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The Company Newsletter for Supply Chain Finance.

E FACTOR NETWORK NEWSLETTER

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Company News and Highlights

Supply Chain Finance Solutions for Cash Requirement.

Fintech products and market development based on Fundamentals of Economic Theory and Financial Risk.

WHAT IS THE INTERNATIONAL MONETARY FUND VISUALIZES FOR THE UPCOMING FUTURE

Written by Edgardo A. Ayala G.

Synthesis.

The International Monetary Fund (IMF)´s outlook on the world´s economy recently published, highlights the following scenario:

- Commercial war between the United States and China calms down.
- Central banks take a more accommodative and dovish posture.
- The economic slowdown is consolidated throughout, but without producing a recession in the classic sense.
- The world's economy and in particular certain countries will experience a rebound in growth in 2020.

Analysis

The IMF publishes two Panoramas economic outlook reports of the world's economy during the year, one in April and the other one in October. In addition, in January they produce an update of such perspective. In April, most of the [publishing houses] noted that the IMF had adjusted downward the perspectives of global growth, and those of the most advanced and emerging economies. However, by reading the document carefully, it seems to me that the perspective of the IMF economists maintains a positive outlook. They do confirm the recent trend of a generalized slowdown that has been there since the beginning of 2018, but it does not foresee a recession and even more they anticipate a quick rebound for the second half of 2019.

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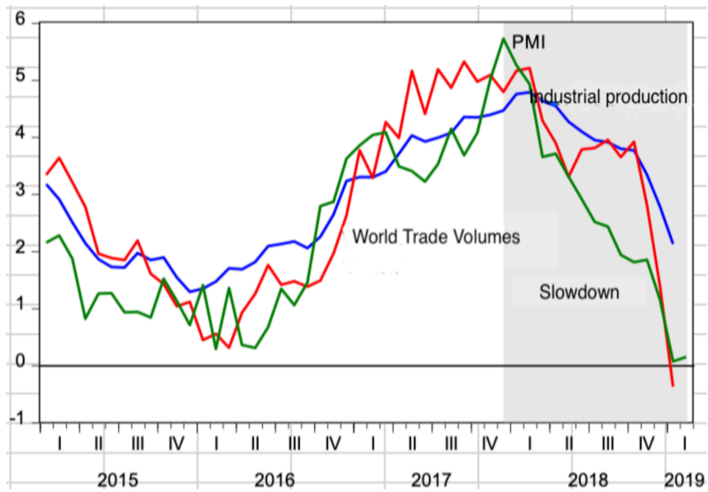
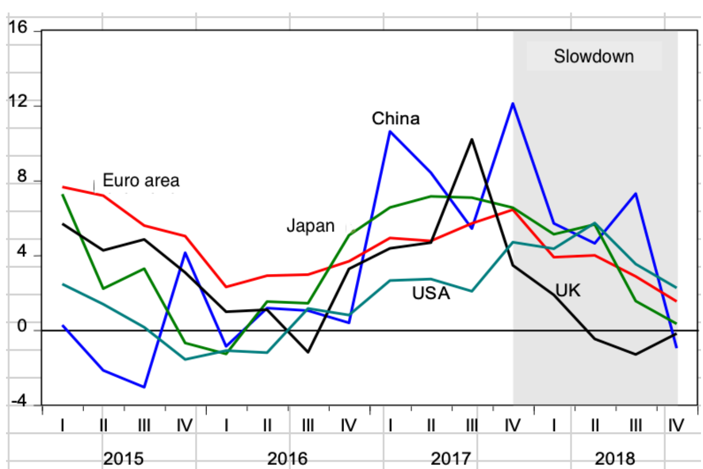
Graph 1 presents the indicators of economic activity at a global level. The trend shows a drop in the annual growth since 2018. The peak of growth was reached in the third quarter of 2017, reaching rates of around 6% and from there, they were reduced to levels between -1% and 2%.

Graph 1
Recent evolution of indicators of global economic growth



The main reason for the slowdown in the industrial activity lies, apparently, in the effects of the commercial war between the United States imposed on China. First one of 25% to 50 billion dollars, and then one more of 10% to 200 billion additional to this country. China replied with a tariff of between 5% and 10% to 60 billion dollars of imports from the United States. The graph 2 clearly shows the abrupt drop in export growth mainly from China, but also from the United States itself.

Graph 2
Growth rate of real exports from different countries



Other factors that have contributed to the global slowdown are the impact of the new provisions on fuels (e.g. diesel) in Germany, the uncertainty produced by the negotiation of Brexit, the Turkish crisis, the uncertainty of the change of government in Mexico and the end of the stimulus of the fiscal reform of the United States, according to the analysts of the IMF.

However, the scenario proposed by the IMF for 2019 is more encouraging. Far from extrapolating the trend and forecasting a global recession, the institute's analysts believe that the structural conditions can change for better during 2019. In the scenario they see as most probable, they emphasize the relaxation in the commercial hostility between the United States and China. In fact, the lengthy negotiations whose original due date was March 1st., is an example that neither of the two countries want to take risky unilateral actions. The IMF also foresees a moderate Brexit, prudent contra cyclical fiscal policies in most advanced economies and more dovish, or looser, monetary policies in the main central banks of the world.

For these reasons, the IMF estimates a smaller growth of the world economy of 3.3% in 2019. However, a rebound in 2020 placing it at 3.6%, exactly the growth rate prior to the slowdown. In the US, outlook the deceleration will continue even during 2020 (2.3% in 2019 and 1.9% in 2020) and China (6.3% and 6.1%), while rebounding in other countries such as Germany (0.8% and 1.4%), Great Britain (1.2% and 1.4%), Brazil (2.1% and 2.5%) and Mexico (1.6% and 1.9%).

Implications for the Fintech Sector. If we take as valid the framework that we outlined, then the financial companies should present a fall in the growth in the demand for credit, but only of a transitory nature. Towards the last quarter of the year, the rebound in growth should be clearer. Additionally, the most likely scenario for the Federal Reserve and the Bank of Mexico's target interest rates is to remain stable during 2019, if there were any variations it would be marginal and downwards. This points to relative stability in the leading market interest rates in the short term.

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