclude on framework of the relationship that will pass the British parliament. The last risk is **3) monetary conditions that may become tighter than expected,** as both short-term and long-term interest rates in key regions may become higher if inflation or inflation expectations begin to accelerate. Also, there is a risk from private sector debts in the US and China which have been increasing significantly in recent years. However, global growth will likely pick up if the Chinese economy recovers due to its economic stimulus measures through both monetary and fiscal policies, if the US and China can come to a preliminary trade agreement to end the trade war, if the US does not raise tariffs on imports of auto and auto parts, if no-deal Brexit does not occur, and if monetary policy stances in major economies continue to be accommodative.

- EIC's view towards the Thai economy is in line with the IMF's latest projection, particular on export slowdown and risks that remain high. EIC revised down GDP forecast in 2019 to 3.6% (from 3.8%) and cut growth forecast on Thai export value in USD term in 2019 to 2.7% (from 3.4%). This reflects that the Thai and several economies in ASEAN still face risks from a weak outlook of global trade volume in 2019 following a slowdown of DM economies and impacts from trade war. However, the Thai economy will continue to be supported by the recovery of the tourism sector and domestic demand from both domestic investment that is expected to recover following the government establishment, while household consumption is likely to grow given income recovery and economic stimulus measures by the government. Nevertheless, although the global economy is likely to expand at a slower rate and volatility from external factors remains high, Thailand's external stability remains strong. Therefore, the Thai economy is expected to be able to withstand impacts from external factors. In addition, EIC views that the baht will likely stabilize around THB 31-32 per USD in 2019, supported by the US dollar that will likely depreciate in the second half of 2019 and Thailand's current account surplus that remains at a high level at approximately 6.4% of GDP.

Figure 1: Global economy in 2019 is likely to expand at a slower rate in many regions due to prolonged risks, but will start to recover in the second half of 2019 and in 2020.



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