EMERGING MARKETS DEBT

IMF revises growth forecasts down for many EM countries

By: Emerging Markets Debt Team | October 27, 2020

The IMF's October World Economic Outlook offered a modestly brighter picture, with global growth projected to fall 4.4% in 2020, up one-half percentage point from its June forecast. But most of the improvement stemmed from advanced economies, the IMF said, where activity began to improve sooner than expected after lockdowns were scaled back in May and June. A number of EM country forecasts were downgraded, especially undiversified or tourist-based economies.

At the IMF's semiannual meeting (held virtually), some concern was voiced that the October data could already be slightly dated because of the recent second-wave outbreaks. While the global GDP is expected to rebound sharply in 2021 to 5.2% —3.9% for advanced economies and 6.0% for developing countries — it represents growth from a depressed base.

Overall, emerging-market countries have experienced an uptick in inflation over the past few months, which is generally seen as a short-term trend, driven largely by supply chain issues caused by the pandemic. As a result, many EM central banks have paused in their stimulus policies — a change from April, when all were cutting rates regardless of fundamentals.

Following are regional highlights from team analysts:

Asia G10

Only three countries are expected to have positive growth in 2020: China, Taiwan and Vietnam. China was the first to experience the virus and is the first to start to rebound. Exports accelerated and financial inflows increased notably in Q3. For India, 2020 growth projections have been revised lower by 12% from April to -10.3%. Virus cases have accelerated in the country, while inflation remains subdued overall. South Asia is expected to remain high compared to the rest of Asia.

Africa

All countries had 2020 growth forecasts downgraded, except for Kenya, but those with well-diversified economies are still expected to have positive growth this year, in the range of 1%-2%. This includes Benin, Ivory Coast, Ethiopia, Ghana, Kenya, Rwanda and Tanzania. Countries that are dependent on tourism or rely on one commodity, such as oil, are seen as having negative or weak growth. Inflation forecasts for 2020 on the continent are mixed.

Eastern Europe

Lithuania, Serbia, Belarus and Poland have the top growth forecasts for the region for 2020, and Montenegro and Croatia were the weakest (reliance on tourism), while every central eastern European country is expected to have a growth contraction in 2020. In 2021, the highest inflation is expected to be in Ukraine, Belarus, Hungary, Romania and Georgia, and the lowest in Bosnia, Montenegro, Croatia, North Macedonia and Estonia.

Middle East / North Africa

The brightest star in the region is Egypt, whose diversified economy and lack of a lockdown contributed to the highest expected growth rate of 3.5% for 2020. Oman has the dubious distinction of one of the worst growth projections for the MENA region at -10%; it doesn't fare relatively much better in 2021, when Oman is the only country in the region not expected to turn positive. The largest downward growth revisions for the region are Oman, Iraq, Kuwait (around -7%) and Lebanon (-13%). Inflation forecasts have been revised downward for the region except for Saudi Arabia.

Latin America

Except for Nicaragua, the latest growth forecasts were generally lower than April, with tourism-dependent countries, principally those in the Caribbean, being hit the hardest. Remittances have been a positive surprise, but not enough to compensate for GDP contractions from the lockdown. Higher inflation is expected in Peru, Uruguay, Dominican Republic, El Salvador and Mexico, which is at the top of its inflation target. Mexico has been facing supply-side constraints and food has become more expensive.

Bottom line: The prospects for EM countries vary widely by region and country. Thorough due diligence and careful country selection are likely to be the keys to successful investing as the world tries to gain its economic footing in the COVID-19 era.

Emerging Markets Debt
Team
Eaton Vance Management

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