Crédito y Caución
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War dents growth

Interim Economic Outlook

Economic Research

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Executive summary

The global economy remains challenged by supply chain issues and high energy prices. On top of this, the Russia-Ukraine conflict is further pushing up commodity prices, fuelling even higher inflation. Our GDP growth forecasts have been revised downward. High inflation is likely to push central banks to implement more aggressive monetary tightening. We already see this in the United States and United Kingdom, with the eurozone moving more slowly. Many emerging markets have already turned this corner in 2021.

Key points

- The Russia-Ukraine conflict is having a negative impact on global growth mainly through its impact on commodity and energy prices. We have downwardly revised growth by 0.7 percentage points (ppt) in 2022 and by 0.4 ppt in 2023. Despite the downward revision, global growth remains relatively robust at 3.4% in 2022 and 3.2% in 2023. This growth forecast is subject to a high level of uncertainty.
- Prices of a broad range of commodities are forecast to increase significantly in 2022. Already overheated oil and gas markets are showing renewed volatility after the outbreak of the Russia-Ukraine war. We also expect prices of other commodities of which Russia and Ukraine are major producers, such as wheat, barley, vegetable oils and base metals, to rise significantly.
- Supply chain bottlenecks show some signs of easing, though shipping costs and equipment shortages remain elevated. Furthermore, the Russia-Ukraine conflict is distorting some specific supply chains, like that of semiconductors and the automotive industry. Trade growth remains relatively robust in 2022, however, as supply chain pressures and inflation are counterbalanced by strong consumer demand.
- Global inflation is expected to rise in 2022. Even at the start of 2022, there were already inflationary pressures from supply chain issues, strong consumer demand, and rising energy and commodities prices. The Russia-Ukraine conflict is only making matters worse, given its effect on commodities prices. This means central banks will have to move more aggressively to quell inflation.
- Growth in advanced markets is slowing as a result of high inflation, supply chain pressures and indirect effects of the Russia-Ukraine conflict. Growth in the eurozone is expected to cool significantly in 2022. Price pressures were already rising in past months, but the conflict has exacerbated this trend. Inflation is building up rapidly. The consumer-led recoveries in the US and UK are facing increasing challenges as accelerating inflation drives a more rapid turnaround in monetary support. Both the Federal Reserve and the Bank of England have already hiked the policy rate in the past couple of months and the outlook for the Fed is increasingly hawkish.
- Growth momentum for emerging market economies is weakening as fiscal and monetary support are being rapidly withdrawn. New headwinds are created by Russia's invasion of Ukraine. This comes on top of other issues, such as supply chain bottlenecks and in some regions new waves of Covid infections.

1. The global macroeconomic environment

In our January Economic Outlook, we provided a rather in-depth view on the underlying issues that restrain the global economy. We argued that the pandemic had not yet reached the endemic stage wherein the Covid-19 virus would have the economic impact of a bad flu season. Moreover, during the second half of 2021 it became increasingly clear that the pandemic has created a few economic problems that would take time to overcome.

Supply chains had come under pressure as lockdowns had caused a demand switch from services to goods. This came from demand, often upheld by massive government support programmes, that could not find its way to services such as outdoor eating, events and international travel during lockdowns. Further supply chain pressure came from healthcare measures causing production disruptions, such as factory closures or reduced working hours. Moreover, this high goods demand led to such a revival of international trade that international transport came under pressure as well. This reflected in soaring transport costs, such as for container shipping for which some indicators increased tenfold.

Moreover, the recovery was to some extent unexpectedly strong, with energy demand going up so much that the agreed gradual OPEC+ production increases caused market tensions, reflecting in price rises and volatility. In the gas market, the increasing geopolitical tensions between Russia and Ukraine had led to price rises as well. The result of all this was inflation, which increasingly became a topic of concern of those charged to deal with it, central banks.

Our view in January was that, with the pandemic retracting and the first signs of supply chain strains easing, these problems would largely wane during 2022. The demand switch back from goods to services would be the key driver. Energy market strains were also likely to be less impactful. With the underlying causes gone, inflation would fall back to relatively low levels. Growth would be lower than expected before these problems manifested themselves, but a solid recovery was still on the cards. The world was learning to live with the pandemic. Then, by the end of February, Russia decided to invade Ukraine.

War dents growth

Russia's invasion of Ukraine is arguably a political game changer in many ways, but the global economic ramifications are less clear-cut. Sure, a conflict is costly, for Russia as well as Ukraine, no doubt about that. But these countries are no economic giants, representing together less than 2% of global GDP, that is to say the size of the Benelux economy. The countries have a similarly small size in global trade volumes. They are also not well integrated in the global supply chains.

Still, they have a large indirect impact on the world, especially Russia. That is because of the relatively large shares in the exports of global commodities, especially wheat (25%), fertilizer (13%), nickel and platinum (12%-13%) and – most importantly – oil and gas (10%). Commodity prices have further risen with formal sanctions imposed on Russia – including on oil products (by the US, UK and Canada) - as well as informal corporate boycotts and massive disruption of economic activity due to the war in Ukraine. Energy prices are up by a third since late February and double the level a year ago; non-energy prices are up 15% on pre-war levels and 40% higher than in early 2021.

These price rises occur because supply is inelastic, especially in the short term. It is predominantly via this channel, commodity and especially energy prices, that the war is affecting the global economy. It aggravates the main underlying problem of the pre-war economy: inflation. Inflation, in turn, affects the spending power in the economy, in particular of households. And it is precisely consumers that are expected to drive global growth now that the pandemic has started to fade.

No wonder that the war is expected to dent global economic growth, and even to an extent that is disproportional to the size of the involved countries' economic size. But such an impact assessment is subject to an unusually high level of uncertainty. It depends in particular on how the conflict develops and how long it will last. Sensible forecasts can therefore only be made by imposing assumptions related to it, which is what we do. First, we do not assume the conflict will be a protracted one. That is to say, it will not last into 2023. Second, the sanctions may be reinforced or strengthened, but not to the extent that the exports of energy from Russia will be severely disrupted. These assumptions are arguably strong or at least debatable, but inevitable.

Under these assumptions we think that the war will shave off 0.7 percentage points of global growth in 2022 and 0.4 ppt in 2023. The impact for Eastern Europe, including Russia and Ukraine, will be far higher than these global figures. For the eurozone it will be higher in 2022 (-1 ppt). The US and especially Asia will be much less impacted, reflecting less economic linkages.. The resulting picture is one wherein global growth remains relatively robust, at 3.4% in 2022 and only slightly lower in 2023. As usual, Asian growth remains relatively high at around 5% in both years. Growth in the eurozone and US is lower than the global average, though not much lower. War dents growth. But a recession is still far off, even in the eurozone.

Figure 1.1 Picture of a dent in growth

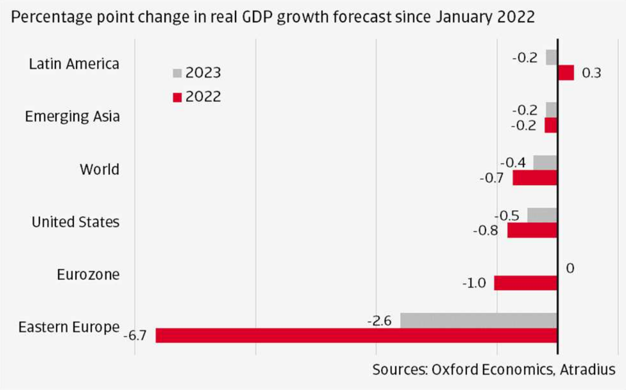


Table 1.1 Real GDP growth (%) - global regions

	2020	2021	2022f	2023f
Eurozone	-6.5	5.3	2.9	2.7
United States	-3.4	5.7	3.2	2.0
Emerging Asia	-0.1	7.2	5.0	5.3
Latin America	-6.7	6.8	1.8	1.8
Eastern Europe	-2.1	6.4	-1.9	1.6
World	**-3.4**	**5.9**	**3.4**	**3.2**

Sources: Oxford Economics, Atradius

Weak signs of supply chain easing

Supply chain pressures are expected to ease as demand switches back from goods to services now that Covid related restrictions have considerably eased. Covid related factory closures, another source of supply chain strains, are also expected to fade. Moreover, firms will find alternatives to avoid future delivery stress.

In the current data we are observing some first signs of easing of supply chain bottlenecks and levelling off of cost of international transport. A new index composed by the Federal Reserve, the Global Supply Chain Pressure Index, shows that the pressure, while still very high, has indeed declined for the US and UK. In the eurozone and China, the index, which contains transport cost as well as measures for deliveries, stocks and backlogs,[1] seems to be levelling off. Other indicators, which are partly included in the index, confirm this picture. Shipping costs are very high but their sharp growth trajectory finally seems to be losing steam The run-down of inventories has stopped and is being reversed, especially the US. Surveys of equipment shortages signal easing, for the UK though not for the eurozone. Furthermore, an Oxford Economics survey questioning firms whether the worst of the supply chain disruption has now passed now shows a 50-50 response outcome, compared to 80-20 (yes-no) in late autumn. The signs are still weak, but the process has started.

Figure 1.2 First signs of supply chain easing

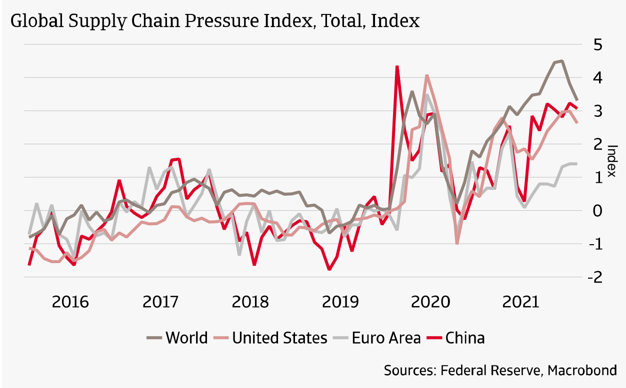


Figure 1.3 Shortages levelling off

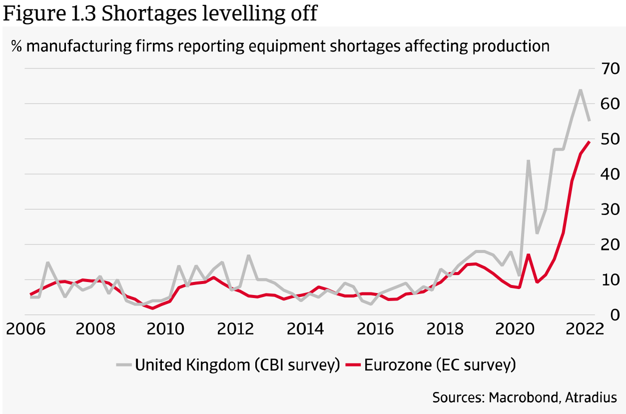


Figure 1.4 Shipping costs have peaked

Apart from the war there is also the Chinese zero tolerance approach to Covid that poses a threat. As opposed to Russia and Ukraine, China is critical for global supply chains. The recent Shanghai lockdown, though short-lived, could be interpreted as a bad omen for what is to come if Covid-19 starts to roar again in larger parts of China. For the moment, the impact is relatively limited, but it certainly poses another risk to the easing of supply chains.

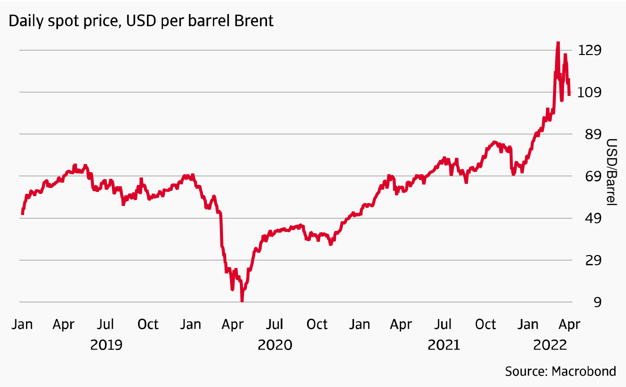
[1] This new index contains international transport shipping cost as well as delivery times, backlogs and purchased stocks. See https://libertystreeteconomics.newyorkfed.org/2022/03/global-supply-chain-pressure-index-march-2022-update/

Soaring commodity prices

The war in Ukraine is aggravating already existing upward pressure on commodities prices. The threat of sanctions on Russian hydrocarbon exports and uncertainty surrounding supplies are exacerbating the current market tightness. As long as the war continues, these prices will remain elevated and possibly higher, with significant consequences for the global economy.

At the start of the year, we gauged that the oil market was increasingly overheated with prices between USD 70-80 per barrel Brent. Price pressures have been mounting given the stronger-than-expected recovery in demand from the pandemic. This is partially due to the outbreak of new Covid-19 variants that kept consumer spending directed towards goods, keeping up freight costs, as opposed to in-person services. On the supply side, inventories continued to be drawn down at unprecedented rates, greatly reducing any shock absorbing capacity.

Figure 1.5 Oil price surge continues



With the risk of another slowdown in demand looming, such as the outbreak of the Omicron variant, OPEC+ producers rejected calls to increase production to ease price pressures. The traditional role of the US shale sector as the global 'swing producer' – able to ramp up production quickly in response to higher prices and vice versa – has also waned following a strategic shift after waves of bankruptcies.

With this backdrop, it is no surprise that oil prices have only surged further, breaching USD 100 per barrel since Russia invaded Ukraine. Russia is the world's second largest oil producer and with limited oil stock reserves, there is little short-term flexibility to meet the Russian production lost to supply chain disruptions and/or sanctions. After years of subdued prices, oil sector investment has also been dangerously low, boding ill in the capacity for oil production to meet demand in the medium term as well. The US Energy Information Administration now forecasts oil to average USD 105.22 per barrel in 2022, a remarkable USD 30 higher than projected in January. We also expect prices to remain elevated through the year and double down on our assertion in January that even by oil market standards, the outlook is exceptionally uncertain.

On the gas market, there are also clear upward price pressures. In 2021, gas prices were already increasing due to the cold winter, unexpected outages of LNG (liquefied natural gas) facilities, and lower-than-expected gas exploration in the North Sea and Russia. In Europe, the market was particularly tight due to a combination of a strong recovery in demand, a sharp decline in domestic production, leading the gas price to rise sharply in the second half of 2021. The situation on the gas market has aggravated since the start of the war in Ukraine.

The European gas price, which is the most volatile regional gas price at the moment, was almost 600% higher in March 2022 than in the same month a year ago. The European gas price is forecast to increase to an average of 34.2 million British thermal units (mmbtu) in 2022, compared to 16.1 in 2021 and 3.2 in 2020. Several European countries strive to import less gas from Russia, with Lithuania becoming the first EU country to cut off Russian gas supplies completely. Nevertheless, we expect still significant dependency on Russian gas for the coming years. Price increases in the Asian and US gas markets are expected to be significant in 2022, but smaller compared to Europe, which is more dependent on Russian hydrocarbon imports. The Asian gas price is forecast to average USD 16.3 mmbtu in 2022, compared to 10.8 in 2021. The US Henry Hub gas price is expected to increase from 3.9 mmbtu in 2021 to 4.8 in 2022.

Russia and Ukraine are major suppliers in other commodities markets as well. Russia and Ukraine together account for about 30% of global exports of wheat, 20% for corn and barley, and 22% of vegetable oils. They are also key suppliers of several base metals. Russia is a key supplier of palladium, used in catalytic converters for cars, and nickel, used in steel production and the manufacture of batteries. Russia and Ukraine are also sources of inert gases such as argon and neon, used in the production of semiconductors, and large producers of titanium sponge, used in aircraft. Both countries also have globally important reserves of uranium. The prices of many of these commodities have increased sharply since the onset of the war.

Prices are surging across a wide range of natural resources, beyond just oil and natural gas. Commodities were already the best performing market in 2021 as demand growth outstripped supply. The price of grain has increased by 23% since the start of the year (Figure 1.7) and the price of aluminium by 5%. The prices of other metals such as iron ore (7%) and copper (3%) have also increased (Figure 1.8).

Figure 1.6 European gas price very high

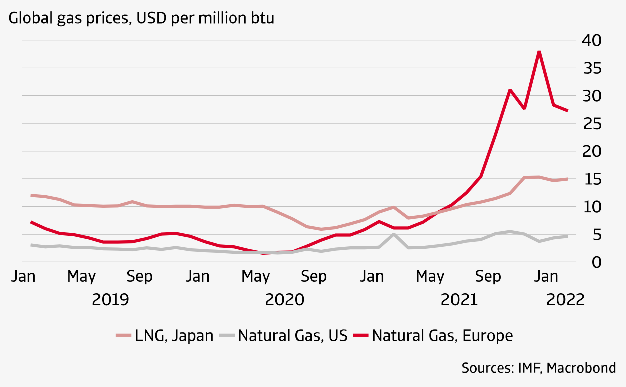


Figure 1.7 Food prices are going up

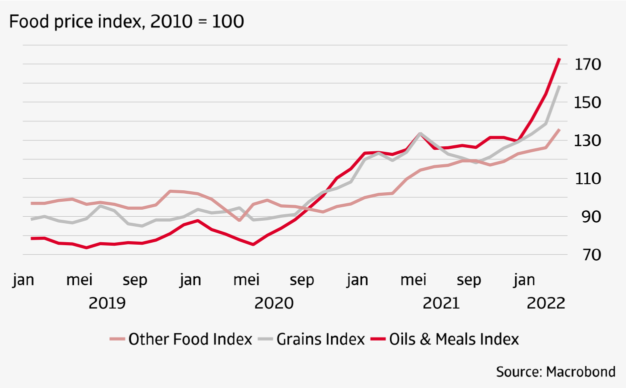
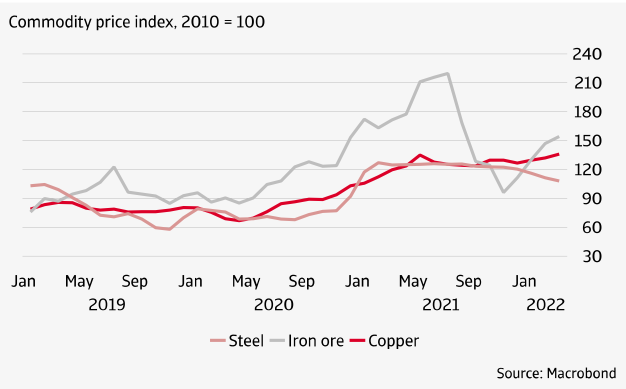


Figure 1.8 Metal prices are also on the rise



Inflation on a high

Strained supply chains, high shipping costs and the specific (partly geopolitically driven) situation in the energy markets have pushed up inflation to levels not seen for decades. The US inflation rate is in the range of 8% in March. For the eurozone, it is only slightly lower at 7.5%. China is one of the black swans: inflation has hardly gone up, the February reading being only 1%.

We have long argued that the current bout of inflation is temporary and we still believe that. This is because we perceive the underlying forces that have driven up inflation discussed above to be temporary. It may take time, but supply chain strains will ease. Prices in shipping are so high that this triggers investments to expand capacity. Energy and commodity prices are unlikely to continue increasing. At a certain level price inelasticity of demand will weigh in, reducing demand and thus levelling off price increases and/or triggering supply expansion.

Moreover, inflation will reduce overall demand, especially of consumers whose purchasing power is significantly eroded by the current inflation levels. This hasn't happened yet because tight labour markets and pent up savings have allowed strong spending to persist, especially in the US, but we are beginning to see the tides turn. Lower demand will take off part of the pressure on the supply side, especially goods. Such pressure is also already being alleviated by the switch back from goods demand to services demand now that large scale health restrictions are history.

Next to these market forces, monetary policy makers are also taking even more aggressive action than we had expected to stave off inflation. The Fed has already stopped its pandemic bond-buying programme and is discussing a scheme to sell assets and thus shrink its balance sheet. One quarter-point rate hike has already taken place and we expect many more this year (see US section below). The ECB has stopped its pandemic emerging programme as well, though replacing it with another. Rate hikes have not been announced yet, but that seems a matter of time (see eurozone section below). Tightening of monetary policy will lead to tightening of financial conditions, restraining the possibility of borrowing to finance durable goods (for households) or investments (for firms). That implies restraining demand and thus limiting further price rises.

Finally, one element often forgotten in discussions about inflation is that there are important base effects. In other words, if for example energy prices will remain constant for the rest of the year (on average) we will see zero inflation contribution from that source. This is because the price level of, say, November 2022 is compared with the one of November 2021; if there are not differences between the two, there is no price rise recording. Obviously, if energy prices decline in November next, energy prices will contribute negatively to inflation. Now, given the fact that we can't expect prices to rise a lot further, this technical adjustment drags inflation downward.

Figure 1.9 Wage growth in the US a lot higher

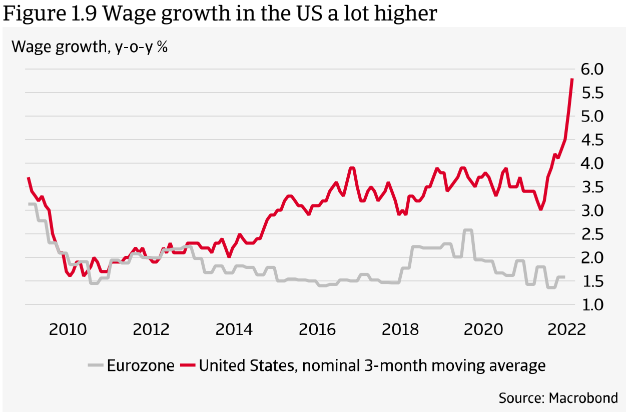


Figure 1.10 Inflation levels forecast to drop

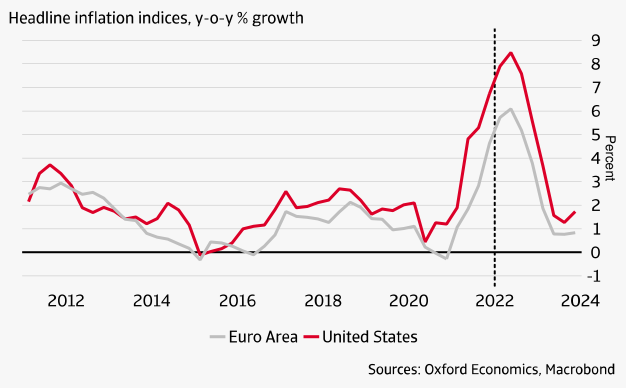
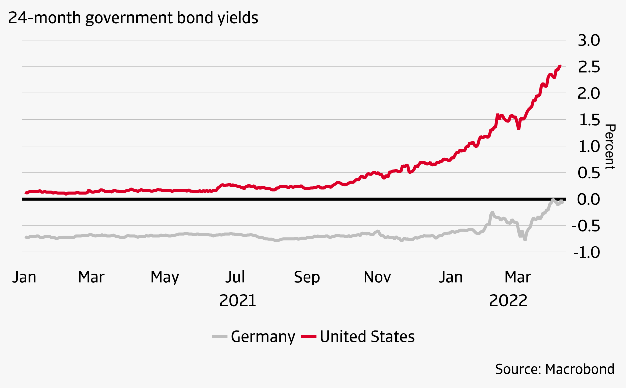


Figure 1.11 Yields are going up



This set of arguments to underpin the temporariness of high inflation hinges on a critical assumption. This is that inflation does not trigger wage demand to compensate for the loss of purchasing power, as that could put in motion a vicious circle of wage-price increases. On the face of it (see graph wage growth) we see this in the US and not in the eurozone, where wage rises have remained rather limited so far. Based on that, one is inclined to call for the Fed to pull the brakes and accelerate tightening. That is indeed what the Fed now seems to be doing. The ECB, on the other hand, does not see wage growth like in the US and therefore keeps more room for manoeuvre, which it now appears to be using by not tightening just yet. We highlight that financial conditions remain relatively lax though considering the historic monetary stimulus we are normalising from.[2]

What does the war add to this analysis? We have seen already that the easing of tensions in the supply chain are at risk and at least delayed. Moreover, inflation has been given a further upward push because of the energy prices and commodity prices that have further gone up. Looking at it as a guardian of inflation, central banks should be inclined to tighten more, in terms of both magnitude and speed. On the other hand, they will need to be careful not to steer the economy towards a recession by tightening too fast. After all, the impact of the war is negative on economic activity, especially in Europe. Nevertheless, as we see yields going up, financial markets believe tightening will prevail. That is arguably a sign of confidence that growth will not be derailed by the war as otherwise monetary policymakers would not be expected to act by tightening.

[2] At a more subtle level, one can ask the question if the tightening in reaction to inflation is really needed now that inflation expectation seems not to have a too worrying levels. Moreover, the worrying part of a wage rise usually comes from inflation induced by pay rises that are not justified by economic conditions. But in the US such is not the case. What we see is firms trying to lure workers back to the labour market. This is done based on good prospects about profits as firms currently see it, rather than with-the-back-against-the wall pay rise in case of a labour based push for higher wages. Indeed, only the latter would trigger further price rises, and thus inflation. If this reasoning holds, what we are seeing is normalisation of monetary policy rather than business cycle management.

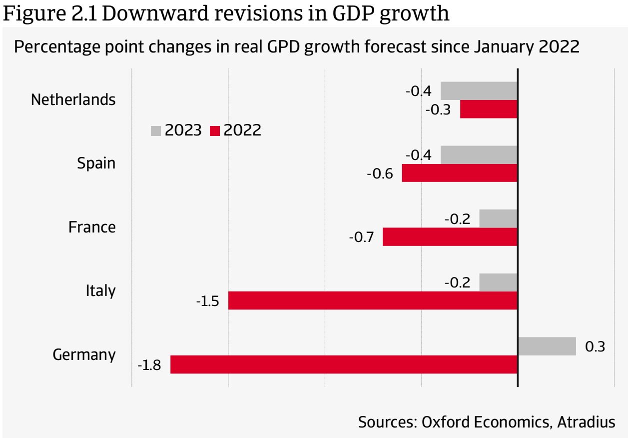
2. Developments in major economies

Eurozone: lower growth amid rising inflation

Economic expansion in the eurozone slowed to just 0.3% q-o-q in Q4 of 2021, compared to 2.2% in Q3. This slowdown occurred amid renewed Covid waves, supply chain bottlenecks and rising inflation. The effect of Russia's invasion of Ukraine is weighing on growth in the coming quarters, through further supply chain disruption, higher commodities prices, and the adverse impact on business and consumer confidence. Our current baseline forecast sees GDP growth of 2.9% this year and 2.7% in 2023, leaving the eurozone economy 1.0 percentage points below the pre-invasion baseline. In the scenario of a more prolonged fighting in Ukraine well into 2023, sanctions that are being ratcheted up, and Russian gas flows that are being restricted, growth in the eurozone may even decline to 1.0% in 2022.

Among major economies, we expect a shave of 2022 GDP growth of -0.7% in France, -1.8% in Germany, -1.5% in Italy, -0.3% in Netherlands and -0.6% in Spain in our baseline scenario (Figure 2.1).

Figure 2.1 Downward revisions in GDP growth

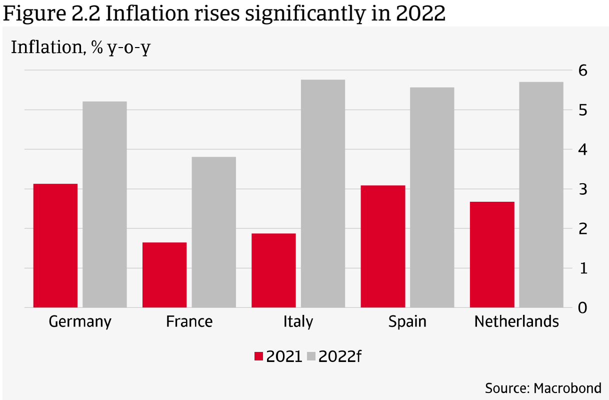


Germany and Italy are among the most impacted countries. Besides having close trade relations with Russia, their car industries are likely to be negatively affected by the war. German carmakers have already announced temporary production cuts due to shortage of parts from Ukraine, and similar issues with supply of parts are likely to appear in Italy. Germany is also very dependent on Russia for its gas imports (Italy to a lesser extent). By contrast, the impact of the war is somewhat lower in France, Netherlands and Spain as they are less trade dependent on Russia, and need fewer gas imports from Russia.

In the eurozone, the general picture is that business activity is likely to slow down in the coming quarters, as the events in Ukraine offset a boost in demand triggered by further reopening of economies after the height of the pandemic. An early sign of slowing economic activity is that eurozone Sentix index records a strong decline in investor sentiment, with the headline index dropping from 16.6 in February to -7.0 in March (0 is the neutral level). The eurozone Purchasing Managers Index (PMI) slowed to 54.5 in March, compared to 55.5 in February (the neutral level is 50). Companies are facing an unprecedented increase in input prices, subsequently charging much higher selling prices on customers. The fact that the eurozone PMI is still in expansionary territory, seems to be caused by the strong post-pandemic demand.

Russia's invasion of Ukraine is only exacerbating already existing price pressures caused by supply and demand imbalances. This is visible in forecasted inflation for 2022 for the major eurozone economies (Figure 2.2).

Figure 2.2 Inflation rises significantly in 2022



While inflation pressures are broad-based, it is energy that is the main contributing component. The headline inflation in the eurozone rose to 5.9% in February. We expect inflation to be close to 5.5% for the rest of H1 of 2022 and to average 4.8% this year. The European Central Bank's monetary policy is still very accommodative, but high inflation puts it in an increasingly uncomfortable position.

The ECB has decided to end net asset purchases under the Pandemic Emergency Purchase Programme (PEPP) in March 2022, while temporarily increasing assets purchases under the long-standing asset purchase programme (APP). We expect asset purchases to end completely in December 2022. The key policy rate is forecast to remain at the present level (0%) in the coming quarters. We expect a first rate hike in either Q4 of 2022 or Q1 of 2023. Whether this will be enough to stem inflation is to be seen. But one advantage the ECB has over the Federal Reserve is that wage growth is relatively stable. Therefore, if energy prices remain stable, inflation is likely to come down somewhat in the second half of 2022.

Table 2.1 Real GDP growth (%) - eurozone

	2020	2021	2022f	2023f
Austria	-6.8	4.6	2.4	3.6
Belgium	-5.7	6.1	2.1	1.4
France	-8.0	7.0	3.0	2.0
Germany	-4.9	2.9	2.1	3.2
Greece	-8.7	7.9	3.0	5.4
Ireland	5.9	13.4	3.9	3.4
Italy	-9.1	6.6	2.9	2.3
Netherlands	-3.8	4.8	3.2	1.7
Portugal	-8.4	4.9	4.7	2.4
Spain	-10.8	5.0	4.9	3.9
Eurozone	**-6.5**	**5.3**	**2.9**	**2.7**

Sources: Oxford Economics, Atradius

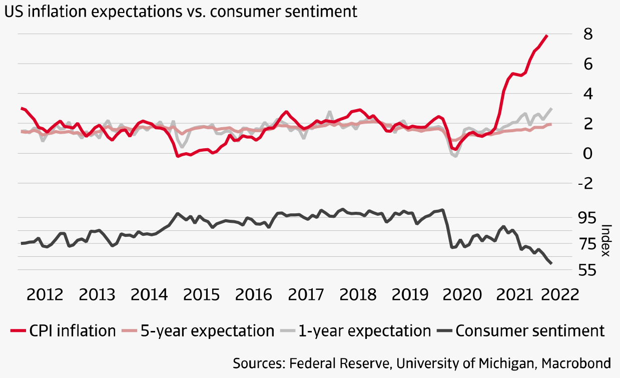
US and UK: accelerating inflation increasingly dire

Headwinds continue to mount for the US economy, preventing much acceleration from the weak start to the year. While the labour market continues to tighten, the threat of inflation has only intensified, increasing the chances that the Federal Reserve may risk a hard landing to GDP growth. Accordingly, we've revised our GDP growth forecast down 0.8 percentage points to 3.2% in 2022.

With the Omicron wave receding and the labour market tightening, we had anticipated the economic activity to gather some pace through the first half of 2022. The March jobs report confirmed that the labour market continues to strengthen. Unemployment fell to 3.6%, one percentage point away from the 3.5% reading in February 2020 right before the pandemic. Job growth for the first two months of the year was revised strongly upward and the participation rate nudged further up to 62.4%, a post-pandemic high. Competition to fill open positions is high and driving employers to raise wages. Wage growth has accelerated to 5.6% in March and is expected to continue steadily increasing.

High wage growth is contributing to higher inflation, which has already been darting upwards due to the imbalance between post-pandemic demand and supply chain challenges. Headline CPI inflation soared to 7.9% in February, the highest rate in 40 years. Consumer surveys show that inflation is by far the primary concern for US households and the deterioration in sentiment clearly mirrors the uptick in inflation (see figure 2.3). Further evidence of growing pessimism in the US economy is the yield curve, an early-warning indicator of recession, which has inverted for the first time since 2020. This suggests that bond traders anticipate a sharp slowdown or recession within the coming two years. We do not anticipate any imminent recession though given the resilient growth in jobs and labour income.

Figure 2.3 Consumer sentiment drops as inflation picks up, but long-term expectations still anchored



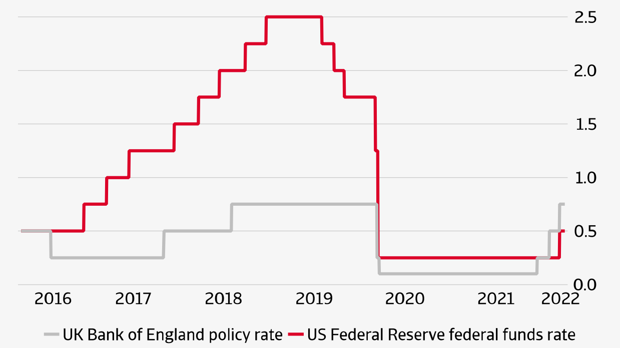
Sources: Federal Reserve, University of Michigan, Macrobond

It's clear that the Fed will act more quickly than initially expected. Consumer expectations for inflation in one year from now are turning upward and the war in Ukraine is increasing fears of ever-higher prices. It is now as important as ever for the Fed to tighten monetary policy to prevent inflationary psychology from taking a hold. Given the high credibility of the Federal Reserve and its forward guidance to do whatever it takes to rein in inflation, such a self-fulfilling prophecy is not imminent. This is backed up by long-term inflation expectations, which remain well anchored below 2% (figure 2.3).

The strong domestic labour market will support such a strategy despite the shakier global backdrop. After moving forward with a first 25 basis-point interest rate increase in March, the Fed is expected to up the ante with another 50 bps hike in its next meeting in May. That would bring the federal funds target rate to 0.75% - what we expected the year to end with in our January Outlook. We now anticipate 200 bps total worth of hikes by the end of 2022.

While the UK economy grew an impressive 7.5% in 2021, growth is expected to decelerate to 3.7% in 2022. The UK economy should reach its pre-Covid-crisis level this quarter, but the recovery in trade is lagging far behind, due to both Covid-19 disruptions and new trade barriers resulting from Brexit. Household finances are increasingly being squeezed as a result of high inflation. Consumer spending has managed to hold up so far though as consumers draw down excess savings. With additional inflationary pressures coming up though, it is uncertain if spending growth will continue. UK inflation reached 6.2% in February, its highest level in 30 years. We expect inflation to peak around 8.5% in April when the energy price cap increases and the VAT rate for the hospitality sector is restored to 20%. We expect inflation to ease thereafter but the risk that it persists is increasing due to uncertainty around the war in Ukraine and the tightening domestic labour market. This is motivating a more aggressive tightening stance from the Bank of England. In its March meeting, the BoE's Monetary Policy Committee raised rates for the third consecutive time, bringing the bank rate to 0.75%. Given growing downside risks to the GDP growth outlook, we anticipate only one more 25 bps rate hike in May.

Figure 2.4 US and UK monetary policy lift-off



Source: Macrobond

Emerging economies losing further momentum

After an uncertain start into 2022 due to a new wave of the pandemic, emerging market economies (EMEs) face new headwinds triggered by Russia's invasion of Ukraine. Growth in EMEs as a whole is forecast to decline from 6.9% in 2021 to 3.7% in 2022. The events in Ukraine come on top of other issues, such as supply chain bottlenecks renewed Covid infections in some regions.. Additionally, fiscal support in EMEs has been withdrawn, while central banks in many major markets have already been hiking policy rates in response to higher inflation.

Eastern Europe will be most impacted by the Russia-Ukraine conflict, as it faces a loss of trade relationships with Russia, currency depreciation, and a refugee crisis. Major commodity importing countries such as Turkey also see the negative effects of rising commodities prices. On the other hand, energy exporting EMEs benefit from the recent price increases. Latin America is less impacted by the conflict as its direct exposure to trade with Russia and Ukraine is negligible.

While growth is moderating, Emerging Asia remains the fastest growing region in 2022 (5.0%). In China, the rise in global energy and commodity prices and lower global trade growth will weigh on GDP. Additionally, there are domestic constraints due to the ailing property sector and occasionally imposed lockdowns in order to fight Covid outbreaks. While growth should accelerate as of Q2 due to the implementation of stimulus measures, we nevertheless expect China's GDP expansion to slow down to 4.9%, after 8.1% in 2021. In India the vaccination rollout is progressing, and we expect domestic consumption recovery to continue in 2022. However, there will be external headwinds from higher commodities prices, causing GDP growth to slow to 7.3%, after 8.1% in 2021.

Latin America rebounded strongly from the deep economic contraction caused by the pandemic. However, the recovery has lost steam, as ongoing challenges (high inflation, monetary tightening) are further aggravated by Russia's invasion. We forecast Brazil's GDP growth to slow from 5.0% in 2021 to only 0.7% in 2022. The upcoming presidential election is feeding concerns about the future policy direction. Argentina's growth will decrease from 10.2% last year to 3.1% in 2022. The country is facing double digit inflation rates, due to monetary financing and as the central bank was slow in raising interest rates. While Argentina has reached a deal with the IMF, avoiding an immediate default with the lender, its debt position remains fragile.

Eastern Europe is facing a recession (-2.8%) in 2022, as Russia's invasion of Ukraine shakes the region. Western countries have imposed massive sanctions on Russia, leading to an expected GDP contraction of 10.9% this year, compared to 4.7% growth in 2021. We expect a sharp decrease of Turkey's GDP growth to 2.1% this year after an 11% increase last year, as the country continues to struggle with high inflation, supply chain disruptions and geopolitical uncertainty.

Table 2.2 Real GDP growth (%) - emerging market regions

	2020	2021	2022f	2023f
Emerging Asia	-0.1	7.2	5.0	5.3
Latin America	-6.7	6.8	1.8	1.8
Eastern Europe	-2.1	6.4	-1.9	1.6
MENA	-3.8	4.3	4.2	3.5
Sub-Saharan Africa	-2.2	4.4	3.4	3.4
Emerging Markets	**-1.6**	**6.9**	**3.7**	**4.4**

Sources: Oxford Economics, Atradius

Appendix: Macroeconomic headline figures - major markets

	GDP growth (% change p.a.)			Inflation (% change p.a.)			Budget balance (% of GDP)			Gross government debt (% of GDP)			Current account (% of GDP)			Export growth (% change p.a.)			Private cons. (% change p.a.)			Fixed investment (% change p.a.)			Government consumption (% change p.a.)			Retail sales (% change p.a.)			Industrial prod. (% change p.a.)		
	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023
Australia	4.7	3.8	3.6	2.8	4.5	2.3	-2.5	-0.7	-1.2	62.9	58.7	60.5	3.5	4.1	0.4	-1.6	5.2	9.4	4.8	5.8	4.2	9.2	3.6	6.4	5.0	2.5	-1.2	3.5	2.1	0.8	0.8	2.7	3.8
Austria	4.6	2.4	3.6	2.8	4.0	1.2	-5.4	-2.1	-0.5	135.1	130.1	124.7	-0.1	0.5	2.0	13.3	-0.7	4.1	3.2	3.8	5.5	4.0	2.1	3.3	6.8	-0.4	0.5	3.1	1.9	2.7	9.8	2.4	1.7
Belgium	6.1	2.1	1.4	2.4	6.8	1.5	-5.4	-6.7	-5.4	137.7	136.5	139.3	2.3	-1.7	-2.0	9.2	3.6	2.2	5.9	3.4	0.9	9.1	0.2	2.9	4.0	1.6	1.1	5.7	-1.6	0.6	16.8	-7.1	-0.3
Brazil	5.0	0.7	1.3	8.3	9.2	3.9	-4.4	-8.8	-7.7	80.3	81.9	85.5	-1.8	-2.8	-3.1	6.3	1.0	5.3	3.9	2.6	2.6	17.3	-4.1	0.5	2.0	2.4	0.4	2.0	-0.3	2.6	4.2	0.4	5.0
Canada	4.6	3.9	2.5	3.4	5.6	2.9	-4.4	-1.8	-1.4	117.7	108.7	106.4	0.1	0.8	-0.1	1.4	5.8	5.8	5.1	5.5	3.3	7.2	1.6	1.8	4.9	1.2	-1.4	8.4	3.6	3.3	5.0	4.4	3.8
China	8.1	4.8	5.4	0.9	2.3	2.5	-4.9	-6.9	-5.8	45.5	47.3	49.6	1.8	1.1	0.6	17.9	4.1	3.3	12.9	4.8	7.9	2.6	4.8	4.9	2.1	8.1	0.5	13.4	4.9	8.1	8.2	6.8	5.0
Denmark	4.1	2.9	2.0	1.9	4.6	1.0	1.8	0.3	0.0	56.0	52.3	50.3	8.2	7.0	6.7	7.5	6.1	3.1	3.5	3.6	2.2	4.1	2.4	2.9	4.3	1.3	2.0	4.1	1.2	1.7	8.3	3.8	1.6
Finland	3.3	1.7	1.8	2.2	4.5	1.7	-3.6	-2.9	-2.2	68.2	68.9	69.3	0.9	-0.4	0.0	4.2	7.3	3.1	3.2	1.9	1.8	2.0	1.0	0.4	2.2	1.4	1.9	3.6	-0.3	0.7	4.1	2.0	0.8
France	7.0	3.0	2.0	1.6	3.8	1.3	-7.2	-6.5	-5.0	150.9	150.5	150.5	-1.0	-2.9	-2.2	9.2	7.9	6.1	4.8	3.7	2.3	11.5	2.9	2.6	6.3	2.5	0.2	10.2	-1.8	0.2	5.7	3.5	3.5
Germany	2.9	2.1	3.2	3.1	5.2	1.0	-3.7	-2.5	-1.3	64.8	66.8	64.8	7.0	3.8	3.7	9.8	3.7	3.0	0.1	6.0	5.1	1.3	2.7	5.3	3.1	-0.9	0.8	0.7	1.5	2.1	4.1	2.9	7.2
Greece	7.9	3.0	5.4	1.2	4.6	0.7	-8.4	-4.7	-1.1	248.7	245.1	225.1	-6.1	-7.8	-5.0	21.9	7.1	4.2	7.2	2.9	6.4	19.3	9.9	8.8	3.9	-0.1	1.4	10.4	0.8	-0.6	9.8	1.8	2.7
Hong Kong	6.4	1.0	3.9	1.6	2.8	2.3	-0.6	-4.2	-1.7	1.5	2.5	3.4	11.3	6.5	4.4	17.0	4.8	6.1	5.6	0.5	7.3	10.1	4.4	7.1	4.6	0.4	-0.7	6.5	7.0	16.1	5.5	2.0	3.0
India	8.1	7.3	5.8	5.1	6.8	5.0	-6.3	-9.1	-6.1	56.4	59.3	60.0	-1.0	-3.1	-2.3	21.5	6.1	5.7	8.0	7.6	6.0	17.7	2.2	5.9	8.5	6.3	9.4	9.9	9.3	7.6	12.7	5.7	6.8
Ireland	13.4	3.9	3.4	2.4	5.0	2.1	-3.6	-1.7	-1.1	48.1	45.1	43.5	14.0	24.6	23.9	16.6	1.6	2.3	5.6	4.8	1.9	-37.8	-7.9	2.1	5.3	-1.1	1.2	4.7	4.8	3.9	18.1	-6.2	2.0
Italy	6.6	2.9	2.3	1.9	5.8	0.6	-7.2	-5.0	-4.1	183.0	176.8	175.1	3.3	1.1	1.2	13.4	4.0	3.9	5.2	3.7	3.3	17.0	5.7	2.4	1.0	1.6	0.6	8.2	1.3	0.1	11.3	1.6	3.7
Japan	1.7	2.5	2.3	-0.2	1.6	0.0	-8.5	-6.6	-4.8	244.4	245.2	242.9	2.8	1.9	3.1	11.8	5.9	4.9	1.3	2.2	1.3	-1.4	2.2	5.1	2.1	0.9	-0.4	2.5	1.7	0.7	5.8	2.9	3.5
Luxembourg	6.0	2.3	3.7	3.5	2.9	1.5	-1.2	0.7	1.0	23.3	21.8	19.7	3.6	5.2	5.7	9.0	3.3	2.0	8.3	2.4	2.0	9.5	6.0	3.6	3.9	-2.5	0.1	7.2	8.9	9.7	8.1	2.8	1.9
Netherlands	4.8	3.2	1.7	2.7	5.7	1.1	-3.4	-3.2	-2.5	72.7	71.3	71.2	10.2	10.0	9.9	7.0	3.1	2.0	3.5	4.8	2.6	3.4	1.2	2.6	4.3	2.4	1.5	2.4	2.1	3.6	5.0	3.0	0.8
New Zealand	4.8	2.6	3.5	3.9	5.4	1.2	-3.0	-0.6	0.0	45.9	45.8	43.3	-5.1	-4.6	-3.2	-1.8	12.6	8.3	6.2	1.4	2.2	8.0	4.9	4.7	9.0	3.3	1.1	9.1	1.4	2.2	5.3	2.6	1.6
Norway	4.1	2.0	2.6	3.5	4.4	2.7	10.4	14.6	3.0	37.6	21.0	25.3	15.0	25.5	13.8	5.1	3.6	4.5	4.8	6.1	2.0	-0.3	5.1	2.1	3.9	2.1	1.8	1.3	0.0	2.2	3.3	1.1	1.9
Portugal	4.9	4.7	2.4	1.3	4.7	1.4	-3.6	-2.9	-2.5	155.7	151.5	148.2	-1.1	-3.6	-2.9	13.0	12.9	3.9	4.4	4.1	1.8	6.1	3.6	7.1	5.0	1.4	0.5	4.2	5.7	1.9	2.9	1.7	4.1
Singapore	7.6	3.3	2.3	2.3	4.2	1.7	-1.6	-1.5	-0.7	145.9	138.8	134.9	18.1	18.0	17.5	6.8	5.4	6.0	4.5	4.5	7.8	19.6	2.6	4.2	4.5	-0.1	0.8	11.6	6.2	5.9	13.5	6.9	2.4
Spain	5.0	4.9	3.9	3.1	5.6	1.3	-7.0	-5.5	-4.0	145.1	141.2	137.2	0.7	0.7	1.5	13.4	7.9	4.0	4.6	4.2	4.7	4.1	7.4	6.3	3.0	1.6	1.0	3.8	3.8	2.9	7.2	1.6	3.1
South Africa	4.9	1.6	1.8	4.5	5.6	4.6	-5.2	-5.8	-5.5	69.1	71.6	74.4	3.7	2.0	0.9	9.9	3.5	3.5	5.7	1.4	1.5	2.0	8.8	4.9	0.0	0.8	0.4	5.8	1.4	1.5	7.3	3.7	1.8
South Korea	4.0	2.8	2.8	2.5	3.3	1.6	-1.4	-1.2	-0.7	53.2	54.2	53.0	4.9	2.9	3.7	9.9	5.6	3.6	3.6	3.2	2.5	2.5	3.7	4.8	5.6	2.8	1.7	5.9	4.0	3.0	7.4	4.1	2.1
Sweden	4.6	3.1	2.7	2.2	4.3	1.9	-1.1	-1.2	-0.4	49.9	48.4	46.6	5.5	4.2	4.5	7.2	3.9	2.3	5.7	3.9	2.7	5.9	3.0	2.8	2.5	1.6	1.9	6.1	1.6	1.6	7.3	2.0	2.4
Switzerland	3.7	2.6	1.4	0.6	2.1	0.5	-2.0	0.0	0.2	29.3	28.1	27.5	7.5	6.9	8.2	11.2	4.9	3.9	2.7	3.6	2.1	3.0	2.7	3.5	2.7	-0.4	-1.1	4.1	-2.0	0.8	10.2	3.2	3.1
Turkey	11.0	2.1	2.6	19.6	56.6	19.3	-2.3	-1.9	-1.6	38.1	31.3	28.6	-2.0	-3.9	-2.4	24.9	10.7	3.8	15.1	5.1	-1.4	6.4	-4.6	1.7	2.1	1.1	2.0	17.3	5.8	-1.6	16.4	3.0	1.7
United Kingdom	7.5	3.7	1.8	2.6	7.0	2.5	-8.9	-5.0	-2.7	102.7	100.4	99.0	-2.9	-4.6	-3.2	-1.1	5.3	5.9	6.1	4.7	0.9	5.3	6.7	3.9	14.5	1.4	1.2	4.1	0.3	1.7	4.7	2.2	1.9
United States	5.7	3.2	2.0	4.7	7.4	2.0	-12.1	-5.9	-5.9	150.7	144.2	144.3	-3.6	-4.0	-3.6	4.6	6.2	6.7	7.9	3.3	2.0	6.1	3.8	2.6	1.1	-0.1	1.1	12.3	-1.8	1.6	5.5	5.0	1.5
Eurozone	5.3	2.9	2.7	2.6	5.2	1.1	-5.4	-4.0	-2.8	-	-	-	2.5	1.1	1.5	10.9	4.3	3.4	3.5	4.4	3.7	4.3	3.1	3.9	3.8	1.0	0.8	5.1	1.1	1.3	7.9	1.2	4.6

Sources: Oxford Economics, Atradius

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