

INFLATION PEAKING AMID LOW GROWTH

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1. Global Inflation Will Fall in 2023 and 2024 Amid Subpar Economic Growth

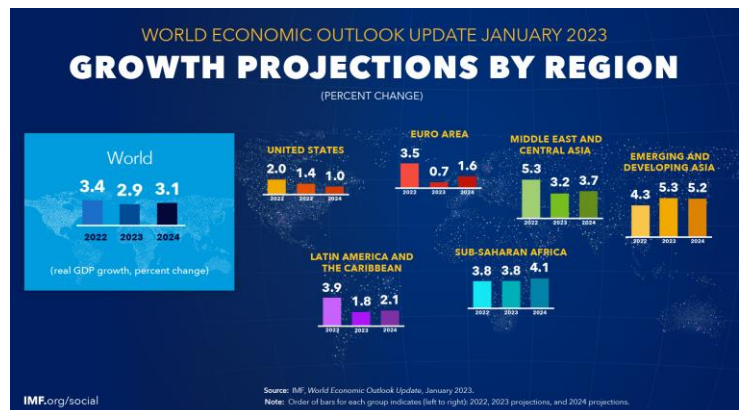
Global growth is projected to fall from an estimated 3.4 percent in 2022 to 2.9 percent in 2023, then rise to 3.1 percent in 2024. The forecast for 2023 is 0.2 percentage point higher than predicted in the October 2022 World Economic Outlook (WEO) but below the historical (2000–19) average of 3.8 percent. The rise in central bank rates to fight inflation and Russia's war in Ukraine continue to weigh on economic activity. The rapid spread of COVID-19 in China dampened growth in 2022, but the recent reopening has paved the way for a faster-than-expected recovery. Global inflation is expected to fall from 8.8 percent in 2022 to 6.6 percent in 2023 and 4.3 percent in 2024, still above pre-pandemic (2017–19) levels of about 3.5 percent. On the upside, a stronger boost from pent-up demand in numerous economies or a faster fall in inflation are plausible. On the downside, severe health outcomes in China could hold back the recovery, Russia's war in Ukraine could escalate, and tighter global financing costs could worsen debt distress. Financial markets could also suddenly reprice in response to adverse inflation news, while further geopolitical fragmentation could hamper economic progress.¹



2. Growth Projections by Region

For advanced economies, growth is projected to decline sharply from 2.7 percent in 2022 to 1.2 percent in 2023 before rising to 1.4 percent in 2024, with a downward revision of 0.2 percentage point for 2024. About 90 percent of advanced economies are projected to see a decline in growth in 2023.

In the United States, growth is projected to fall from 2.0 percent in 2022 to 1.4 percent in 2023 and 1.0 percent in 2024. With growth rebounding in the second half of 2024, growth in 2024 will be faster than in 2023 on a fourth-quarter-over-fourth-quarter basis, as in most advanced economies. There is a 0.4 percentage point upward revision for annual growth in 2023, reflecting carryover effects from domestic demand resilience in 2022, but a 0.2 percentage point downward revision of growth in 2024 due to the steeper path of Federal Reserve rate hikes, to a peak of about 5.1 percent in 2023.



¹ Inflation Peaking amid Low Growth (imf.org)

Growth in the euro area is projected to bottom out at 0.7 percent in 2023 before rising to 1.6 percent in 2024. The 0.2 percentage point upward revision to the forecast for 2023 reflects the effects of faster rate hikes by the European Central Bank and eroding real incomes, offset by the carryover from the 2022 outturn, lower wholesale energy prices, and additional announcements of fiscal purchasing power support in the form of energy price controls and cash transfers.

Growth in the United Kingdom is projected to be –0.6 percent in 2023, a 0.9 percentage point downward revision from October, reflecting tighter fiscal and monetary policies and financial conditions and still-high energy retail prices weighing on household budgets.

For emerging market and developing economies, growth is projected to rise modestly, from 3.9 percent in 2022 to 4.0 percent in 2023 and 4.2 percent in 2024, with an upward revision of 0.3 percentage point for 2023 and a downward revision of 0.1 percentage point for 2024. About half of emerging market and developing economies have lower growth in 2023 than in 2022.

Growth in emerging and developing Europe is projected to have bottomed out in 2022 at 0.7 percent and, since the October forecast, has been revised up for 2023 by 0.9 percentage point to 1.5 percent. This reflects a smaller economic contraction in Russia in 2022 (estimated at –2.2 percent compared with a predicted –3.4 percent) followed by modestly positive growth in 2023. At the current oil price cap level of the Group of Seven, Russian crude oil export volumes are not expected to be significantly affected, with Russian trade continuing to be redirected from sanctioning to non-sanctioning countries.²

Latest World Economic Outlook Growth Projections

(real GDP, annual percent change)	ESTIMATE	PROJECTIONS	
	2022	2023	2024
World Output	3.4	2.9	3.1
Advanced Economies	2.7	1.2	1.4
United States	2.0	1.4	1.0
Euro Area	3.5	0.7	1.6
Germany	1.9	0.1	1.4
France	2.6	0.7	1.6
Italy	3.9	0.6	0.9
Spain	5.2	1.1	2.4
Japan	1.4	1.8	0.9
United Kingdom	4.1	-0.6	0.9
Canada	3.5	1.5	1.5
Other Advanced Economies	2.8	2.0	2.4
Emerging Market and Developing Economies	3.9	4.0	4.2
Emerging and Developing Asia	4.3	5.3	5.2
China	3.0	5.2	4.5
India	6.8	6.1	6.8
Emerging and Developing Europe	0.7	1.5	2.6
Russia	-2.2	0.3	2.1
Latin America and the Caribbean	3.9	1.8	2.1
Brazil	3.1	1.2	1.5
Mexico	3.1	1.7	1.6
Middle East and Central Asia	5.3	3.2	3.7
Saudi Arabia	8.7	2.6	3.4
Sub-Saharan Africa	3.8	3.8	4.1
Nigeria	3.0	3.2	2.9
South Africa	2.6	1.2	1.3
Memorandum			
Emerging Market and Middle-Income Economies	3.8	4.0	4.1
Low-Income Developing Countries	4.9	4.9	5.6

Source: IMF, World Economic Outlook Update, January 2023

Note: For India, data and forecasts are presented on a fiscal year basis, with FY 2022/23 (starting in April 2022) shown in the 2022 column. India's growth projections are 5.4 percent in 2023 and 6.8 percent in 2024 based on calendar year.

² Inflation Peaking amid Low Growth (imf.org)

3. Euro Zone Economic Sentiment

Euro zone economic sentiment rose to a seven-month high in January on more optimism across all sectors except construction, with inflation expectations among consumers and companies both sharply down, data showed on Monday. The European Commission's Economic Sentiment Index (ESI) rose to 99.9 this month, above an upwardly revised 97.1 in December -- the highest value of the index since June 2022. The rising optimism underlines expectations that an expected economic downturn in the 20 countries sharing the euro, if there is one at all, is likely to be shallow, despite the energy price and cost of living crises and the war in Ukraine. The monthly Commission survey showed inflation expectations among consumers falling to 17.7 in January from 23.2 in December, well below the long-term average of 20.0, a trend that is likely to please the ECB. Selling price expectations among manufacturers also dropped sharply to 31.9 in January from 37.8 in December in a sign inflationary pressures early in the pipeline were receding too. The Commission said optimism in industry rose to 1.3 from -0.6 in December and in services to 10.7 from 7.7. The mood among consumers improved to -20.9 in January from -22.1 and in the retail sector to -0.8 from -2.7.³

4. North Macedonia and Western Balkans

The economic rebound in the Western Balkans moderated further in the third quarter of 2022, with the region's GDP growing by 2.1% y-o-y, compared to 4.3% in the previous three months. The deceleration was largely driven by a slowdown in Serbia and Bosnia & Herzegovina. Russia's invasion of Ukraine is having a negative impact on the Western Balkan economies indirectly through various transmission channels. In particular, strong increases in energy, food and transport prices fuelled a significant acceleration of annual consumer price inflation which averaged 11.5% in 2022, ranging from 6.7% in Albania to 14.1% in North Macedonia. The region's central banks with monetary autonomy reacted by raising their key policy rate which stood at 2.75% in Albania, 4.75% in North Macedonia, and 5.25% in Serbia in January 2023. Helped by decelerating food and energy prices, inflation moderated somewhat in most countries in the last months of 2022.

In North Macedonia annual consumer price inflation accelerated further in Q4, to 19.3% y-o-y on average, following a 17.2% y-o-y rise in Q3. Annual increases abated somewhat after October. The rise in the CPI for the full year amounted to 14.2% on average, driven by higher prices for food (+20.9% y-o-y) and electricity and fuels (+13.3%). The financial sector remained resilient and well funded. Bank lending to the private sector continued at about the same pace in Q3 (9.8% y-o-y) and in October and November (9.9% on average) as in the preceding three months. The economy lost some momentum in Q3, with GDP growth relenting to 2% y-o-y, after expanding by 4% in Q2. This came on account of a slowdown in the growth of gross capital formation (9% y-o-y, compared to 41.6% in Q2, then largely a result of strong inventory build-up and low pre-year basis).⁴

³ Euro zone economic sentiment rises in January to seven-month high | Reuters

⁴ EU Candidate Countries' & Potential Candidates' Economic Quarterly (CCEQ), 4th Quarter 2022 (europa.eu)