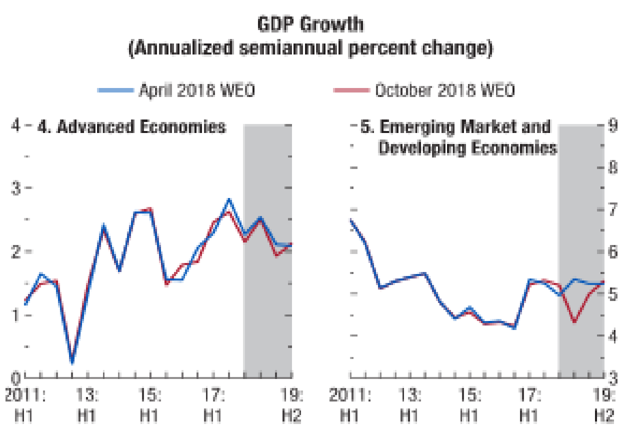
A Review of IMF's Forecasts for Saudi Arabia
October 2018

Data from the International Monetary Fund's (IMF) most recent *World Economic Outlook, October 2018*, revealed encouraging economic developments for global growth and for Saudi Arabia in particular over the short, medium, and long-term. According to the IMF, global growth is projected at 3.7 percent in 2018 and 2019. Global growth is expected to remain at 3.7 percent in 2020, as the decline in advanced economy growth coupled with the winding down of the U.S. fiscal stimulus and the diminishing of the favorable effects from U.S. demand to trading partners is offset by a pickup in emerging market and developing economy growth.

Over the long-term, global growth is expected to slow to 3.6 by 2022-2023, largely reflecting a moderation in advanced economy growth. Growth in advanced economies will remain above past trends at 2.4 percent in 2018, before softening to 2.1 percent in 2019. Growth in the emerging market and developing economy group is set to remain steady at 4.7 percent in 2018-19. Over the medium term, growth is projected to hover around 5 percent

Figure 1:



Sources: CPB Netherlands Bureau for Economic Policy Analysis; Haver Analytics; Markit Economics; and IMF staff estimates.
Note: CC = consumer confidence; PMI = purchasing managers' index; WEO = *World Economic Outlook*.
[1]Australia, Canada (PMI only), Czech Republic, Denmark, euro area, Hong Kong SAR (CC only), Israel, Japan, Korea, New Zealand (PMI only), Norway (CC only), Singapore (PMI only), Sweden (CC only), Switzerland, Taiwan Province of China, United Kingdom, United States.
[2]Argentina (CC only), Brazil, China, Colombia (CC only), Hungary, India (PMI only), Indonesia, Latvia (CC only), Malaysia (PMI only), Mexico (PMI only), Philippines (CC only), Poland, Russia, South Africa, Thailand (CC only), Turkey, Ukraine (CC only).

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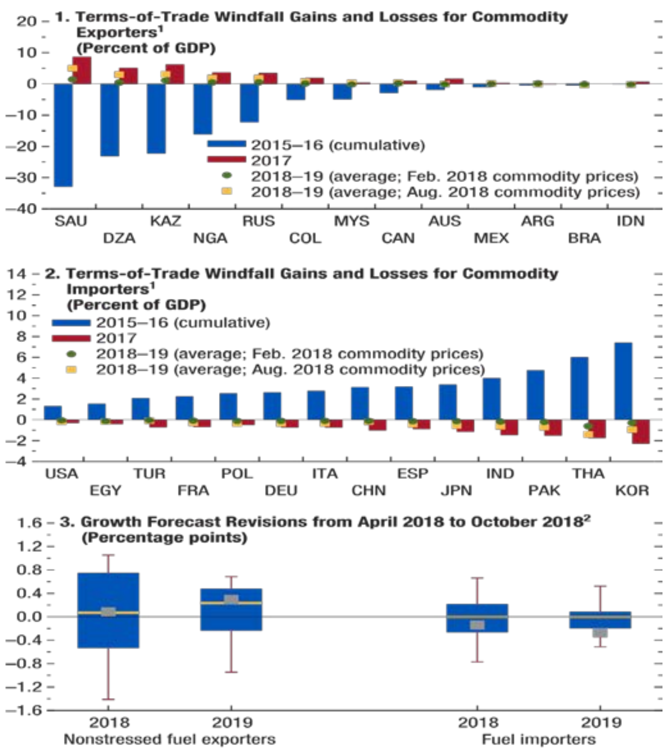
As for Saudi Arabia, following a 0.9 percent contraction in 2017, output is projected to expand by 2.2 percent in 2018 and 2.4 percent in 2019, driven by a pickup of non-oil economic activity and a projected increase in crude oil production in line with the revised Organization of the Petroleum Exporting Countries Plus agreement. Oil prices are expected to average $69.38 a barrel in 2018. Global oil supply is expected to gradually increase over the forecast horizon, lowering oil prices to $68.76 a barrel in 2019, and further to about $60 a barrel in 2023.

Figure 2:

Impact of Commodity Price Changes

Higher oil prices have led to a sizable increase in the projected terms-of-trade windfall gains and losses in 2018–19. This is reflected in growth forecast revisions relative to the April 2018 *World Economic Outlook*: Nonstressed fuel exporters are expected to grow faster in 2018–19 than previously projected, while growth prospects for oil importers were revised downward.



Source: IMF staff estimates.
Note: Data labels in the figure use International Organization for Standardization (ISO) country codes.
[1]Gains (losses) for 2018–19 are simple averages of annual incremental gains (losses) for 2018 and 2019. The windfall is an estimate of the change in disposable income arising from commodity price changes. The windfall gain in year t for a country exporting x US dollars of commodity A and importing m US dollars of commodity B in year $t-1$ is defined as $(\Delta p_t^A x_{t-1} - \Delta p_t^B m_{t-1}) / Y_{t-1}$, in which Δp_t^A and Δp_t^B are the percentage changes in the prices of A and B between year $t-1$ and year t, and Y is GDP in year $t-1$ in US dollars. See also Gruss (2014).
[2]The yellow horizontal line inside each box represents the median; the upper and lower edges of each box show the top and bottom quartiles; the red markers denote the top and bottom deciles; and the gray square indicates the purchasing-power-parity-weighted mean. Stressed fuel exporters include Iran, Iraq, Libya, South Sudan, Venezuela, and Yemen.

Oil prices have increased since mid-2017 by approximately $30 a barrel. Some of this increase is expected to dissipate over the medium term because higher U.S. shale production and OPEC+ supply. This improved outlook for oil prices have given oil exporters improved projections versus oil importers, whom have their growth outlook narrowly revised downward.

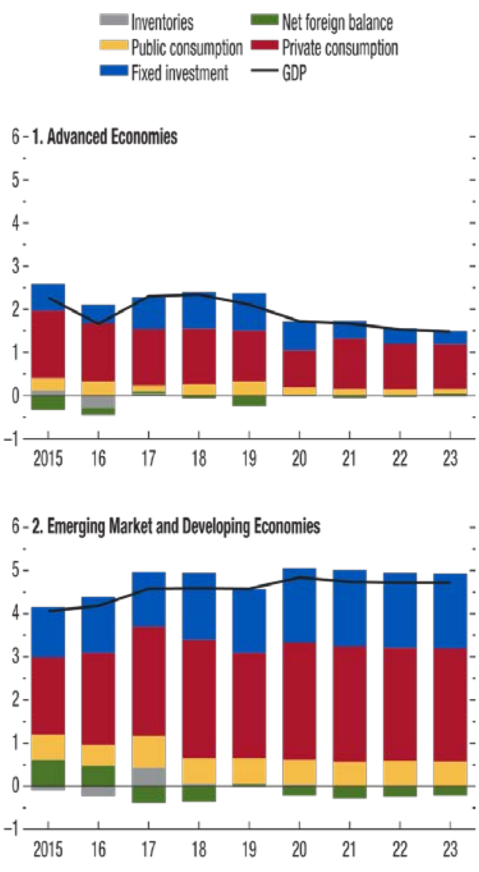
Although risks are balanced, uncertainty remains in the IMF's baseline scenario assumptions for oil prices. This is due to Saudi Arabia's spare capacity shrinkage and U.S. sanctions against Iran will both weigh on Iran's oil production prospects in the medium term and reduce Iran's crude oil exports in the short term, requiring other countries with spare capacity to fill in.

According to the IMF, Saudi Arabia should pursue further financial development and inclusion while maintaining financial stability. Increased finance for small and medium-sized enterprises; more developed debt markets; and improved financial access especially for women; will support growth and equality. The IMF also suggests removing structural impediments that may dissuade financial institutions from entering these markets. However, it must be noted that these challenges have been recognized and integrated into the Kingdom's Vision 2030 plans to alleviate some of the shortcomings the IMF describes.

Other Key Figures from the IMF Report:

Contributions to GDP Growth

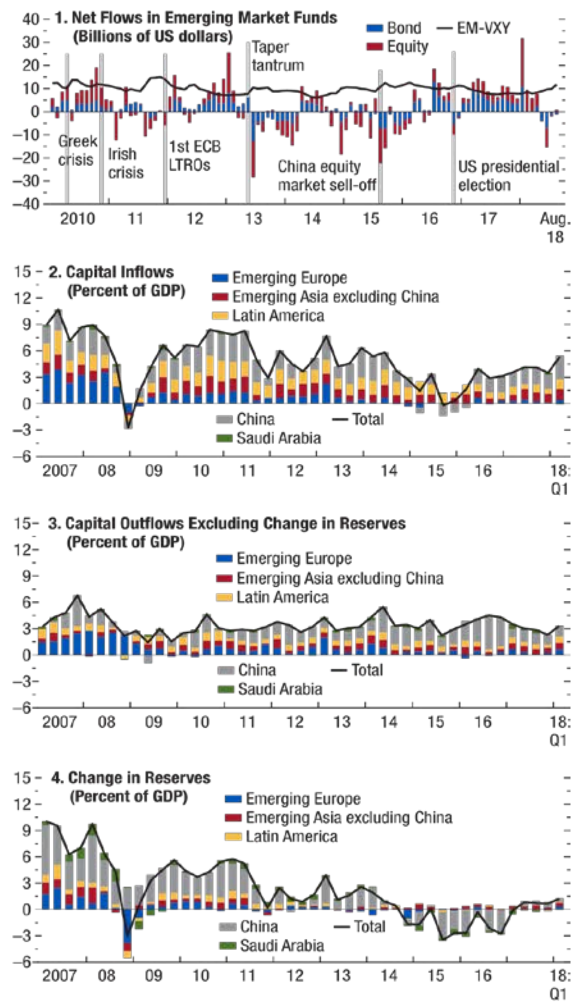
In the medium term, investment growth is projected to remain robust in emerging market and developing economies, accounting for well over one-third of their GDP growth. In advanced economies, investment growth is expected to weaken significantly over the next five years.



Source: IMF staff calculations.

Emerging Market Economies: Capital Flows

Capital flows to emerging markets appear to have weakened considerably in the second quarter of 2018, with nonresident portfolio flows turning negative in May–June 2018.



Sources: Bloomberg Finance L.P.; EPFR Global; Haver Analytics; IMF, *International Financial Statistics*; and IMF staff calculations.
Note: Capital inflows are net purchases of domestic assets by nonresidents. Capital outflows are net purchases of foreign assets by domestic residents. Emerging Asia excluding China comprises India, Indonesia, Malaysia, the Philippines, and Thailand; emerging Europe comprises Poland, Romania, Russia, and Turkey; Latin America comprises Brazil, Chile, Colombia, Mexico, and Peru. ECB = European Central Bank; EM-VXY = J.P. Morgan Emerging Market Volatility Index; LTROs = long-term refinancing operations.

Overview of the *World Economic Outlook* Projections
(Percent change, unless noted otherwise)

		Projections		Difference from July 2018 *WEO Update*[1]		Difference from April 2018 WEO[1]	
	2017	2018	2019	2018	2019	2018	2019
World Output	**3.7**	**3.7**	**3.7**	**–0.2**	**–0.2**	**–0.2**	**–0.2**
Advanced Economies	**2.3**	**2.4**	**2.1**	**0.0**	**–0.1**	**–0.1**	**–0.1**
United States	2.2	2.9	2.5	0.0	–0.2	0.0	–0.2
Euro Area	2.4	2.0	1.9	–0.2	0.0	–0.4	–0.1
Germany	2.5	1.9	1.9	–0.3	–0.2	–0.6	–0.1
France	2.3	1.6	1.6	–0.2	–0.1	–0.5	–0.4
Italy	1.5	1.2	1.0	0.0	0.0	–0.3	–0.1
Spain	3.0	2.7	2.2	–0.1	0.0	–0.1	0.0
Japan	1.7	1.1	0.9	0.1	0.0	–0.1	0.0
United Kingdom	1.7	1.4	1.5	0.0	0.0	–0.2	0.0
Canada	3.0	2.1	2.0	0.0	0.0	0.0	0.0
Other Advanced Economies[2]	2.8	2.8	2.5	0.0	–0.2	0.1	–0.1
Emerging Market and Developing Economies	**4.7**	**4.7**	**4.7**	**–0.2**	**–0.4**	**–0.2**	**–0.4**
Commonwealth of Independent States	2.1	2.3	2.4	0.0	0.2	0.1	0.3
Russia	1.5	1.7	1.8	0.0	0.3	0.0	0.3
Excluding Russia	3.6	3.9	3.6	0.3	–0.1	0.4	0.0
Emerging and Developing Asia	6.5	6.5	6.3	0.0	–0.2	0.0	–0.3
China	6.9	6.6	6.2	0.0	–0.2	0.0	–0.2
India[3]	6.7	7.3	7.4	0.0	–0.1	–0.1	–0.4
ASEAN-5[4]	5.3	5.3	5.2	0.0	–0.1	0.0	–0.2
Emerging and Developing Europe	6.0	3.8	2.0	–0.5	–1.6	–0.5	–1.7
Latin America and the Caribbean	1.3	1.2	2.2	–0.4	–0.4	–0.8	–0.6
Brazil	1.0	1.4	2.4	–0.4	–0.1	–0.9	–0.1
Mexico	2.0	2.2	2.5	–0.1	–0.2	–0.1	–0.5
Middle East, North Africa, Afghanistan, and Pakistan	2.2	2.4	2.7	–1.1	–1.2	–1.0	–1.0
Saudi Arabia	–0.9	2.2	2.4	0.3	0.5	0.5	0.5
Sub-Saharan Africa	2.7	3.1	3.8	–0.3	0.0	–0.3	0.1
Nigeria	0.8	1.9	2.3	–0.2	0.0	–0.2	0.4
South Africa	1.3	0.8	1.4	–0.7	–0.3	–0.7	–0.3
Memorandum							
European Union	2.7	2.2	2.0	–0.2	–0.1	–0.3	–0.1
Low-Income Developing Countries	4.7	4.7	5.2	–0.3	–0.1	–0.3	–0.1
Middle East and North Africa	1.8	2.0	2.5	–1.2	–1.3	–1.2	–1.1
World Growth Based on Market Exchange Rates	3.2	3.2	3.1	–0.1	–0.2	–0.2	–0.2
World Trade Volume (goods and services)	**5.2**	**4.2**	**4.0**	**–0.6**	**–0.5**	**–0.9**	**–0.7**
Imports							
Advanced Economies	4.2	3.7	4.0	–0.8	–0.4	–1.4	–0.5
Emerging Market and Developing Economies	7.0	6.0	4.8	0.0	–0.9	0.0	–0.8
Exports							
Advanced Economies	4.4	3.4	3.1	–0.8	–0.6	–1.1	–0.8
Emerging Market and Developing Economies	6.9	4.7	4.8	–0.6	–0.3	–0.4	–0.5
Commodity Prices (US dollars)							
Oil[5]	23.3	31.4	–0.9	–1.6	0.9	13.4	5.6
Nonfuel (average based on world commodity export weights)	6.8	2.7	–0.7	–3.3	–1.2	–2.9	–1.2
Consumer Prices							
Advanced Economies	1.7	2.0	1.9	–0.2	–0.3	0.0	0.0
Emerging Market and Developing Economies[6]	4.3	5.0	5.2	0.3	0.7	0.2	0.7
London Interbank Offered Rate (percent)							
On US Dollar Deposits (six month)	1.5	2.5	3.4	–0.1	–0.1	0.1	0.0
On Euro Deposits (three month)	–0.3	–0.3	–0.2	0.0	–0.1	0.0	–0.2
On Japanese Yen Deposits (six month)	0.0	0.0	0.1	0.0	0.0	0.0	0.0

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during July 17–August 14, 2018. Economies are listed on the basis of economic size. The aggregated quarterly data are seasonally adjusted. WEO = *World Economic Outlook.*
[1]Difference based on rounded figures for the current, July 2018 *World Economic Outlook Update*, and April 2018 *World Economic Outlook* forecasts. The differences are also adjusted to include Argentina's consumer prices since the July 2018 Update.
[2]Excludes the Group of Seven (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.
[3]For India, data and forecasts are presented on a fiscal year basis and GDP from 2011 onward is based on GDP at market prices with fiscal year 2011/12 as a base year.
[4]Indonesia, Malaysia, Philippines, Thailand, Vietnam.