Global Economic Forecasts

Q2 2022

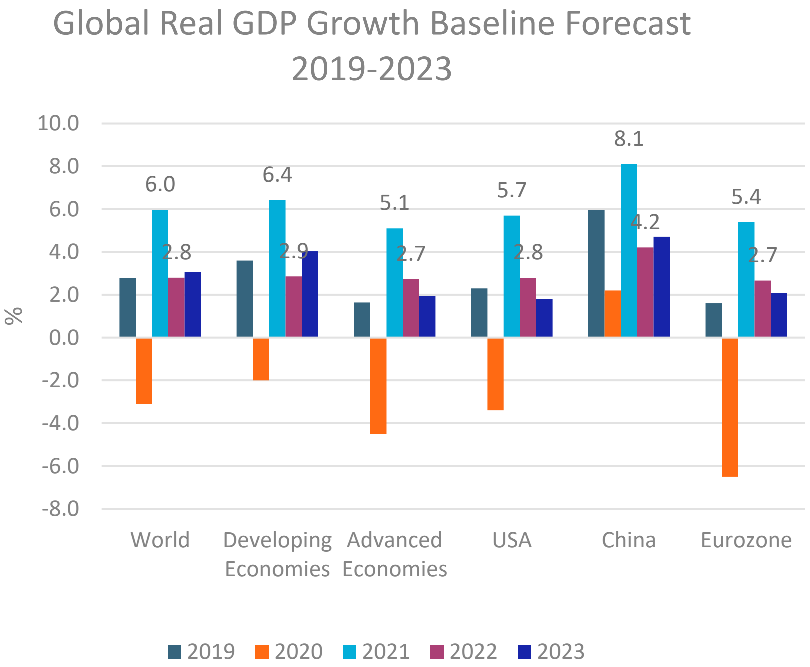
Passport

The data included in this document is accurate according to Passport, Euromonitor International's market research database, at the time of publication: May 2022

GLOBAL OUTLOOK

Euromonitor International’s quarterly Global Economic Forecasts report (GEF) focus on the world’s key economies and examine the latest macroeconomic changes in them. Using our Macro Model, our analytics team provides regularly updated forecasts and “what-if” scenarios for core macroeconomic variables, including GDP growth and unemployment, providing the most up-to-date baseline, optimistic and pessimistic scenarios.

The global economic outlook has worsened substantially since February 2022, with lower expected growth and higher uncertainty. In the baseline scenario, global real GDP growth is expected to decline to 1.8-3.6% in 2022 and to 1.8-4% in 2023, after 6% growth in 2021. The war in Ukraine and economic sanctions on Russia have caused large reductions in Russian energy and commodity supplies, and major cuts in Russia and Ukraine food exports. The new adverse supply shocks have led to significant price increases for energy and food and declining global consumer purchasing power, especially for lower income households.



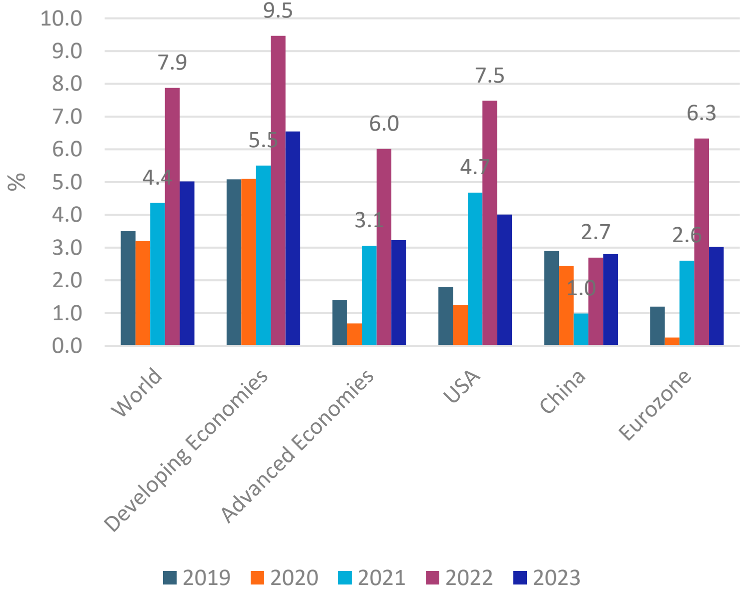
Source: Euromonitor International Macro Model
Note: Data from 2022 onwards are forecasts

Global inflation is expected to increase to 6.8-9% in 2022, before declining to 3.8-6.3% in 2023. Global supply constraints have tightened substantially since the Russia invasion of Ukraine with big increases in energy and commodity prices, worsened by stronger pandemic restrictions in China. At same time, global demand reductions due to the same pandemic restrictions in China and Asia more generally and due to higher global uncertainty can alleviate tightness of supply constraints.

Over a 1-3 years horizon, one of the worst spillovers from war in Ukraine is a large reduction in cereals and cooking oil supplies. The UN's food price index inflation was 34% year-on-year in March 2022. The UN estimates the current supply-demand mismatch could lead to another 8-22% increases in global food prices in 2022. The sharp increase in food prices is expected to cause a substantial increase in global poverty in developing economies in 2022-2023.

Russia is a major producer of metals such as nickel and aluminum, while Ukraine is a major supplier of key industrial inputs such as neon. Therefore, the war and sanctions are also likely to cause substantial price increases and potential shortages of key global manufacturing inputs beyond energy.

Global Consumer Price Inflation Baseline Forecast 2019-2023



Source: Euromonitor International Macro Model
Note: Data from 2022 onwards are forecasts

BASELINE SCENARIOS

	Baseline (Most Likely Scenario)	**Global Stagflation**	**COVID-19 Pessimistic**
2022 Global GDP growth	[1.8%, 3.6%]	[0.7%, 2.5%]	[0.2%, 2.0%]
2023 Global GDP growth	[1.8%, 4.0%]	[-1,3%, 1.0%]	[-1.8%, 0.3%]
Probability	45-60%	22-32%	13-23%
Assumptions			
War in Ukraine	• The war could last 1-5 years; sanctions to remain longer. Adaptation to a partial economic decoupling from Russian energy and commodity imports over 2022-2024 • Global energy prices to increase by 30-60% in 2022-2023	• More abrupt and stronger cuts of Russian energy exports and harder energy decoupling from Russia, leading to higher rise in energy and commodity prices in 2022-2023 • Intensification of war and higher risk of escalation to a wider conflict	• Same as in the baseline scenario. • Lower global demand dampens increases in energy prices due to Russian supply cuts
COVID-19 pandemic	• Economic effects of 2022 COVID-19 waves to be moderate outside China (0.2-1 percentage point cuts to economic activity forecasts) • Existing vaccines remain highly effective against severe disease from new coronavirus variants.	• Same as in the baseline scenario	• Spread of a more infectious and highly vaccine resistant COVID-19 mutation requires intense lockdowns/social distancing measures in 2022-2023.
Private sector confidence	• Decline by 5.0-25.0% relative to pre-Ukraine war	• Decline by 15-35% relative to baseline	• Decline by 10-40% relative to baseline
Financial market premia	• Rise by 0.5-2.5 percentage points relative to pre-war	• Rise by another 1-3 percentage points relative to the baseline	• Rise by another 1-4 percentage points relative to the baseline

GDP GROWTH FORECASTS & REVISIONS FROM LAST QUARTER

Advanced Economies

Country/Region	2021	2022	2023	2024	2025-2029 AVERAGE	2022 FORECAST REVISION	2023 FORECAST REVISION
(%, percentage points)							
Advanced Economies (AE)	5.1	2.7	1.9	1.9	1.5	-0.9 ▼	-0.5 ▼
US	5.7	2.8	1.8	2.0	1.7	-0.9 ▼	-0.5 ▼
Canada	4.9	3.7	2.8	2.2	1.7	-0.1 ▼	-0.2 ▼
Eurozone	5.4	2.7	2.1	1.8	1.2	-1.2 ▼	-0.4 ▼
Germany	2.8	1.8	2.0	1.8	1.1	-1.7 ▼	-0.3 ▼
France	7.0	2.7	1.5	1.5	1.3	-0.8 ▼	-0.7 ▼
Italy	6.5	2.2	1.7	1.6	0.6	-1.8 ▼	-0.6 ▼
Spain	5.0	4.0	3.2	2.5	1.3	-1.2 ▼	-0.5 ▼
UK	7.5	3.5	1.0	1.5	1.6	-1.0 ▼	-1.2 ▼
Japan	1.7	1.7	1.3	1.2	0.6	-1.1 ▼	-0.3 ▼
South Korea	4.0	2.5	2.3	2.4	2.0	-0.5 ▼	-0.5 ▼

Source: Euromonitor International Macro Model

GDP GROWTH FORECASTS & REVISIONS FROM LAST QUARTER Emerging and Developing Economies

Country/Region	2021	2022	2023	2024	2025-2029 AVERAGE	2022 FORECAST REVISION	2023 FORECAST REVISION
(%, percentage points)							
Emerging and Developing Economies (EMDE)	6.4	2.9	4.0	4.2	4.0	-1.8 ▼	-0.3 ▼
China	8.1	4.2	4.7	4.7	4.3	-0.6 ▼	-0.3 ▼
India	8.6	7.3	5.9	6.1	6.1	-0.9 ▼	0.9 ▲
Indonesia	3.8	4.7	4.8	5.0	5.0	-0.3 ▼	-0.4 ▼
Brazil	4.7	0.2	1.2	1.7	2.0	0.0	-0.3 ▼
Mexico	6.1	1.3	2.0	2.3	2.0	-1.2 ▼	-0.3 ▼
Russia	4.2	-11.3	-2.0	0.5	1.5	-13.5 ▼	-4.2 ▼
Turkey	10.0	1.7	2.3	2.5	3.2	-1.3 ▼	-1.0 ▼

Source: Euromonitor International Macro Model

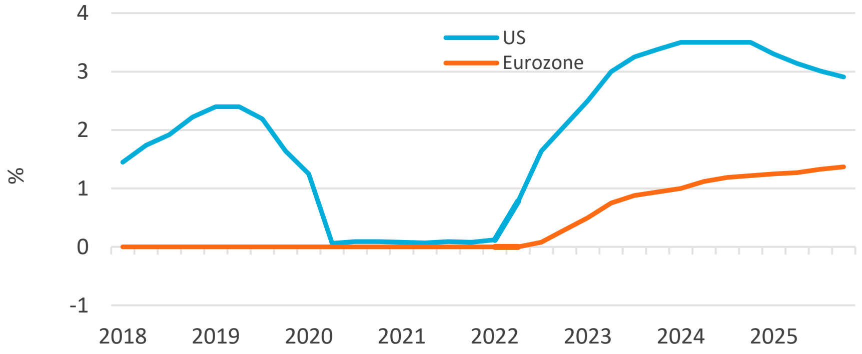
INFLATION FORECASTS

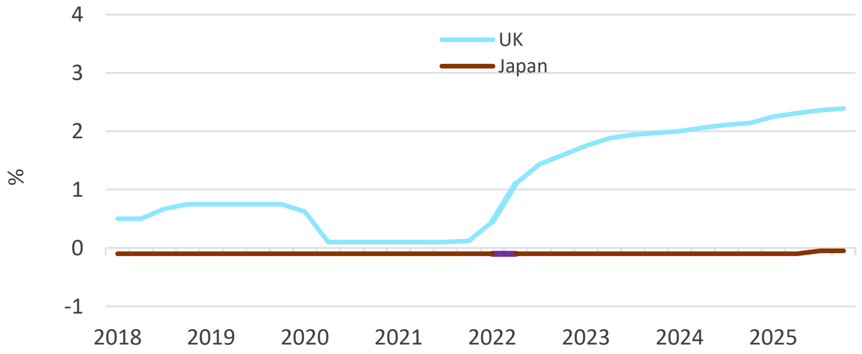
Country/Region	2021	2022	2023	2024	2025-2029 AVERAGE %	2022 FORECAST REVISION %	2023 FORECAST REVISION %
(%, percentage points)							
Advanced Economies	3.1	6.0	3.2	2.4	2.0	2.4 ▲	0.8 ▲
US	4.7	7.5	4.0	2.8	2.3	2.5 ▲	0.8 ▲
Eurozone	2.6	6.3	3.0	2.3	2.0	3.2 ▲	0.8 ▲
Germany	3.2	6.7	3.3	2.5	2.0	3.2 ▲	1.0 ▲
UK	2.6	7.5	4.5	3.0	2.3	2.7 ▲	1.5 ▲
Japan	-0.2	1.8	1.3	1.0	0.8	1.0 ▲	0.5 ▲
Emerging and Developing Economies	5.5	9.5	6.5	5.3	3.9	3.6 ▲	1.6 ▲
China	0.9	2.7	2.8	2.5	2.3	0.5 ▲	0.5 ▲
India	5.3	6.3	6.0	5.5	4.5	0.8 ▲	0.8 ▲
Brazil	8.3	9.7	5.5	4.8	3.7	1.5 ▲	0.7 ▲
Russia	7.0	20.5	13.5	9.5	4.7	14.0 ▲	8.8 ▲

Source: Euromonitor International Macro Model

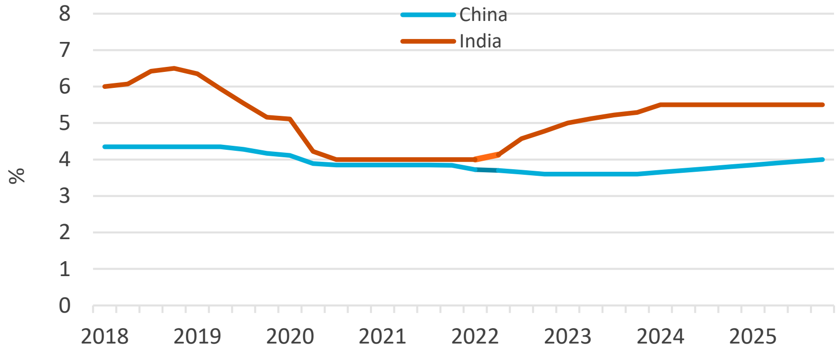
CENTRAL BANK INTEREST RATE FORECASTS

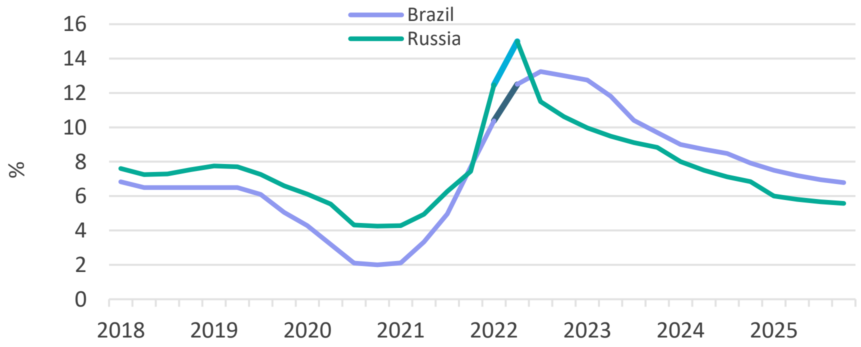
Advanced Economies Interest Rate Forecasts





Developing and Emerging Economies Interest Rate Forecasts





Source: Euromonitor International Macro Model

THE US

INDICATOR	2021	2022	2023	2024	2025-2029 AVERAGE	2022 FORECAST REVISION Percentage points	2023 FORECAST REVISION Percentage points
Real GDP Growth (%)	5.7	2.8	1.8	2.0	1.7	-0.9 ▼	-0.5 ▼
Inflation (%)	4.7	7.5	4.0	2.8	2.3	2.5 ▲	0.8 ▲
Federal Funds Rate (%)	0.1	1.2	3.0	3.5	2.6	0.7 ▲	1.8 ▲

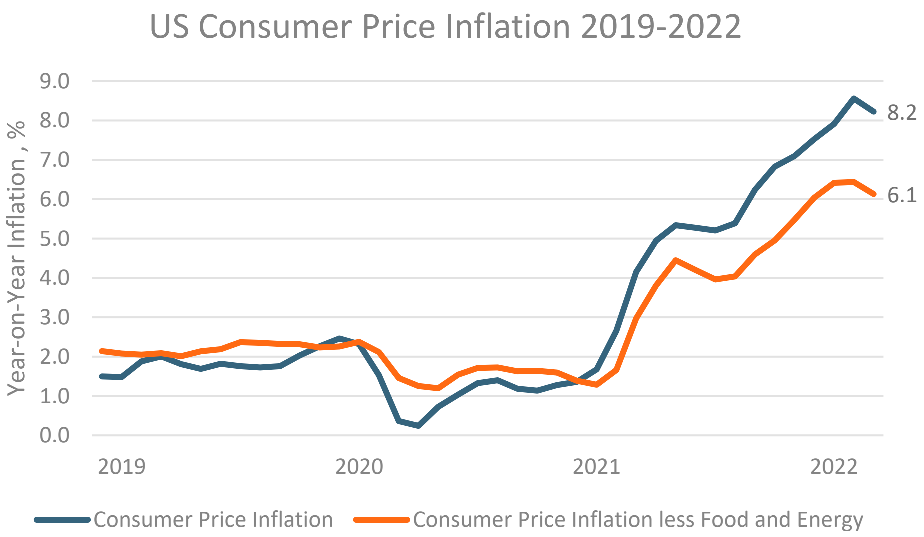
The US economic outlook has worsened significantly since the start of war in Ukraine. In the baseline scenario, US real GDP is expected to increase by 1.8-3.6% in 2022 and by 0.5-2.8% in 2023. Several positive factors continue to support the US economy. Economic activity levels are still below the pre-pandemic forecast, providing ongoing recovery potential. The labour market remains strong with a low unemployment rate and employment rate approaching the pre-COVID-19 pandemic level. The US' large oil and gas production partly offsets the negative economic effects of higher global energy prices

However, negative forecast drivers have become more dominant. Energy and food prices have increased sharply due to lower supplies from Russia and Ukraine. The rise in uncertainty and increase in financial market risks is reducing both domestic and global demand. Consumer confidence is now lower than in the beginning of the COVID-19 pandemic. Tighter monetary policy is expected to cause a large increase in borrowing costs, further reducing consumer spending and business investment. In the baseline scenario, the US economy would continue showing moderate growth and avoid a recession. However, risks of recession or stagflation have increased substantially.

THE US

US year-on-year CPI inflation declined slightly from 8.5% in March to 8.2% in April, still far above the historic average. Higher inflation has mainly been caused by higher food and energy prices. Year-on-year food and drinks inflation reached 9% in April, while energy price inflation exceeded 30% year-on-year. Core CPI year-on-year inflation, excluding food and energy, was 6.1%. US price inflation may have peaked in March, but it is likely to continue at around 7-8% in Q2-Q3. US CPI inflation is expected reach 6.5-8.7% in 2022 and decline to 2.8-5.3% in 2023.

The US Federal reserve has responded to the rise in inflation by accelerating interest rate increases. In May, the Fed raised the fed funds rate (the main monetary policy rate) by 0.5 percentage points to 0.875%. Similar interest rate increases are expected in the next Q2-Q3 meetings. The fed funds rate is forecast to exceed 2% by the end of 2022, peaking at 3-3.5% in 2023. These interest rate increases would help control US inflation, but the higher borrowing costs would also dampen US consumption and business investment.

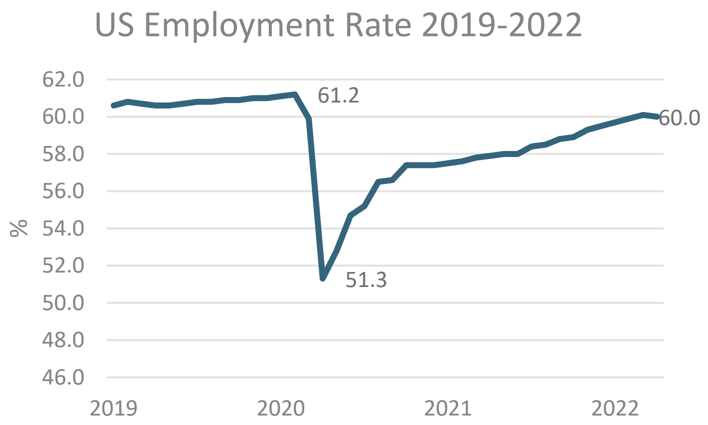


Source: Euromonitor International from national statistics and Federal Reserve

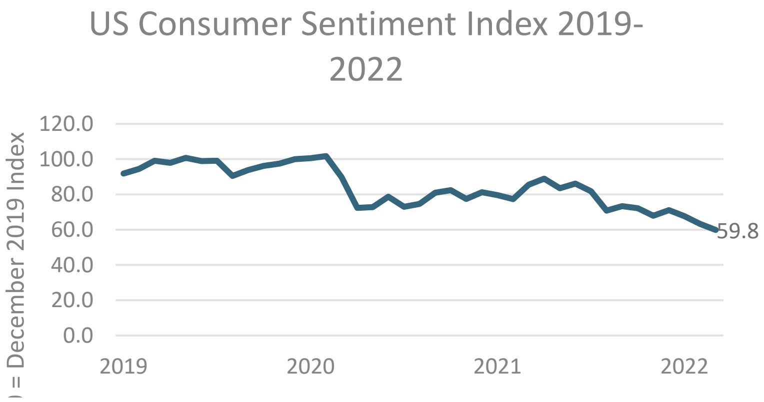
THE US

The US labour market has mostly recovered from the negative effects of the pandemic. The unemployment rate has declined to 3.6% in April 2022. The more robust employment rate has recovered from 51.3% in April 2020 to 60% in April 2022. However, it remains below its pre-pandemic level, partly due to workers leaving the labour market during the pandemic.

Despite labour shortages in some sectors, the year-on-year nominal wage growth of 5.5% in April was significantly below year-on-year CPI inflation of 8.3%. The decline in households purchasing power at the end of 2021 and beginning of 2022, and rising downside risks to the economy have led to a substantial decline in US consumer confidence.



Source: Euromonitor International from national statistics and Federal Reserve



Source: Euromonitor International from University of Michigan and Federal Reserve

CHINA

INDICATOR	2021	2022	2023	2024	2025-2029 AVERAGE	2022 FORECAST REVISION Percentage points	2023 FORECAST REVISION Percentage points
Real GDP Growth (%)	8.1	4.2	4.7	4.7	4.3	-0.6 ▼	-0.3 ▼
Inflation (%)	0.9	2.7	2.8	2.5	2.3	0.5 ▲	0.5 ▲
Central Bank Policy Rate (%)	3.8	3.7	3.6	3.7	4.0	0.0	0.0

China's economy in Q2 2022 faces a significant slowdown in economic growth, with high uncertainty. Real GDP growth in the baseline scenario would be 3.2-5% in 2022 and 3.5-5.7% in 2023. Negative effects of COVID-19 restrictions, excess debt and profitability problems in China's large real estate sector and the worsening global exports demand outlook are the key factors underlying the slowdown in China's economic growth in 2022-2023. Over a longer 5-10 years horizon, China's economic growth is constrained by declining long-term productivity growth and a declining labour supply.

New COVID-19 omicron variant outbreaks in combination with the zero-Covid policy have led to severe lockdowns and other restrictions affecting regions with 20-30% of China's GDP (most notably in Shanghai and Shenzen). As a result, the economy likely contracted in March-April. The Chinese healthcare system also has a much lower number of ICU's and nurses per capita than healthcare systems in advanced economies, making it easily overwhelmed by uncontrolled Covid waves. As a result, abandoning the zero-Covid policies taking could result in a large number of deaths and significant morbidity. This comes on top of the reluctance of China's leadership to abandon its pandemic policies that were previously perceived as highly successful.

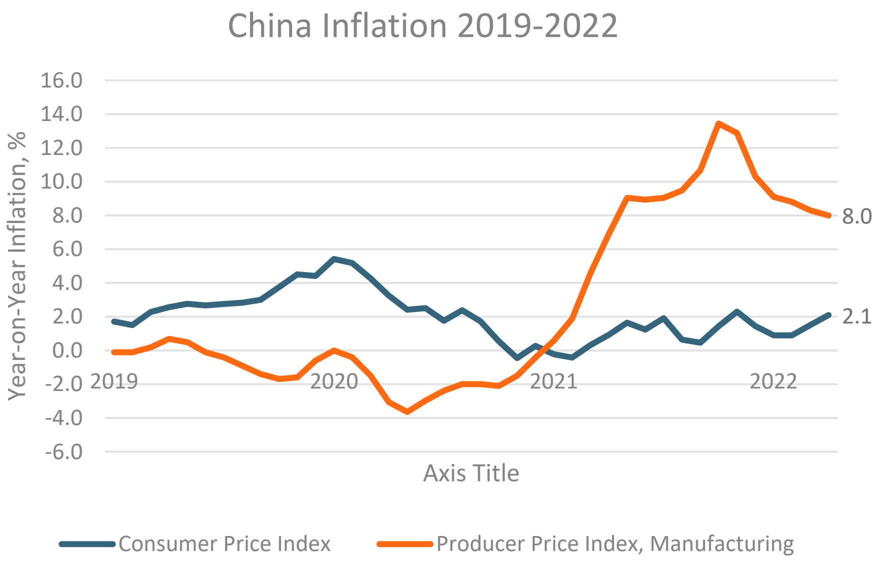
CHINA

Higher energy and food prices after the start of war in Ukraine has reduced China's expected economic growth in 2022-2023. However, higher global energy costs could be mitigated by preferential treatment at lower prices to Russian oil and gas rerouted from Europe.

China's consumer price index (CPI) inflation in 2022-2023 is likely to be more significantly moderated primarily by the negative shocks to aggregate demand from COVID-19 restrictions and the financial problems in the real estate sector. CPI inflation in the baseline scenario would rise from 0.9% in 2021 to 1.7-3.7% annually in 2022-2023.

CPI year-on-year inflation increased from 1.5% in March to 2.1% in April. Food prices increased by 1.9% year-on-year, consumer goods year-on-year price inflation was 3%, and services prices year-on-year inflation was 0.8%. Manufacturing producer price index (PPI) inflation was 8% year-on-year in April, down from 8.3% in March. The high PPI prices in 2022 reflect the rise in global energy and other commodity prices.

The discrepancy between CPI inflation and PPI inflation likely reflects low aggregate demand reducing Chinese firms' ability to increase prices in line with higher production costs, putting strong pressures on Chinese business profit margins.

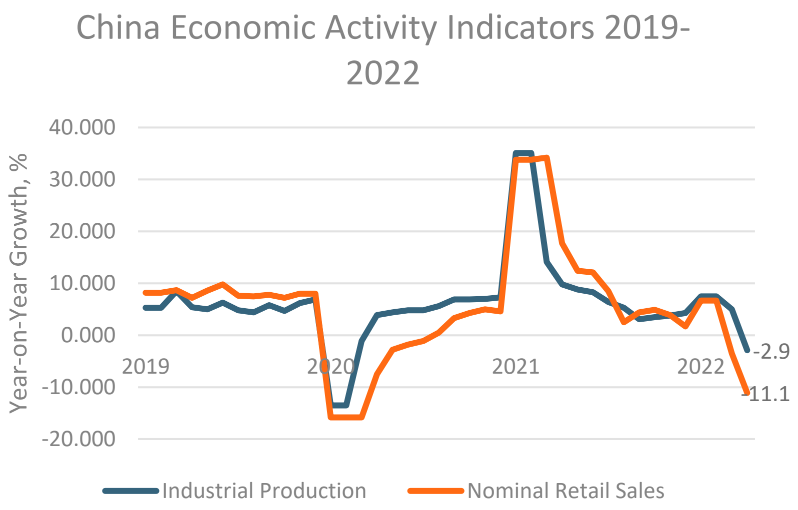


Source: Euromonitor International from national statistics

CHINA

China's economic growth has slowed down since the beginning of 2022, and likely contracted in April. Industrial production contracted by 2.9% year-on-year in April (7% mom decline). The Index of services production declined by 6.1% year-on-year, while nominal retail sales contracted by 11.1% year-on-year.

Purchasing manager indices (PMI) for the whole economy and for services sector declined far below the 50 threshold for expanding economic activity. These data highlight the negative effects of recent lockdowns and other Coronavirus restrictions on the economy, especially in the services sector. PMI's indicate a major slowdown ongoing in China's economy in March-April 2022, especially in the services sector.



Source: Euromonitor International from national statistics

INDIA

INDICATOR	2021	2022	2023	2024	2025-2029 AVERAGE	2022 FORECAST REVISION Percentage points	2023 FORECAST REVISION Percentage points
Real GDP Growth (%)	8.9	7.3	5.9	6.1	6.1	-0.8 ▼	0.9 ▲
Inflation (%)	4.9	6.3	6.0	5.5	4.5	0.8 ▲	0.8 ▲
Central Bank Rate (%)	4.0	4.4	5.2	5.5	5.5	0.2 ▲	0.5 ▲

India's real GDP growth under the baseline scenario for 2022 has been revised down slightly for the fifth quarter in a row, as new pandemic waves during the start of the year disrupts economic activity and the ongoing Russia's invasion into Ukraine poses insecurities for energy access and inflating prices. Nevertheless, significant economic expansion is still projected for 2022, as vaccination continue to rise in Q2 2022 and provides optimism for domestic consumption growth. Private final consumption expenditure in the country is set to expand by 7.4% in real terms during the year, and according to Reserve Bank of India, consumer confidence is picking up in March 2022 after a dip during the most recent pandemic wave in January.

Inflation rate was revised up to 6.3% in 2022, breaching the Reserve Bank of India's target of 2-6%. Energy products and food are recording the most significant price increases, but clothing, footwear, transport and communication are also on steep price growth during the start of Q2 2022.

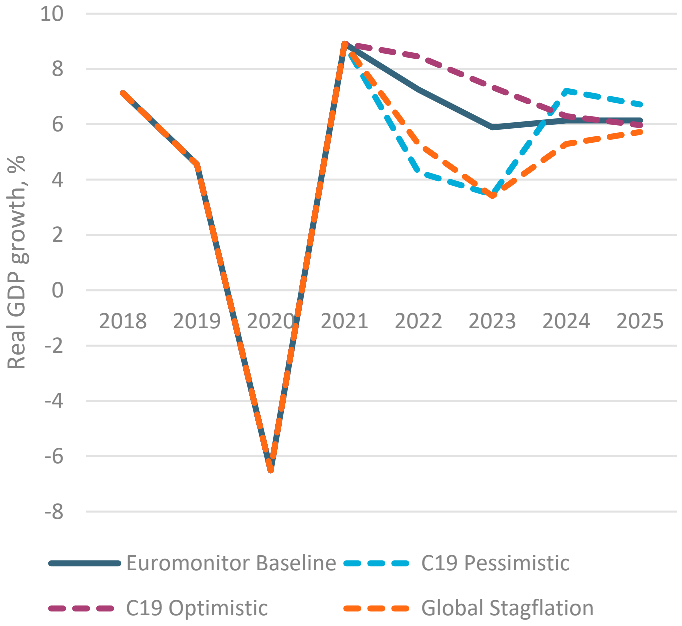
Unemployment in India is gradually shrinking and is set to average at 5.7% for Q2 2022, benefiting from relaxing mobility restrictions and recovering industry and services activities. Meanwhile, labour market in agriculture contracted in the beginning of Q2 as a result of both seasonal changes as well as declines in wheat harvest and production.

INDIA

India's GDP growth, although revised down in light of global events over the start of 2022, is still considered strong among the largest global economies. In May 2022, more than 70% of total population have received at least one vaccine dose, while more than 60% were fully vaccinated. The recovering economic activity is providing optimism for domestic consumption growth, however increasing inflationary pressure poses risks for consumers' purchasing power.

Russia's invasion in Ukraine dealt economic shocks to India, as already elevated energy prices spiked further and stimulated already growing inflation, while fuel supply uncertainties translated into slowing industrial activity growth. In May 2022, India's central bank increased its benchmark interest rate by 0.4 percentage points to 4.4% in order to curb inflation growth, however the rising interest rates would also translate to slower economic growth during the year. Under Stagflation scenario (probability 22-32%), India's real GDP would increase by 5.3% in 2022.

India Real GDP Growth Forecasts 2018-2025



Source: Euromonitor International Macro Model
Note: Data from 2021 onwards are forecasts

JAPAN

INDICATOR	2021	2022	2023	2024	2025-2029 AVERAGE	2022 FORECAST REVISION Percentage points	2023 FORECAST REVISION Percentage points
Real GDP Growth (%)	1.8	1.7	1.3	1.2	0.6	-1.1 ▼	-0.3 ▼
Inflation (%)	-0.2	1.8	1.3	1.0	0.8	1.0 ▲	0.5 ▲
BoJ Policy Rate (%)	-0.1	-0.1	-0.1	-0.1	0.1	0.0	0.0

In Q2 2022, Japan's real GDP growth forecasts were downgraded. The economy lost growth momentum in the beginning of 2022 as the new wave of the COVID-19 pandemic and extended quasi-emergency measures hampered private consumption growth. In addition, Russian invasion of Ukraine worsened supply chain disruptions and fueled further increases in energy and commodity prices, dragging on economic activity. The economy is forecast to experience stronger growth in the second half of 2022, with pent-up demand being unwound as the government lifted COVID-19 restrictions in late March 2022. Moreover, the Japanese authorities will maintain supportive monetary and fiscal policies over the year, bolstering economic growth. However, inflationary pressures and heightened economic uncertainty are likely to stifle consumer confidence and slow the pace of recovery for domestic demand. As a result, the Japanese economy is projected to grow by 1.7% in 2022 and by 1.3% in 2023.

Inflation is projected to pick up in Japan over 2022, spurred by stronger domestic demand, soaring energy and commodity prices and the weaker yen, boosting import prices. In the end of April 2022, the Japanese government unveiled a USD48 billion emergency economic package to mitigate the impact of rising prices on households and businesses. The support measures include cash handouts for low-income households, financial support for small and medium-sized companies and livestock farmers as well as additional subsidies for oil refiners to bring down fuel prices.

EUROZONE

INDICATOR	2021	2022	2023	2024	2025-2029 AVERAGE	2022 FORECAST REVISION Percentage points	2023 FORECAST REVISION Percentage points
Real GDP Growth (%)	5.4	2.7	2.1	1.8	1.2	-1.2 ▼	-0.4 ▼
Inflation (%)	2.6	6.3	3.0	2.3	2.0	3.2 ▲	0.8 ▲
ECB Refinancing Rate (%)	0.0	0.1	0.8	1.1	1.7	0.1 ▲	0.8 ▲

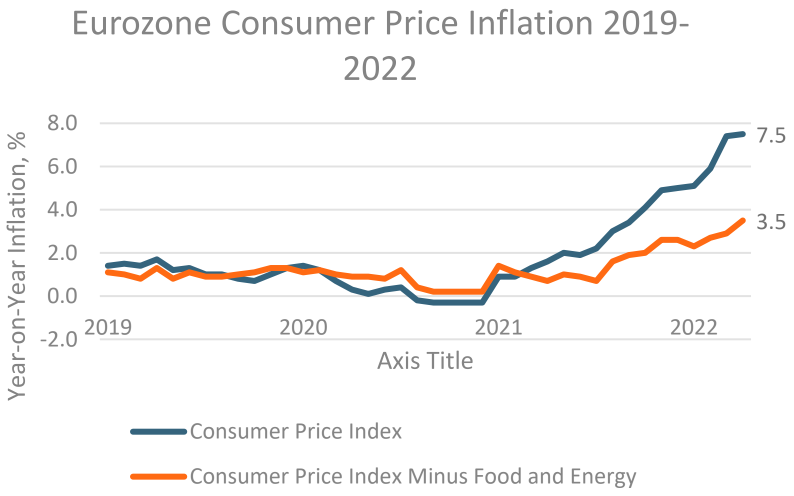
Spillovers from the war in Ukraine have led to a sharp deterioration in the Eurozone's economic outlook. The Eurozone economy is extremely vulnerable to the rise in energy and food prices due to cuts in supply from Russia and Ukraine. It is also highly sensitive to rising geopolitical risks from the war, and to a general increase in global uncertainty and worsening global exports demand.

After a fast 5.4% recovery in 2021, Eurozone real GDP growth is expected to decline to 1.7-3.5% in 2022 and to 0.8-3.2% in 2023. Most of the positive economic growth in the baseline forecast represents further pandemic recovery dynamics after the great contraction of 2020. Strong labour markets are also supporting the continuation of the Eurozone recovery. However, the downside risks to this moderate economic growth have increased, and they are now at their highest level since the start of the COVID-19 pandemic in the first half of 2020. The baseline scenario is now assigned a 45-60% probability over a one-year horizon.

EUROZONE

Large declines in food and other commodity supplies such as metals from Russia and Ukraine are also worsening price inflation and constraining Eurozone economic activity in 2022. The significant increase in food and energy prices are expected to severely reduce households' purchasing power, especially for lower income households. In the baseline scenario, Eurozone inflation is expected to increase from 2.6% in 2021 to 5.3-7.5% in 2022, before declining to 1.8-4.3% in 2023.

The rise in Eurozone inflation is expected to lead to a faster than previously expected monetary policy tightening. The ECB has kept its policy rates unchanged, but it has started reducing its financial asset purchases. The European Central Bank's (ECB) main policy rates are expected to start increasing in Q3, with the ECB refinancing rate reaching 0.5% in Q1 2023 and 1% in Q1 2024. The expected pace of interest rate increases of the ECB is still much slower than for other advanced economies' central banks, and it is unlikely to significantly constrain Eurozone inflation. However, further increases in energy and commodity prices are likely to moderate in 2023 and the Eurozone is expected to adapt to economic decoupling from Russia by 2024. As a result, inflation is still expected to return to 2% by 2025.



Source: Euromonitor International from national statistics and European Central Bank

THE UK

INDICATOR	2021	2022	2023	2024	2025-2029 AVERAGE	2022 FORECAST REVISION Percentage points	2023 FORECAST REVISION Percentage points
Real GDP Growth (%)	8.3	3.5	1.0	1.5	1.6	-1.0	-1.2
Inflation (%)	2.6	7.5	4.5	3.0	2.3	2.7	1.5
Bank Rate (%)	0.1	1.1	1.9	2.1	2.5	0.7	0.8

In May 2022, the Bank of England has warned that the country is poised to face a strong economic slowdown over 2022 and 2023 due to soaring inflation, tightening monetary policy and persisting supply and labour shortages. Despite an end to all legal pandemic restrictions and pent-up demand for services, the recovery in the service sector is expected to be subdued, as British consumers are faced with a substantial cost-of-living squeeze. Although tight labour market is leading to high wage rises, the pay growth is projected to be insufficient to keep pace with inflation. Under our baseline forecast, the real GDP growth projection has been revised down to 3.5% in 2022 and 1.0% in 2023.

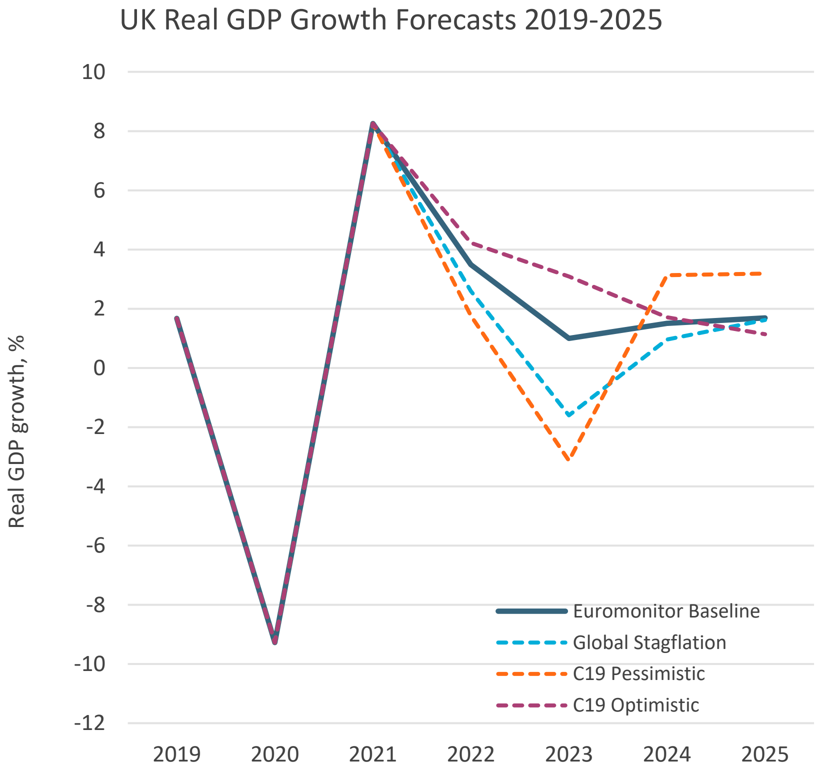
Average inflation has been revised up by 2.7 percentage points to 7.5% in 2022. Mounting geopolitical tensions amid Russia’s war in Ukraine, as well as lingering global and Brexit-induced supply constraints continue to push up prices of energy, commodities and tradable goods. High inflation is projected to take a heavy toll on UK household real incomes and businesses’ profit margins. To tame inflationary pressures, the Bank of England raised the Bank Rate in May 2022 to 1.0% and expects more rate hikes in the coming months, justifying upward revisions to our Bank Rate forecasts. The Bank of England has also decided to gradually unwind the bond purchasing programme.

According to the Office for National Statistics, the unemployment rate decreased to 3.7% during Q1 2022, reaching the lowest level in nearly five decades. At the same time, the number of vacancies reached a new high of 1.3 million, outpacing unemployment.

THE UK

New potential spikes in energy and commodity prices, and a higher-than-expected increase in Ofgem energy price cap in October 2022 could intensify the squeeze on household purchasing power, aggravating the current economic outlook. Moreover, the UK has pledged to phase out Russian oil imports by the end of 2022 as part of its sanctions against Russia. However, more abrupt cuts and more difficult than expected energy decoupling, as well as increasing risks of conflict escalation with other European countries, could lead to the Global Stagflation scenario (22-32% estimated probability). Under this scenario, UK real GDP growth would slow to 2.6% in 2022, followed by a decline of 1.6% in 2023.

The spread of new COVID-19 variants, which are vaccine-resistant, more infectious or causing severe illness, could force the country to reintroduce containment measures, amplifying the decline in private sector confidence and private consumption. This could lead to the C19 Pessimistic scenario (13-23% estimated probability), with the UK real GDP growth slowing down to 1.8% in 2022, followed by a contraction of 3.1% in 2023. Furthermore, in case of a trade war between the UK and the EU over the Northern Ireland Protocol, increased trade barriers between the parties could worsen supply chain issues, intensify current inflationary pressures and deepen the cost-of-living crisis.



Source: Euromonitor International Macro Model
Note: Data from 2022 onwards are forecasts

RUSSIA

INDICATOR	2021	2022	2023	2024	2025-2029 AVERAGE	2022 FORECAST REVISION Percentage points	2023 FORECAST REVISION Percentage points
Real GDP Growth (%)	4.8	-11.3	-2.0	0.5	1.6	-13.5 ▼	-4.2 ▼
Inflation (%)	6.7	20.5	13.5	9.5	4.7	14.0 ▲	8.8 ▲
Central Bank Rate (%)	5.7	12.4	9.3	7.4	5.4	3.6 ▲	1.8 ▲

Russia's military invasion to Ukraine has led to growing international isolation, frozen financial assets, lost image, imposed sanctions in technology, energy and other fields and looming inflation, which will weigh on the country's economic performance over the foreseeable future. Furthermore, the counter-sanctions and inflated military spending are set to further deepen the problems, limiting prospects for an economic rebound. As a result of the Russia's war in Ukraine, Russian real GDP growth is expected to turn into negative in 2022 and 2023, down by 11.3% and 2.0% respectively, downgraded by 13.5 and 4.2 percentage points compared to our previous revision.

The corporate flee, growing food and energy prices and rising interest rates drastically increase inflation in Russia to 20.5% and 13.5% expected for 2022 and 2023 respectively. Hence, the Central Bank of Russia strengthened the economy cooling policies raising the base interest rate to 20% after the invasion. However, thanks to some economic stabilisation, large imports revenue as well as necessity to support the ailing economy, the Central Bank is likely to adopt a laxer approach to base rates, already lowering it to 14% as of April 29th.

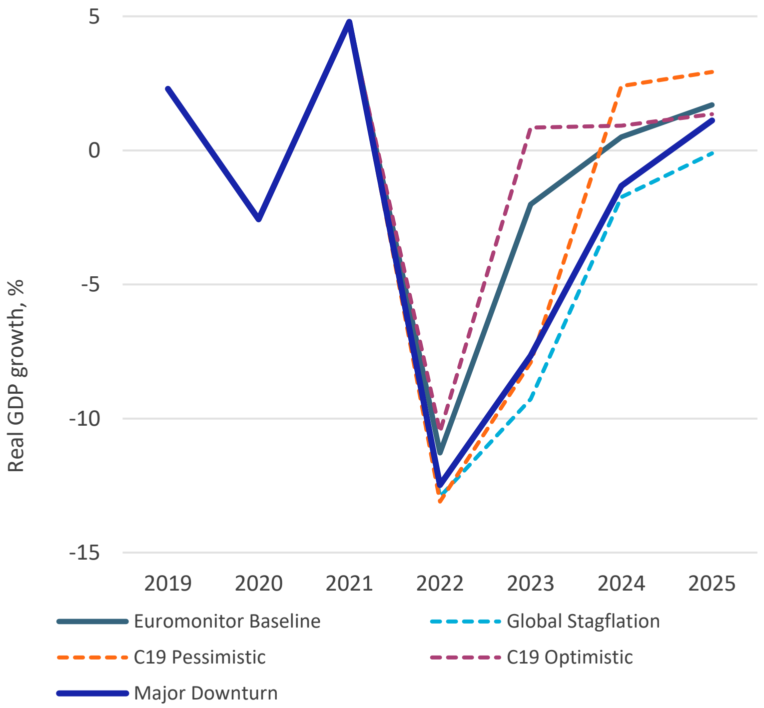
The lost economic growth momentum, closing Western capital companies and increasing operating costs hit the country's labour market hard. In 2022, the country's unemployment rate is expected to nearly double to 8.2%, up from 4.9% in 2021.

RUSSIA

The Global Stagflation and Major Economic Downturn are the emerging scenarios in Russia. Russia's invasion to Ukraine and economic-political isolation of the country have caused unprecedented damage to the country's economy. The crisis threatens to lead to further deteriorating relations with the Western countries, ban on certain products exports and imports, declining foreign investments as well as sharply slumping exports of key exports goods from Russia – energy commodities such as oil and gas.

Russia's financial system is set to remain on a brink of debt default in the near term and the further development of Major Economic Downturn scenario will highly depend on global response to Russia's war in Ukraine. The key financial system's drivers, however, remain the growing oil and gas exports revenues, thanks to high global energy prices, caused by increased uncertainty and low energy imports diversification in Western Europe.

Russia Real GDP Growth Forecasts 2019-2025



Source: Euromonitor International Macro Model
Note: Data from 2022 onwards are forecasts

BRAZIL

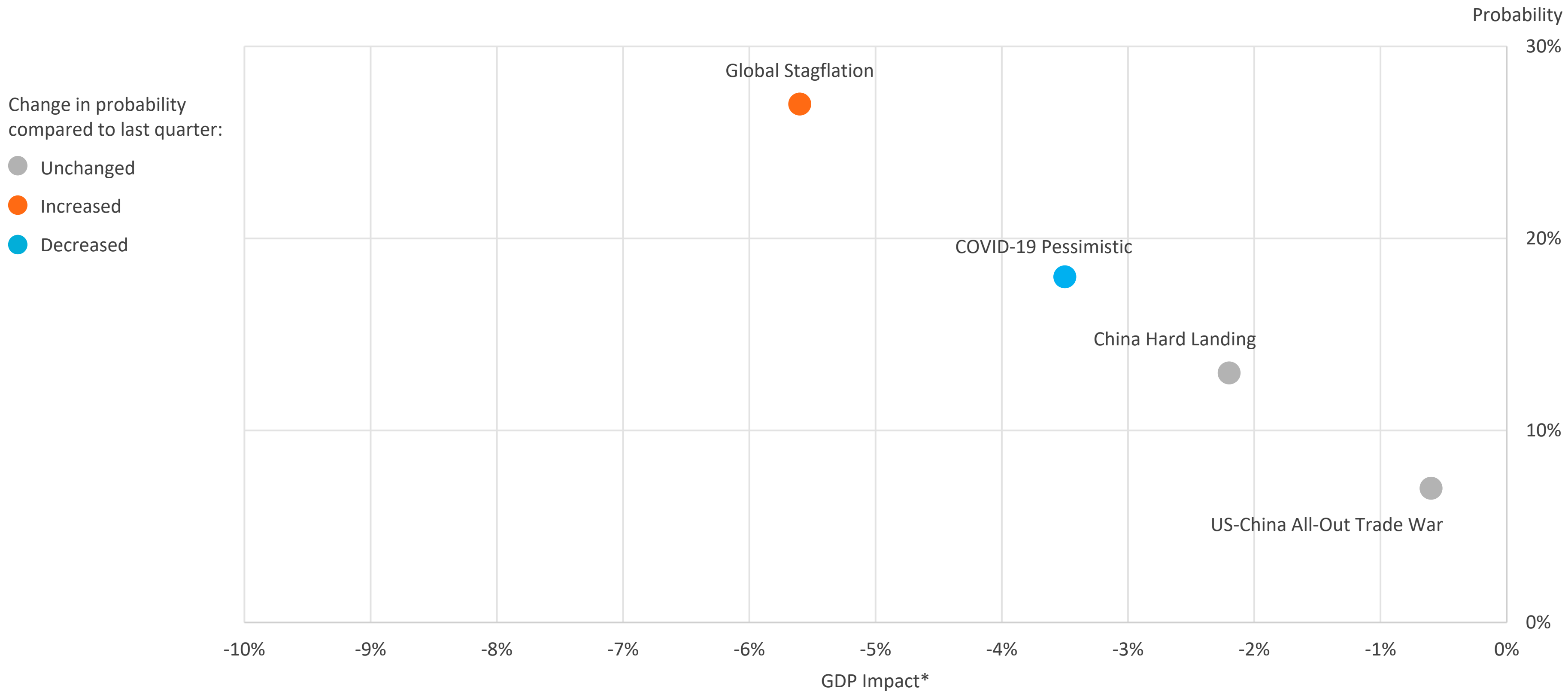
INDICATOR	2021	2022	2023	2024	2025-2029 AVERAGE	2022 FORECAST REVISION Percentage points	2023 FORECAST REVISION Percentage points
Real GDP Growth (%)	5.1	0.2	1.2	1.7	2.1	0.0	-0.3
Inflation (%)	8.3	9.7	5.5	4.8	3.7	1.5	0.7
Central Bank Rate	4.5	12.3	11.2	8.6	6.5	1.0	0.9

While the Brazilian economy witnessed strong recovery in 2021 reaching 5.1% real GDP growth, spread of omicron variant and booming inflation in last months of 2021 lead to slow start of 2022. Industrial activities and services are expected to pick up as wave of omicron seems to be under control, however, skyrocketing global energy prices, high inflation and elevated microeconomic uncertainties are projected to limit consumer spending in 2022, leading to economic stagnation. We forecast real GDP growth to stand at 0.2% in 2022, while growth projections for 2023 have been downgraded to 1.2%.

Towards the end of 2021, inflation rose sharply, fuelled by skyrocketing global energy prices, persisting supply chain constraints and drought-related disruptions, which led to deteriorating agricultural yields, particularly for coffee beans. Consumer prices went up by more than 10% year-on-year in 2021, with fuel prices recording an increase of around 50%, while the price of energy for housing grew by more than 30%. Inflation is projected to remain high in 2022, driven by booming global energy prices in the light of Russia’s aggression against Ukraine and related economic sanctions. We predict inflation to reach 9.7% in 2022 and stand at 5.5% in 2023.

High inflation is eating up real income gains and thus hindering private consumption. In an attempt to prevent the severe negative effects of high inflation, the Brazilian central bank is increasing the policy rate. We forecast interest rates to jump to 12.3% in 2022, stand at 11.2% in 2023 and remain elevated throughout the outlook period.

GLOBAL STAGFLATION RISK



*Note: * Impact is measured as world GDP change over three years compared to baseline scenario, in percentage points*

GLOBAL RISK INDEX SCORES AND RANKINGS

SCENARIO	GLOBAL RISK INDEX	GLOBAL REAL GDP IMPACT, %	PROBABILITY, %
Global Stagflation	5.1	-5.6	27
COVID-19 Pessimistic	2.1	-3.5	18
China Hard Landing	1.0	-2.2	13
US-China All-Out Trade War	0.1	-0.6	7

Source: Euromonitor International Macro Model
Note: (1) Global Risk Index ranks scenarios by the expected global GDP impact, calculated as the 3-year cumulative global real GDP impact relative to baseline of the scenario multiplied by its one-year probability, relative to the average global downside risks probability. The Index is based on 62 of the world's major economies (representing more than 90% of global GDP at PPP). COVID-19 Pessimistic scenarios are mutually exclusive among each other. Other scenarios may overlap.

The main risk facing the global economy is a combination of a stagnation in economic activity combined with high inflation (stagflation). Risks of a resurgent COVID-19 pandemic have declined but remain significant. Other key risks include a Chinese hard landing and a worsening trade war between the US and China.

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