

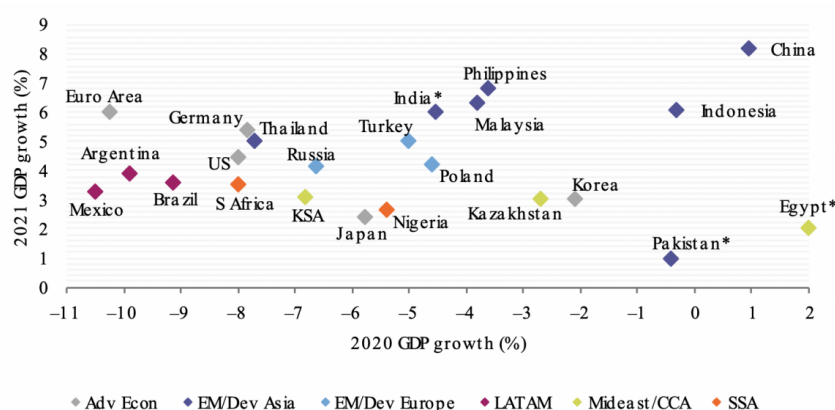
Emerging Markets: Growth and fiscal insights from the IMF's economic update

The IMF's latest World Economic Outlook provides a valuable snapshot amid the ongoing pandemic. Compared to April, the fund expects a deeper recession in 2020 (-4.9% vs -3.0%) and a more modest recovery in 2021 (+5.4% vs +5.8% in April), meaning that it will take longer for the global economy to recover lost output while plenty of uncertainty remains



Source: Shutterstock

GDP growth projections for 2020 and 2021 (% YoY)



Source: IMF World Economic Outlook (Jun 2020), ING

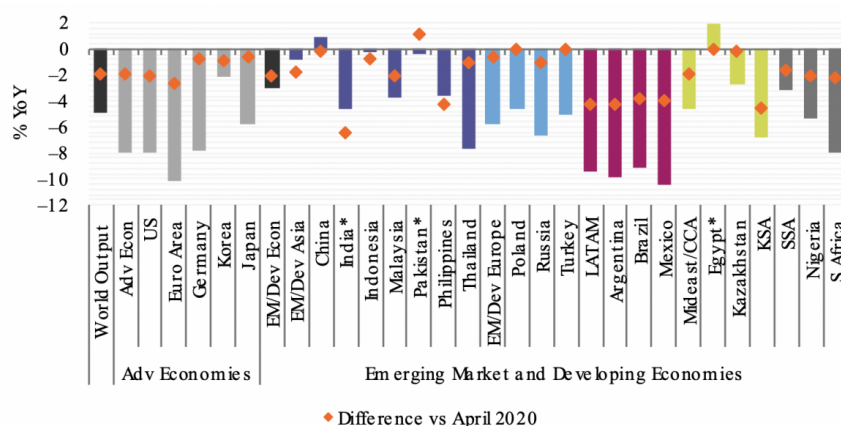
* Fiscal year basis

Latin America, South Africa and oil exporters face steepest recessions

The slump in advanced economies is deeper for 2020 (-8.0% vs -6.1% in the April WEO) but growth has been revised up slightly for 2021 (+4.8% vs +4.5%). We remain concerned about the growth outlook in many emerging market and developing economies. Altogether, they are seen contracting by 3.0% this year (vs -1.0% in April) with a depressed recovery in 2021 (+5.9% vs +6.6%). Notwithstanding, the heterogeneity means that deviations across regions and countries are substantial:

- Asia (-0.8% in 2020; +7.4% in 2021) faces a more modest contraction, with China holding up (+1.0% in 2020; +8.2% in 2021) thanks to policy. India is the exception, with growth revised down by 6.4ppt to -4.5% in 2020. Asia remains best positioned for the recovery with growth seen recovering to 7.4% in 2021.
- Latin America (-9.4%; +3.7%) has seen the steepest downward growth revision since April (-4.2ppt), with Argentina, Brazil and Mexico facing a contraction of around 10% as those countries have been struggling with containing the virus.
- In between those two extremes, we find EM Europe (-5.8%; +5.3%), Middle East & Central Asia (-4.7%; +3.3%) and Sub-Saharan Africa (-5.4%; +2.6%). Among them, commodity exporters and South Africa (-8.0%; +3.5%) are facing steeper declines.

GDP growth projections for 2020 (% YoY) and difference vs April 2020 WEO



Source: IMF World Economic Outlook (Jun 2020), ING

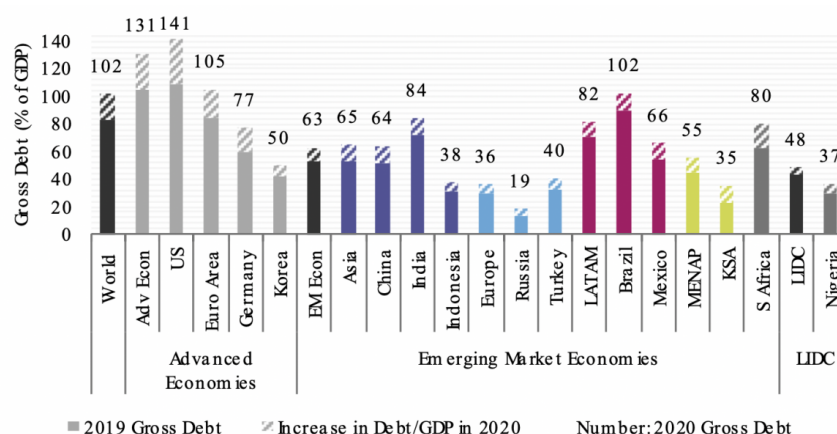
* Fiscal year basis

EMs have limited fiscal scope with debt sustainability at risk for some

In response to the Covid-19 outbreak, most economies have followed a combination of containment measures and policy stimulus. Notably fiscal balance sheets are seeing a meaningful deterioration in 2020 due to the weak growth outlook and larger fiscal deficits as we highlighted in a note on the [risks of sovereign debt distress](#) on 2 April. In addition to the growth forecasts, the IMF has therefore also provided updated fiscal projections for a small subset of DM and EM economies.

Global gross debt/GDP is expected to rise from 82.8% in 2019 to 101.5% in 2020. Both the high absolute number and the increase over 2020 are skewed upwards by advanced economies (with debt/GDP seen increasing from 105.2% in 2019 to 131.2% in 2020). Emerging markets, on balance, carry a much lower debt burden and see a reasonably modest increase (from 52.4% to 63.1%). Yet, it is here that we are more concerned about debt sustainability, as many advanced economies benefit from reserve currency status and ultra-low interest rates. In turn, EMs are using limited fiscal resources compared to DMs in the fight against Covid-19 (see the [IMF's Covid-19 Fiscal Monitor](#)).

Gross debt projections for 2020 (% of GDP) and difference vs April 2020 WEO



Source: IMF World Economic Outlook (Jun 2020), ING
LIDC: Low-Income Developing Countries

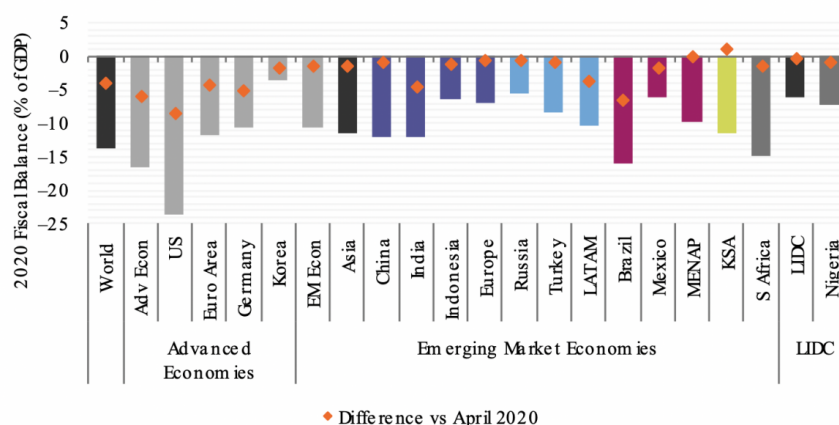
Fiscal deficits for emerging market economies and low-income developing countries (LIDC) are expected to run at 10.6% and 6.1% of GDP, respectively, in 2020. However, a varying degree of fiscal support, economic output, commodity exposure and debt structure result in large divergences across EM economies:

- Among those, Brazil (-16.0% of GDP), South Africa (-14.8%), China (-12.1%), India (-12.1%) and Saudi Arabia (-11.4%) will run deficits above the 10% of GDP threshold. Mexico's deficit is lower at 6.0% of GDP but the deep recession means that it will join the above mentioned to see gross debt/GDP rising by more than 10ppt.

Positively, 2021 will see debt/GDP rising more modestly in most cases as growth recovers. The exceptions are China (+6.6ppt) and South Africa (+4.7ppt) which will see their debt/GDP ratio rising further, with debt sustainability a big concern to us in the latter (despite attempts at fiscal consolidation). In contrast, Brazil's debt/GDP ratio is set to decline (-1.7ppt) in 2021, but it is the highest ratio (above 100%) among its peers and warrants monitoring.

- Interestingly, Saudi Arabia (-11.4% of GDP) has seen an upward revision in its fiscal balance vs April (+1.2ppt), reflecting fiscal austerity efforts due to the slump in oil prices. EM Europe (-6.9%), also thanks to limited budget support measures in Russia and Turkey, will run relatively low deficits. This is also the case for low-income developing countries, as they face tighter financing conditions (notably weaker access to external funding and some having asked for debt suspension).

Fiscal balance projections for 2020 (% of GDP) and difference vs April 2020 WEO



Source: IMF World Economic Outlook (Jun 2020), ING
LIDC: Low-Income Developing Countries

Author

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com