



Global Economic Outlook – December 2022

Inflation, Interest Rate Hikes and Recessions

Global Economic Outlook – December 2022

Inflation, Interest Rate Hikes and Recessions

“Taming inflation is proving to be harder than expected as price pressures broaden and become more entrenched. Central bankers are having to take the gloves off. That won’t be good for growth.”

Brian Coulton, Chief Economist, Fitch Ratings

Related Research

[Global Economic Outlook \(September 2022\)](#)

[Significant Job Loss Expected in 2023 as U.S. Labor Market Rebalances \(November 2022\)](#)

[Economics Dashboard: Global Supply Chain Pressures Easing Rapidly \(October 2022\)](#)

Analysts



Brian Coulton
+44 20 3530 1140
brian.coulton@fitchratings.com



Pawel Borowski
+44 20 3530 1861
pawel.borowski@fitchratings.com

Battle Against Inflation Intensifies

Fitch Ratings has again lowered its world GDP forecasts for 2023 as central banks are forced to toughen up in their fight against inflation and China’s property market outlook deteriorates.

Fitch now expects world GDP to grow by 1.4% in 2023, revised down from 1.7% in the September [Global Economic Outlook \(GEO\)](#). Fitch has lowered its 2023 growth forecasts both for the US to 0.2%, from 0.5% – as monetary policy is tightened more rapidly – and also China, to 4.1% from 4.5%. We have raised our eurozone growth has to 0.2% from -0.1%. The EU gas crisis has eased a little, but sharper ECB rate rises will weigh on demand.

Europe Averts Gas Shortages

The risk of European natural gas shortages and rationing this winter has receded as LNG imports have surged and gas consumption has fallen. But the crisis is far from over and high wholesale gas prices continue to weigh heavily on firms’ costs and household budgets.

Stubborn Inflation Prompts More Rate Hikes

Inflation has exceeded expectations recently reaching 11% in the eurozone and the UK – and core inflation is rising. Climbing services inflation is offsetting the impact of easing supply-chain pressures.

Labour market imbalances are not improving, as unemployment remains low and vacancies elevated. With labour market conditions tight, wages are chasing prices and are growing at 7% in the US, 6% in the UK and, on some measures, more than 5% in the eurozone.

The Fed, ECB, and Bank of England (BOE) have been raising rates in outsized moves. Our forecast peaks for Fed (5%) and ECB (3%) rates have been revised up by 100bp since September and by 150bp for the BOE (4.75%). We do not see pivots to rate cuts until 2024.

Policy Tensions Are High, Set to Rise Further

The impact of monetary tightening on the economy is already visible – particularly in housing markets – but broader effects on demand and job markets will become more apparent over time. Recessions are anticipated in the eurozone and the UK starting in late 2022, and in the US in 2Q23 and 3Q23.

Policy tensions – as governments seek to cushion households from shocks while central banks fight inflation – could result in missteps that increase risks to growth. Hidden leverage in parts of the non-bank financial sector – as seen in the recent UK gilts crisis – could also be a wider source of risk as real interest rates rise.

China’s Slowdown and Global Inflation

China’s slowdown has eased pressure on global commodity prices. But China is a huge net supplier of goods and pandemic disruptions to exports could hit global manufacturing supply chains. On the other hand, the recent easing in global supply-chain tensions could provide a bigger boost to world GDP than we anticipate.

Global Forecast Summary

(%)	Annual Average 2017-2021	2021	2022F	2023F	2024F
GDP Growth					
US	2.1	5.9	1.9	0.2	1.6
Eurozone	1.0	5.3	3.3	0.2	1.8
China	6.0	8.1	2.8	4.1	4.8
Japan	-0.2	1.7	1.4	1.1	1.2
UK	0.4	7.5	4.4	-1.2	1.5
Developed ^a	1.3	5.1	2.4	0.3	1.6
Emerging ^b	4.3	7.4	3.1	3.2	4.3
Emerging ex-China	2.4	6.0	3.5	2.0	3.7
World ^c	2.4	6.0	2.6	1.4	2.7
Inflation (end of period)					
US	2.5	7.0	7.0	3.6	2.7
Eurozone	1.5	5.0	10.4	5.2	2.4
China	2.0	1.5	2.5	2.3	2.4
Japan	0.3	0.8	3.5	1.5	1.0
UK	2.1	5.4	11.0	4.5	2.8
Interest Rates (end of period)					
US	1.22	0.25	4.50	5.00	3.50
Eurozone	0.00	0.00	2.50	3.00	2.00
China ^d	3.15	2.95	2.75	2.75	2.75
Japan	-0.10	-0.10	-0.10	-0.10	-0.10
UK	0.39	0.25	3.50	4.75	4.00
US 10-year yield	1.91	1.51	4.00	4.50	4.00
Exchange Rates and Oil					
Oil (USD/barrel)	60.9	70.6	100.0	85.0	65.0
USDJPY (end-period)	109.6	114.2	145.0	145.0	135.0
USDEUR (end-period)	0.87	0.88	1.00	1.00	1.00
GBPUSD (end-period)	1.31	1.34	1.17	1.10	1.10
USDCNY (end-period)	6.73	6.37	7.20	7.20	7.30

^a US, Japan, France, Germany, Italy, Spain, UK, Canada, Australia and Switzerland

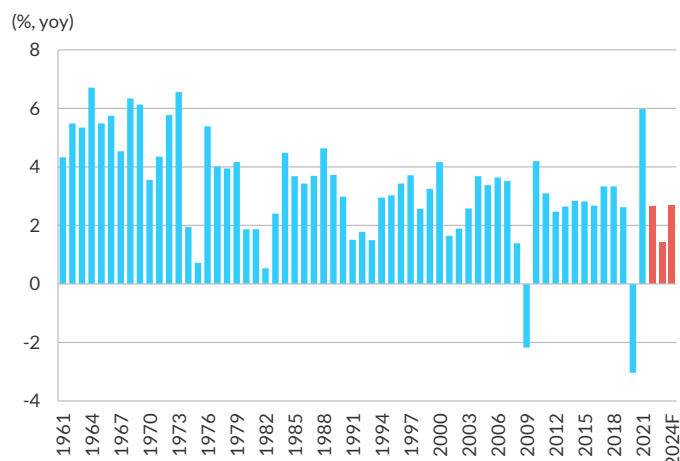
^b Brazil, Russia, India, China, South Africa, Korea, Mexico, Indonesia, Poland and Turkiye

^c 'Fitch 20' countries weighted by nominal GDP in US dollars at market exchange rates (three-year average)

^d One-Year Medium-Term Lending Facility

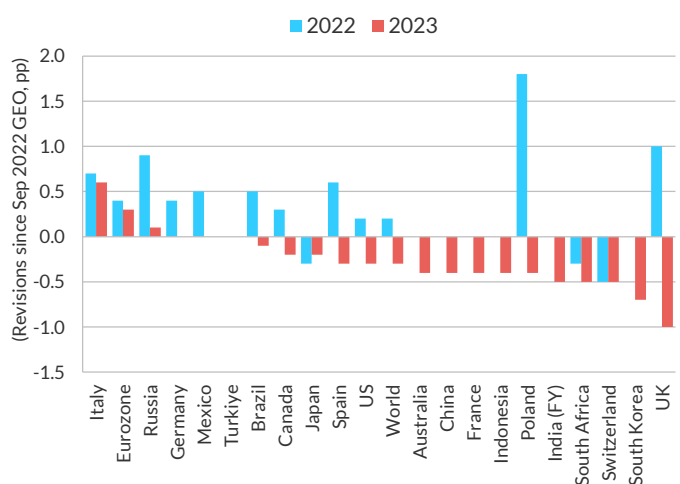
Source: Fitch Ratings

World GDP Growth



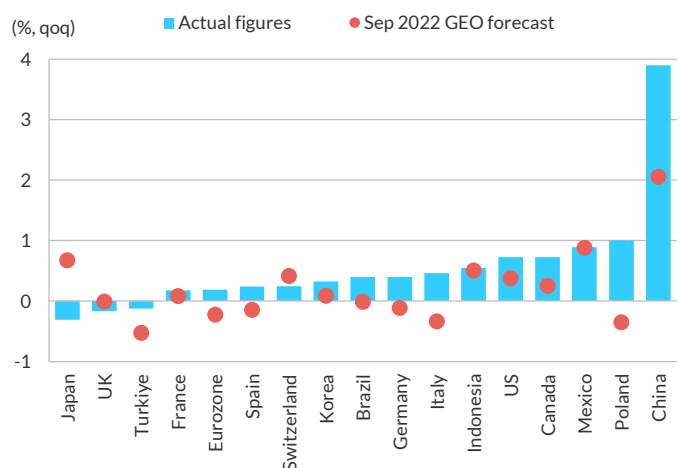
Source: Fitch Ratings' estimates, World Bank, Haver Analytics

Revisions to Annual GDP Growth Forecasts



Source: Fitch Ratings' estimates

GDP 3Q22 Outturns vs Forecasts



Source: Fitch Ratings' estimates, national statistical offices, Haver Analytics

Forecast Highlights

World economic activity has proven more resilient than expected in the past three months – causing us to raise our growth forecasts for 2022 – but the outlook for global growth in 2023 has deteriorated. This reflects the prospect of faster-than-anticipated monetary policy tightening and a darkening outlook for China's property sector. We expect global growth to fall to 1.4% next year which would, abstracting from the pandemic in 2020, be the weakest expansion since 2008.

GDP outturns for 3Q22 were generally stronger than expected and we have revised up our forecast of global growth in 2022 to 2.6% from 2.4% in the September GEO. That would be quite close to the long-run average and a very solid performance after the rapid 6% expansion in 2021. We have also revised up 2022 growth forecasts for the US, eurozone, Canada, Brazil and Mexico – while those for the UK and Poland have seen particularly large improvements following upward revisions to earlier data. Only Japan, Switzerland and South Africa had their 2022 forecasts lowered, in the first two cases reflecting weaker-than-expected outturns in 3Q22.

However, we have made fairly widespread downward revisions to growth forecasts for next year, with the notable exception of the eurozone. Our global growth forecast for 2023 has been revised down by 0.3pp since the September GEO. We have cut forecasts for China's by 0.4pp, for the US by 0.3pp and for emerging markets (EM) excluding China by 0.5pp. The UK has the biggest downward forecast revision, with GDP now expected to contract by 1.2% compared to a forecast of -0.2% in the September GEO. This partly reflects stepped up macro policy tightening and increased uncertainty in the aftermath of the recent bond market crisis.

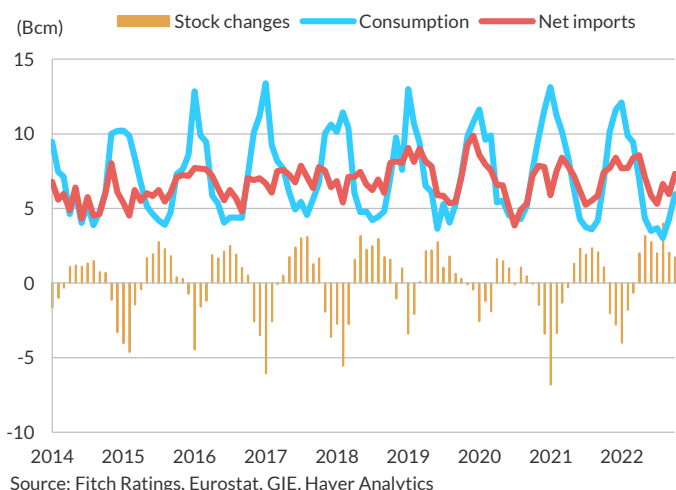
Fitch expects US growth to slow to just 0.2% in 2023 from 1.9% this year, reflecting the lagged effect of monetary tightening on demand, the ongoing drag on real incomes from higher inflation and weakening exports. A relatively short recession is expected in 2Q23 and 3Q23 but the recovery is unlikely to be rapid, with growth still subdued at 1.6% in 2024.

We still expect China to grow by only 2.8% in 2022 despite the 3Q22 GDP outturn being stronger than anticipated. The surge in coronavirus cases and tightening of restrictions that has followed is likely to cause GDP to contract again in 4Q22. China's pandemic approach is evolving and there could be moves towards 'living with the virus' but many restrictions are likely to remain in place well into next year. Moreover, the property market now looks unlikely to recover next year. Recent policy-easing measures are aimed more at preventing a deeper slump than promoting a strong revival in housebuilding.

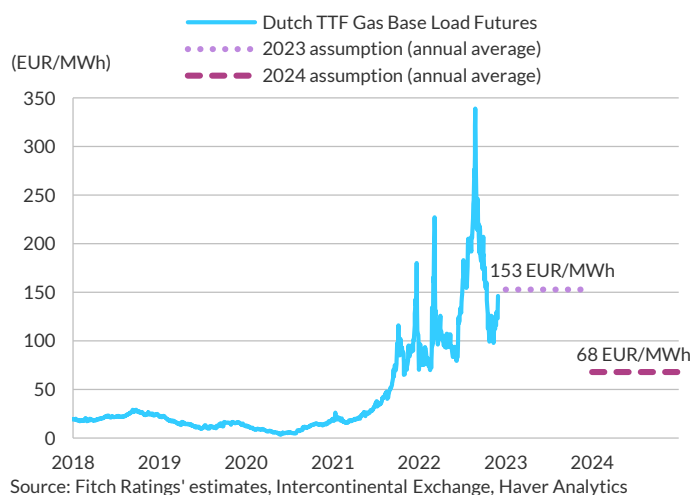
We have revised up our eurozone forecast for 2023 by 0.3pp and is now positive at 0.2%. But we still expect the bloc to enter a recession in the current quarter as high inflation weighs on real incomes and the gas crisis impinges on industrial production and as reflected in recent PMI surveys. Monetary policy will also be a drag on growth as the ECB takes interest rates to restrictive levels.

We expect growth in EM excluding China to slow to 2% in 2023, down from 3.5% in 2022. This is well below the long-run average and largely reflects deteriorating prospects for other Asian economies as China's economy slows and central banks raise rates.

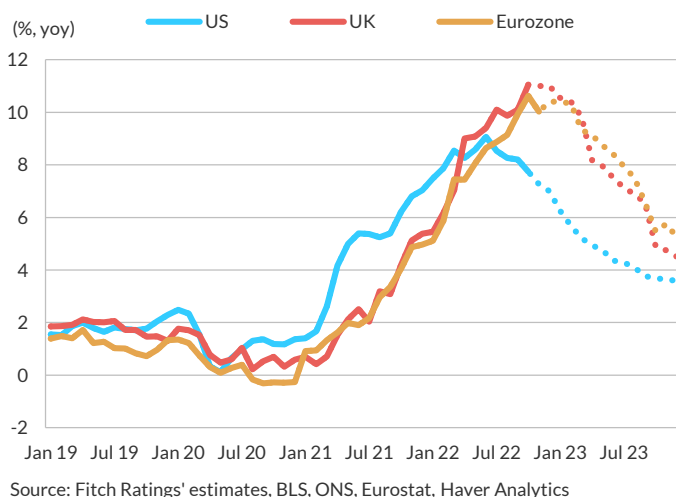
Germany's Monthly Gas Balance



EU Natural Gas Prices



CPI Inflation Monthly Forecasts Through 2023



India, Indonesia and Korea have all seen significant downward growth revisions, as have Poland and South Africa. The growth outlook for Mexico and Brazil – where central banks were quick to respond to higher inflation - has been holding up better.

Inflation has been higher than expected and we have revised up our annual average inflation forecasts for the eurozone and the UK for 2022 and 2023. We still expect inflation to fall significantly in 2023 as food and energy prices stabilise. But core inflation pressures are likely to be more persistent and we don't see substantial progress in bringing core inflation back close to inflation targets until 2024.

European Winter Gas Shortages Averted...

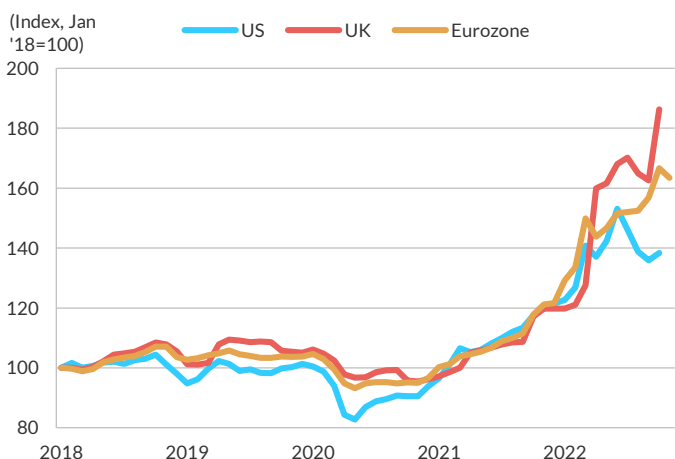
The risk of severe winter shortages of natural gas in Europe looks to have been averted so far. Gas storage levels in November rose to just under 20% of annual consumption in the EU and 25% in Germany, in line with historical filling rates for this time of year. This is an impressive achievement in light of the sharp fall in Russian gas pipeline imports from the middle of the year. It reflects a surge in imports of LNG to the EU, stepped-up pipeline imports from Norway, Azerbaijan and Algeria, and a significant decline in EU natural gas consumption. The latter fell by 10% yoy in 9M22 (and was 6% lower than average January-to-September consumption in 2025-2019), led by a 12% decline in Germany. Warmer-than-usual autumn weather, the surge in wholesale prices, and official EU guidance have contributed to the fall in gas consumption.

The near-term gas supply-demand balance looks better than we expected at the time of the September GEO, but the gas crisis is far from over. EU wholesale natural gas prices are still six times higher than pre-pandemic norms even after having recently fallen to around 130EUR/MWh (Dutch TTF) from a daily peak of more than EUR350/MWh in late August. Russian pipeline supplies have remained positive through 4Q22 – in contrast to our September GEO shut-off assumption – but could easily cease in 2023. The weather is hard to predict and the EU's ability to increase LNG imports this year was helped by a decline in China's LNG demand, partly related to its economic slowdown. The International Energy Agency has articulated a scenario in which Europe faces a supply-demand gap of 30 billion cubic meters in the run up to the 2023-2024 winter heating season, though this is not our base case.

Conditions in the global LNG market – which has been fundamental to EU efforts to replace lost Russian gas supplies – look set to remain tight in 2023 given the limited capacity to increase global LNG production in the near term. We now assume an annual average Dutch TTF wholesale price of EUR153/MWh in 2023, though prices will likely remain exceptionally volatile. While this is lower than the EUR187/MWh assumption for 2023 in the September GEO, it implies increases in the coming months and compares to an average price of just EUR18/MWh in 2015-2019. High wholesale gas prices continue to put serious pressure on firms' costs and household budgets.

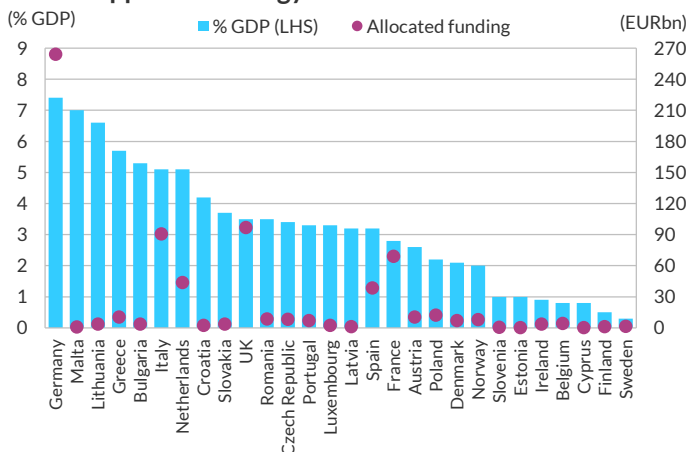
We did not incorporate outright gas shortages and official gas rationing into our previous GEO forecasts for Europe. Moreover, there is now clearer evidence that the gas crisis has already weighed significantly on industrial production in the EU, and Germany in particular. And retail energy prices in the eurozone have risen in recent months by more than we anticipated, reducing real incomes. Nevertheless, the near-term economic disruption from the gas

Consumer Price Index for Energy



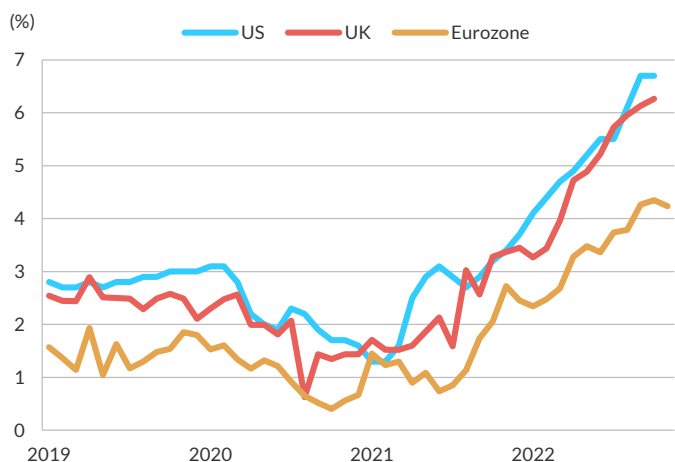
Source: Fitch Ratings, BLS, ONS, Eurostat, Haver Analytics

Fiscal Support for Energy Crisis



Note: data as of 29 Nov 2022
Source: Fitch Ratings, Bruegel

Services CPI Inflation



Source: Fitch Ratings' estimates, BLS, ONS, Eurostat, Haver Analytics

crisis now looks likely to be somewhat less intense than anticipated and we are now forecasting a smaller decline in eurozone GDP in 4Q22 at -0.3% versus -0.8% in the September GEO. We remain more positive on Europe's ability to diversify energy sources and enhance its LNG import and intra-EU distribution infrastructure in the medium term. EU wholesale gas prices are expected to fall sharply in 2024, though to remain way above pre pandemic levels.

..But Inflation Proves to Be Stubborn

Inflation hit 11% in the eurozone and UK in October and remained close to 8% in the US. Recent outturns have been higher than we expected and price pressures are broad-based with all of the major components of the CPI price basket rising swiftly.

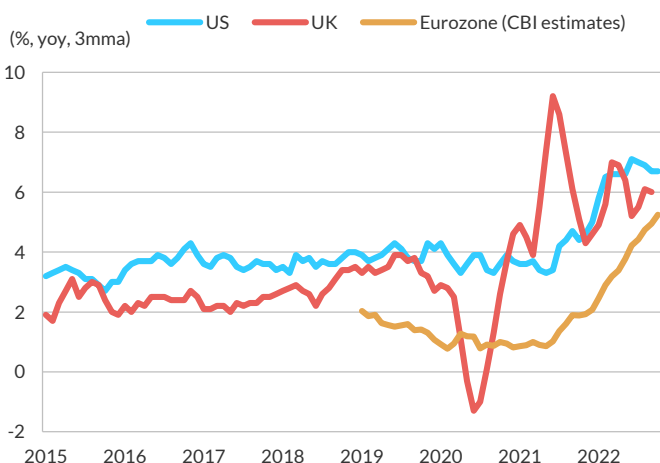
In the eurozone and UK, retail energy price inflation has jumped to around 50% to 60% yoy - despite substantial government intervention to cushion the impact of wholesale gas price increases - contributing around 4pp to annual CPI inflation readings in the past couple of months. This is much higher than the 1.3pp contribution of energy to CPI inflation in October in the US, where energy price inflation has been falling since June on stabilising global oil prices. Also, food prices are rising rapidly - up 11% yoy in the US and more than 13% in the UK and eurozone. This partly reflects a lagged response to the rise in global agricultural prices in the immediate aftermath of Russia's invasion of Ukraine but also rising global fertiliser prices. Food contributed 2.8pp to CPI inflation in the eurozone in November and 1.5pp in the US (in October). We forecast that food price inflation is likely to fall next year given recent declines in world agricultural and fertiliser prices.

The duration and intensity of the current inflation problem means that central banks can no longer ignore food and energy price inflation, despite their volatile nature. But of greater concern is recent increases in core inflation: core inflation, which has increased since the summer in the US, UK and, most significantly, the eurozone, was the main driver of higher-than-expected headline inflation in recent months. CPI inflation excluding food and energy has reached 6.5% in the US and the UK and 5% in the eurozone. Many different 'exclusion-based' measures (which strip out volatile components) of core inflation show the same pattern.

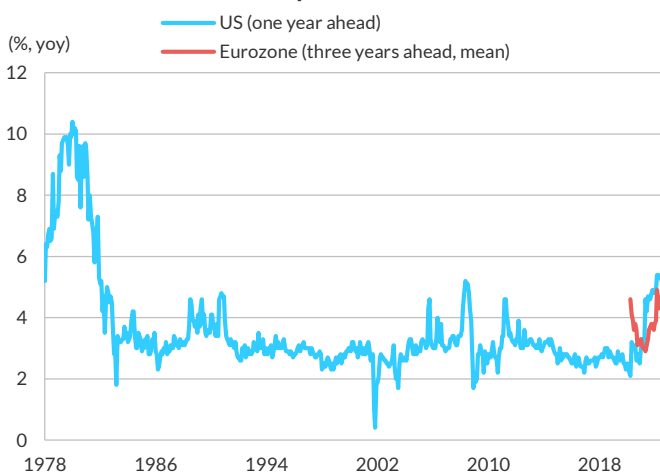
The pick-up in core inflation is despite evidence of an easing in global supply-chain pressures - an key initial driver of rising inflation in 2021. The benefits of the latter have been seen most clearly in the US where core goods inflation (goods excluding food and energy) has fallen to 5.1% in October from a peak of 12.3% in February. However, this has been more than offset by a sharp rise in US services inflation, which reached 6.7% in October - up from 3.7% at end-2021 - with month-on-month increases averaging 0.6% in the past three months. In the UK and the eurozone, services inflation has also increased, to 6.3% (from 3.3% in December 2021) and to 4.2% (from 2.3%), respectively.

The rise in services inflation speaks to inflation becoming more broad-based and entrenched, and is consistent with anecdotal reports of firms being readily able to pass on cost increases to consumers. It also reflects the persistence of tight conditions in labour markets - as evidenced by historically high ratio of job vacancies to unemployment - adding to wage pressures. The Atlanta Fed US wage growth tracker is rising by nearly 7% yoy and UK weekly average earnings are up by 6% yoy. Official ECB data on

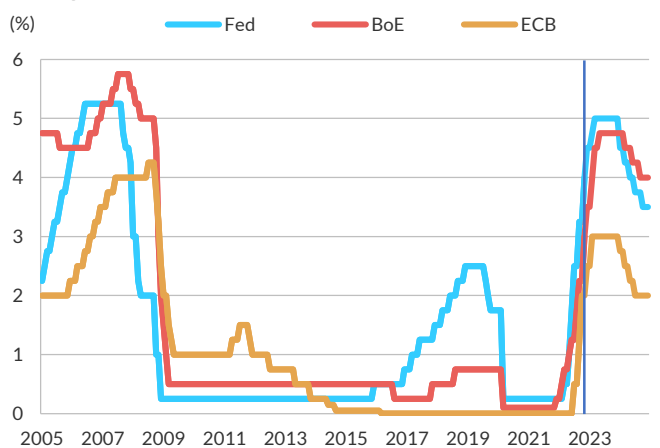
Nominal Wage Growth Measures



Households' Inflation Expectations in US and Eurozone



Policy Interest Rates Outlook - US, UK & Eurozone



eurozone negotiated wage settlements shows only a modest increase to 2.9% in 3Q22, but recent analysis published by the Central Bank of Ireland based on job postings showed eurozone wage settlements growth picking up to more than 5% yoy.

Central Banks Steel Themselves

Against this backdrop, central banks are becoming more determined to take interest rates further into 'restrictive' levels (i.e. above their estimates of the 'neutral' rate, which neither adds to nor subtracts from aggregate demand) in the coming months and are likely to be nervous about a premature pivot to interest rate cuts in the latter part of 2023. Recent central bank commentary has emphasised that risks of 'over-tightening' monetary policy in the near term are outweighed by the risks of not tightening enough and allowing inflation to become more entrenched. Households' medium-term inflation expectations have been rising in the eurozone and UK in recent months and households' year ahead inflation expectations remain high in the US, despite a strong consensus among economic forecasters that inflation will fall in 2023.

We expect the Fed to raise interest rates by 50bp in December 2022 and by 25bp at both its February and March 2023 meetings, and for rates then to remain at 5% (upper band) for the remainder of 2023. We expect the ECB's main refinancing operations (MRO) rate to rise by 50bp to 2.5% in December, by a further 25bp at both the February and March 2023 Governing Council meetings, and to then to remain at 3% for the rest of 2023. The BOE is expected to raise its base rate by 50bp in December to 3.5% and then by a further 125bp to a peak of 4.75% by 2Q23.

Recessions and Job Losses Ahead

Interest rate rises of this size and speed are bound to take a toll on the economy. As an illustration, various empirical studies suggest a 100bp rise in policy interest rates would reduce GDP by around 0.5pp in the US and Europe. Housing markets are already responding, as deteriorating affordability for new mortgage borrowers reduces demand. Residential investment has fallen 8% year-to-date in the US and house prices are now falling month on month in the US and UK. Wider impacts will be felt in 2023, with consumer durables spending and business investment likely to slow as financial conditions tighten and high inflation continues to erode real incomes. Labour demand will fall and we expect unemployment to rise to above 5% in the US and UK and to 7.5% in the eurozone.

Policy Tensions High and Rising

Rising unemployment could increase tensions in policymaking as governments seek to cushion households from shocks while central banks remain focused on taming inflation. This increases the risk of policy missteps that could adversely affect growth. Fiscal easing in conjunction with rising policy rates and central bank quantitative tightening policies - which add to the supply of government bonds that needs to be absorbed by the market - could intensify upward pressure on real interest rates. Hidden leverage and poor liquidity management within the non-bank financial sector could amplify real interest rate shocks, as recently witnessed in UK gilt markets.



United States

The US economy returned to growth in 2H22 as expected, but we have cut our 2023 forecast on faster Fed tightening. We now expect 2022 GDP growth to be 1.9%, revised up by 0.2pp since the September GEO, but annual average growth in 2023 is now forecast to be 0.2%, a downward revision of 0.3pp. This annual average growth forecast incorporates a recession in mid-2023 with a peak-to-trough decline in GDP of 1.2pp.

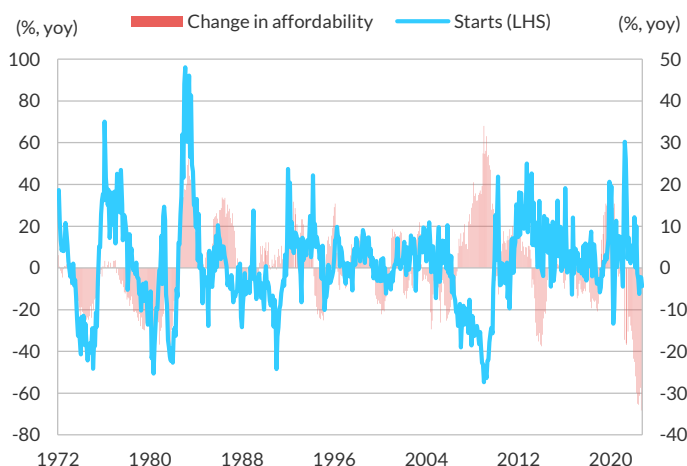
GDP increased by 0.7% in 3Q22 (2.9% annualised) as imports fell, the drag on growth from slower inventory accumulation eased and private consumption and business investment continued to expand. Consumption, business investment and labour market data point to ongoing expansion in 4Q22.

However, Fed tightening to date is already affecting economic activity and we now anticipate an additional 100bp of tightening relative to our previous forecast. New housing affordability has deteriorated at the fastest pace on record – owing to a huge 355bp rise in the 30-year mortgage rate since the start of 2022 – and this is likely to weigh heavily on residential construction activity over the next year.

The lagged effects of recent and prospective monetary policy tightening will be felt much more broadly in 2023. We expect consumer durables spending to fall and business investment will slow, as flagged by the Philadelphia Fed survey of firms' investment intentions. These challenges will increasingly weigh on labour demand and we expect employment to fall by around 2 million through the course of 2023. The economy is expected to contract in 2Q23 and 3Q23 as unemployment rises and household income prospects and confidence deteriorate.

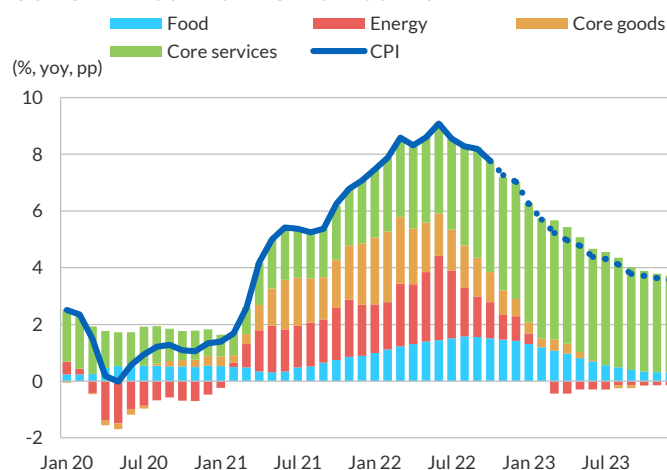
Inflation is proving to be stubbornly high and the Fed has become more worried about inflation becoming entrenched as labour market conditions remain tight and services inflation approaches 7%. The Fed is now expected to raise interest rates to 5% (upper band) by March 2023 and to hold them there throughout the rest of 2023. We expect inflation to decline through 2023 as energy and food prices stabilise but core inflation is projected to remain too high – still at 4.5% in 4Q23 – for the Fed to pivot to rate cuts late next year. A cooling labour market should take pressure off wage growth and allow the Fed to commence rate cuts in 2024.

US - Housing Starts and New Housing Affordability Index



Source: Fitch Ratings, Census Bureau, NAR, Haver Analytics

US - CPI Inflation and Contributions



Source: Fitch Ratings' estimates, BLS, Haver Analytics

United States – Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	2.1	5.9	1.9	0.2	1.6
Consumer spending	2.5	8.3	2.7	0.2	1.7
Fixed investment	3.3	7.4	0.0	-0.7	2.2
Net trade (contribution pp)	-0.5	-1.7	-0.7	0.1	-0.5
CPI inflation (end-year)	2.5	7.0	7.0	3.6	2.7
Unemployment rate	5.1	5.4	3.7	4.8	5.3
Policy interest rate (end-year)	1.22	0.25	4.50	5.00	3.50
Exchange rate, USDEUR (end-year)	0.87	0.88	1.00	1.00	1.00

Source: Fitch Ratings

Eurozone

Since our previous GEO forecast in September, Europe's economy has proved somewhat more resilient than expected. GDP continued to grow in 3Q22 – expanding by 0.2% qoq – helped by reopening dynamics in the services sector, including a recovery in consumption and international tourism. There has also been some respite in the natural gas crisis, with better-than-expected progress in filling storage, a reduced near-term risk of energy rationing and falls in wholesale gas prices. However, inflation has been stronger than expected and we now expect more aggressive tightening from the ECB.

We still expect the eurozone to enter recession from 4Q22 but we have revised up our 2022 annual forecast to 3.3% (from 2.9%) and our 2023 forecast to 0.2% from -0.1% in September. The growth trajectory has also changed somewhat, with a more gradual onset of recession and a more muted recovery in 2H23. As inflation falls and energy shortages are overcome we would expect a growth recovery in 2024. But the winter of 2023-2024 could prove challenging.

The impact of the gas crisis on the economy has already been seen in Germany where firms in more energy-intensive sectors have curtailed production sharply in the face of higher gas prices. Manufacturing PMI surveys have also headed into contractionary territory in 4Q22. However there has been some improvement in consumer sentiment indicators, possibly helped by government announcements of increased help for households.

The main negative development has been on inflation, which despite a moderation in wholesale energy prices during 3Q22, reached 10.6% in October before moderating slightly to 10.0% in November according to flash estimates. We have revised up our forecast for the ECB policy rate. The ECB raised rates by 75bp at the end of October, with the deposit rate rising to 1.5% (from -0.5% as recently as June) and the MRO (refinancing) rate to 2%. We now expect a 50bp rise at the December 2022 meeting and two further increases of 25bp in the first two meetings of 2023, to take the terminal refinancing rate to 3%.

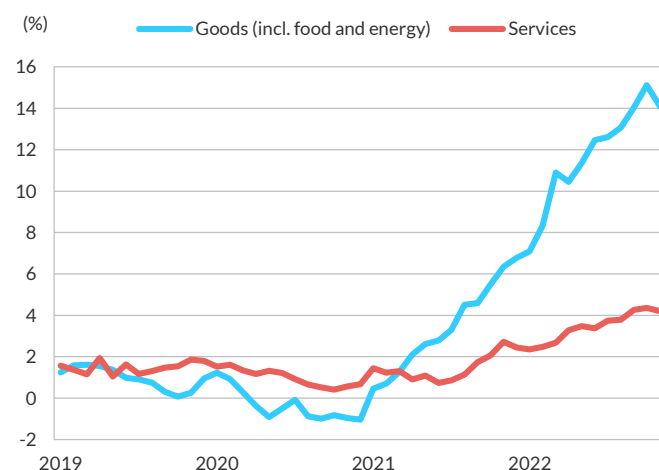
ECB modelling indicates that a 100bp tightening (the amount by which we have revised up our ECB rates path) can have an impact of 0.5pp-0.6pp on growth over the subsequent five quarters. Global growth has been revised lower, affecting the eurozone through the trade channel.

Eurozone – Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	1.0	5.3	3.3	0.2	1.8
Consumer spending	0.1	3.8	3.7	0.0	2.0
Fixed investment	2.3	3.6	2.6	1.9	2.2
Net trade (contribution pp)	0.1	1.3	0.2	-0.4	0.2
CPI inflation (end-year)	1.5	5.0	10.4	5.2	2.4
Unemployment rate	8.1	7.7	6.8	7.4	7.3
Policy interest rate (end-year)	0.00	0.00	2.50	3.00	2.00
Exchange rate, EURUSD (end-year)	1.15	1.13	1.00	1.00	1.00

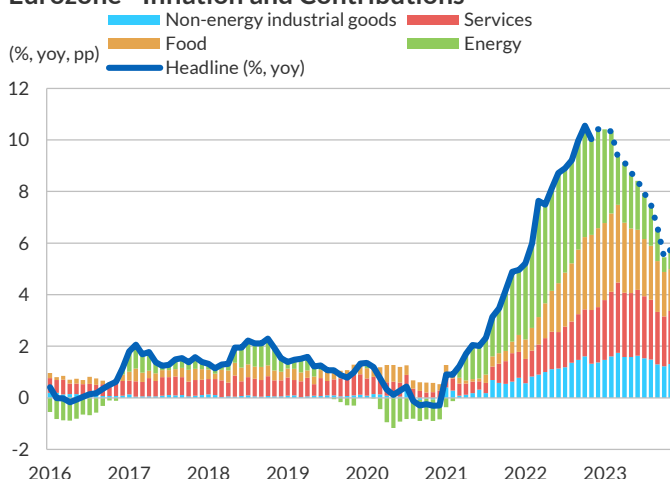
Source: Fitch Ratings

Eurozone - Goods and Services Inflation



Source: Fitch Ratings, Eurostat, Haver Analytics

Eurozone - Inflation and Contributions



Source: Fitch Ratings' estimates, Eurostat, Haver Analytics

China

We have kept our 2022 forecast at 2.8% but have revised down our 2023 growth forecast to 4.1%, from 4.5% in the September GEO. This mainly reflects a weaker outlook for the property sector, against a backdrop of deteriorating export prospects. Pandemic disruptions are also likely to weigh heavily on activity in the near term.

GDP recovered more rapidly in 3Q22 than we anticipated – growing by 3.9% yoy, compared to our September forecast of 2.2% – but October’s monthly data were weak. Retail sales fell in both yoy and mom terms, fixed asset investment and industrial production both slowed to 5% – from over 6% in September – and our preferred measure of credit growth slowed to 10.1% from 10.3%. Moreover, exports recorded their first yoy decline since May 2020.

The recent surge in Covid-19 cases is the worst outbreak recorded at the national level since the pandemic began. The authorities’ approach to the pandemic is starting to evolve as public tolerance for widespread lockdowns wavers and coronavirus spreads. Quarantine periods have been shortened and geographical restrictions made more targeted. An increased focus on accelerating vaccination rates could also signal greater willingness to ‘live with the pandemic’. But the jump in virus cases has also seen more restrictions imposed and the related disruptions – evident in November’s weak PMI data – are likely to see the economy shrink again in qoq terms in 4Q22. Many restrictions are likely to remain well into 2023.

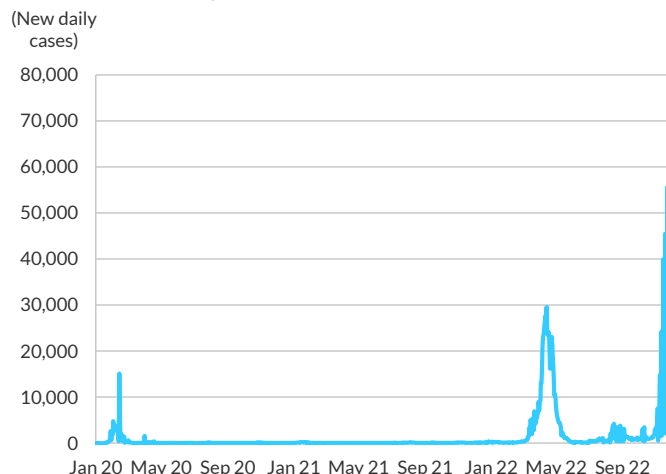
Meanwhile the property slump shows few signs of easing, with housing starts and sales down by 39% and 25%, respectively, in the year to October and new house prices edging down steadily. A slew of policy-easing measures was announced in November but these seem more focussed on preventing a deeper downturn and limiting the potential for wider spillovers rather than a major policy pivot towards promoting a strong revival in the sector. Banks were incentivised to provide additional financing to help complete stalled projects and to provide temporary liquidity support to struggling developers. The recent 25bp cut in banks’ reserve requirement ratio should help credit growth stabilise soon and Fitch expects the consolidated fiscal deficit to remain large at around 7% of GDP next year. Nevertheless, housing sales and construction are now expected to remain subdued next year and we have cut our forecasts for investment growth in 2023. The slowdown in external demand is also set to become a challenge.

China – Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	6.0	8.1	2.8	4.1	4.8
Consumer spending	6.8	12.6	1.0	5.1	5.9
Fixed investment	4.8	2.7	1.8	3.2	4.0
Net trade (contribution pp)	0.6	2.4	1.2	-0.2	0.0
CPI inflation (end-year)	2.0	1.5	2.5	2.3	2.4
Policy interest rate (end-year)	3.15	2.95	2.75	2.75	2.75
Exchange rate, USDCNY (end-year)	6.73	6.37	7.20	7.20	7.30

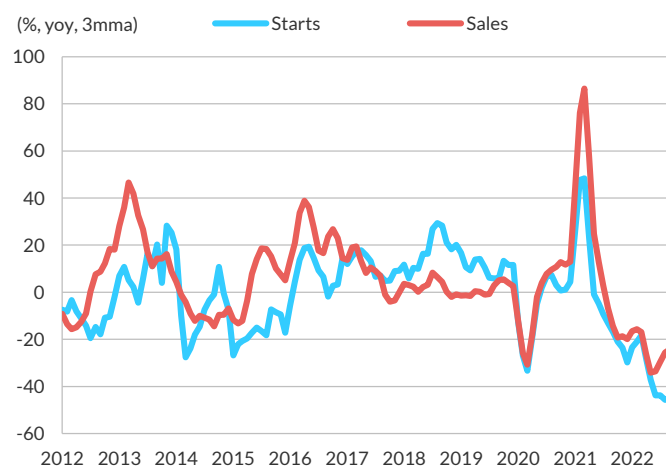
Source: Fitch Ratings

China - New Daily Covid-19 cases



Source: Fitch Ratings, Oxford University, Haver Analytics

China - Housing Starts and Sales



Source: Fitch Ratings, NBS, Haver Analytics

Japan

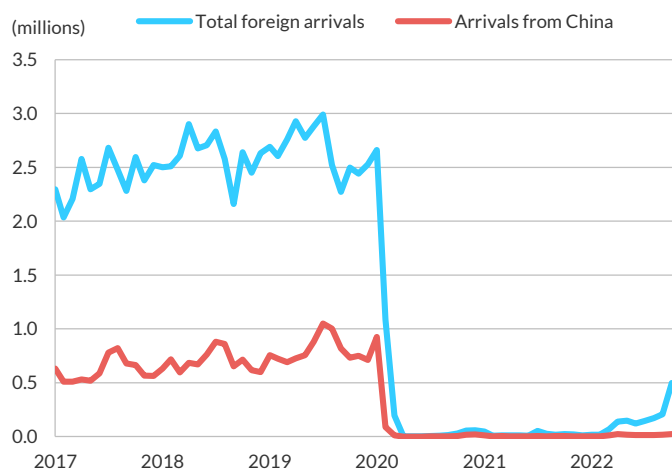
The post-pandemic re-opening boost to growth is already fading, as high inflation weighs on domestic activity and the global slowdown dampens export growth. As a result, we have cut our forecast for 2023 GDP growth by 0.2pp to 1.1%. The economy contracted in 3Q22 by 0.3% qoq, in contrast to the 0.7% expansion predicted in September's GEO. This was primarily down to a spike in services imports, which should normalise. But quarterly growth in consumer spending slowed sharply, indicating that the pick-up in inflation has already squeezed household budgets.

The full re-opening of Japan's international borders will help to boost services exports in 4Q22 and in 2023. Preliminary data show the number of foreign arrivals jumped in October. But the strength of the rebound in tourism will be limited by the near-absence of Chinese visitors, who accounted for nearly a third of arrivals in 2019. Meanwhile, any boost to goods exports from the easing of supply-chain pressures is likely to be offset by weaker growth in trading partners. That will weigh on the investment outlook too. Machinery orders fell again in September and point to investment stagnating.

Domestically, firms and households are facing historically high inflation that was stronger than we expected in September's GEO. We expect headline inflation to fall to 1.5% by end-2023 as past increases in energy and food prices are not repeated and drop out of the yoy rate. But core inflation is also high by Japanese standards, pushed up by the weakness in the yen. For now, there is little evidence of a wage-price spiral – regular earnings picked up by just 1.3% yoy in September and consequently real wages continue to fall.

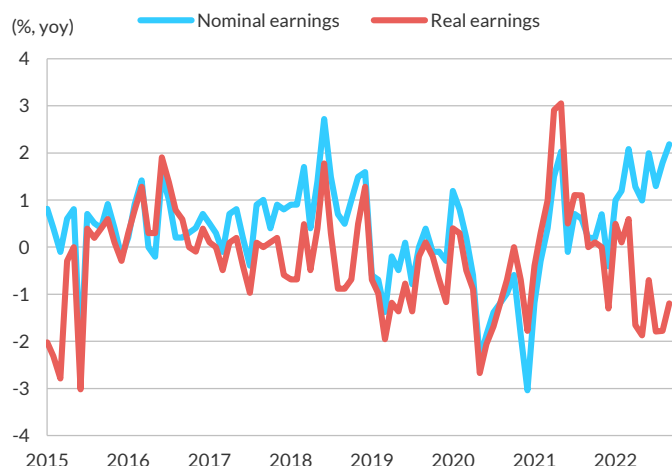
A lack of wage pressure has been fundamental to the BOJ's decision not to follow other major central banks in raising rates this year. The resultant wider differential between domestic and US rates pushed the yen to its weakest against the US dollar since 1990, with FX intervention by the authorities since September merely slowing the depreciation. We expect the BOJ to maintain its policy settings, but if inflation proves more persistent – perhaps if the Shunto wage negotiations in the spring result in larger-than-expected pay settlements – and US 10-year Treasury yields start rising again as we expect, then pressure will grow on the BOJ to make some adjustment, such as a modest widening of its tolerance band for the JGB 10-year yield.

Japan - Foreign Visitors



Source: Fitch Ratings, Japan National Tourism Organization, Haver Analytics

Japan - Nominal and Real Earnings Growth



Source: Fitch Ratings, Ministry of Health, Labor & Welfare, Haver Analytics

Japan - Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	-0.2	1.7	1.4	1.1	1.2
Consumer spending	-0.6	1.3	2.9	1.3	1.2
Fixed investment	-0.7	-1.3	-0.9	2.2	1.7
Net trade (contribution pp)	0.1	1.1	-0.6	-0.2	0.1
CPI inflation (end-year)	0.3	0.8	3.5	1.5	1.0
Unemployment rate	2.6	2.8	2.7	2.7	2.7
Policy interest rate (end-year)	-0.10	-0.10	-0.10	-0.10	-0.10
Exchange rate, USDJPY (end-year)	109.6	114.2	145.0	145.0	135.0

Source: Fitch Ratings

United Kingdom

We think the 0.2% qoq contraction in GDP published for 3Q22 will mark the start of a sizeable recession, as policy tightening and stubbornly high inflation weigh on household spending and business investment. The bigger-than-expected decline in 3Q22 GDP partly reflected the extra public holiday in September, but even stripping that out, real GDP still fell. Many of the measures in September's mini-Budget, and the market reaction to them, have been reversed. This means that the economy will not fare quite as badly in 4Q22 as we expected in the interim October forecast update. However, we think the outlook for next year has on balance worsened since then, partly based on our downward revisions to global growth and the further tightening of global financial conditions. We have cut our 2023 GDP growth forecast to -1.2%.

The weaker external backdrop will weigh on exports but the challenges facing the UK economy are primarily domestic. The Office for Budget Responsibility expects a rare two consecutive years of decline in households' real per-capita incomes. The fiscal strategy announced by the new Chancellor in November included making the Energy Price Guarantee less generous: utility prices will now jump 20% in April 2023, taking the average household yearly bill to GBP3,000, instead of remaining flat at GBP2,500. More generally, inflation has come in higher than we expected in September's GEO, with the CPI measure breaching 11% in October.

Headline inflation will remain very high in 1H23, and will then subside as past increases in energy and food prices drop out of the yoy rate. But services inflation is set to remain very high, as the tight labour market raises workers' wage bargaining power. We expect CPI inflation to end 2023 at around 4.5%. But wage growth is not keeping pace with inflation, so households' budgets are still being squeezed. This will weigh heavily on consumer spending in 2023 and the recovery will be slow, reflecting the step-up in fiscal consolidation in 2024.

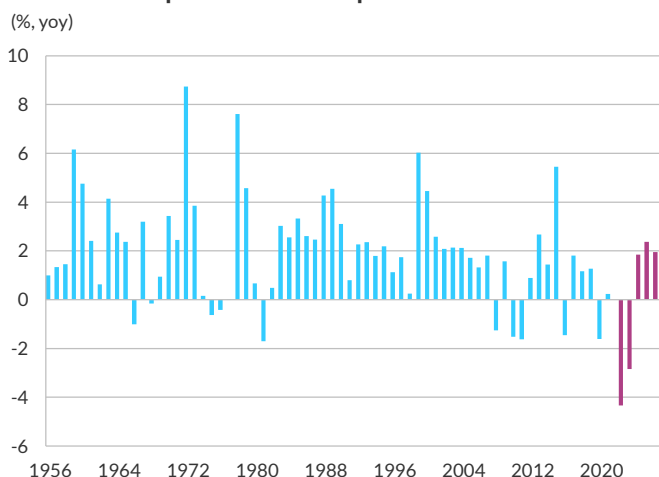
Although the reversal of the mini-Budget means we now expect a little less monetary policy tightening by the BOE, core inflation at 6.5% in October is far too strong for the BOE's comfort and wage growth is too high to be consistent with the 2% inflation target. We therefore expect the BOE to respond with another 175bp of tightening, to 4.75% by 2Q23. While this will hit the housing market – mortgage approvals fell further in October – and dampen business investment, the BOE will ultimately prioritise fighting inflation and keeping inflation expectations in check.

United Kingdom – Forecast Summary

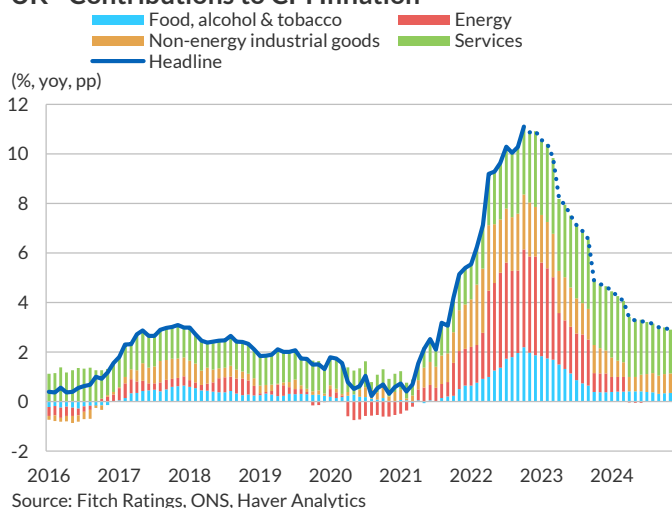
(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	0.4	7.5	4.4	-1.2	1.5
Consumer spending	-0.3	6.2	4.7	-1.6	1.1
Fixed investment	0.0	5.6	5.4	-0.7	1.4
Net trade (contribution pp)	0.2	-1.0	-0.9	1.8	0.3
CPI inflation (end-year)	2.1	5.4	11.0	4.5	2.8
Unemployment rate	4.3	4.5	3.7	5.0	5.0
Policy interest rate (end-year)	0.39	0.25	3.50	4.75	4.00
Exchange rate, GBPUSD (end-year)	1.31	1.34	1.17	1.10	1.10

Source: Fitch Ratings

UK - Real Disposable Income per Person



UK - Contributions to CPI Inflation



Germany

We think the German economy is already in recession and we expect it to suffer the steepest contraction among major eurozone economies, starting in 4Q22. PMIs for November put the composite index more deeply in negative territory (sub 50) than the eurozone metric.

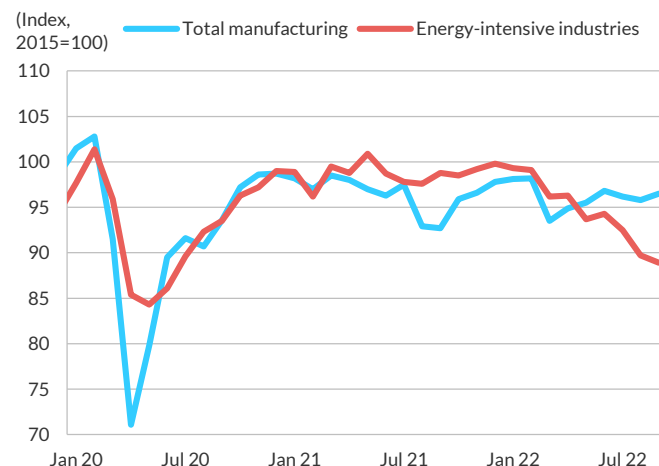
We have slightly revised up our estimate for 2022 growth based on the stronger-than-expected 3Q22 performance, and left the 2023 annual forecast unchanged. However, we now expect a slightly shallower contraction in 4Q22 and 1Q23 and a weaker recovery in the 2H23.

The energy shock is having a greater impact on the supply side of the economy in Germany than elsewhere given the importance of industry and the dependence on Russian gas, as we expected. Industry is adapting to use less gas however. Manufacturing production is flat yoy in 9M22, while energy use has fallen. Households are also using less gas. Energy-intensive industrial sectors' output (such as steel, ceramics and glass) fell much more than the overall sector. A similar pattern is seen elsewhere in Europe.

Energy prices continued to push the annual inflation rate higher during 3Q22 and the annual rate reached 11.3% (according to the flash estimate) in November. Higher inflation will erode real incomes and curtail consumption. Since our September forecast, the government has drawn up a package of support for households to cope with higher energy bills, potentially up to EUR200 billion. Most of the impact on energy prices and household budgets will be felt in 2023. However, once the measures expire, inflation would rise again. The Bundesbank estimates the temporary effect on CPI at 1pp. We expect inflation to moderate during 2023, with the divergence between core and overall measures lessening.

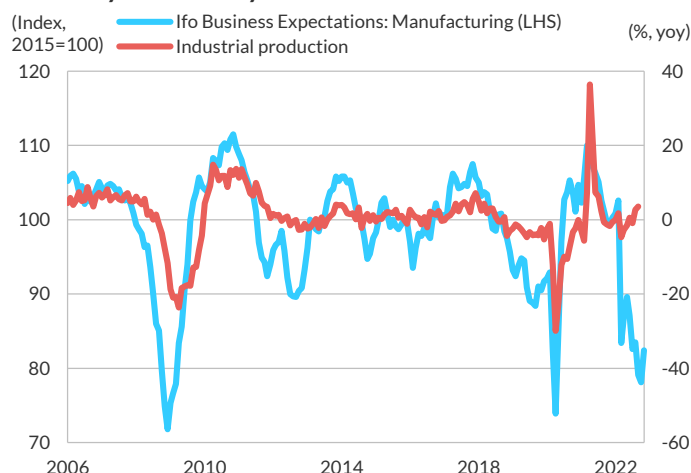
The Bundesbank warned that wage settlements were starting to accelerate. Unions have pushed for large wage rises. The government has allowed firms to offer one-off bonuses that are exempt from social security contributions, hoping to prevent recent pressures from permanently affecting wages.

Germany - Industrial Output



Source: Fitch Ratings, Destatis

Germany - Ifo Survey and Industrial Production



Source: Fitch Ratings, Ifo, FSO, Deutsche Bundesbank, Haver Analytics

Germany – Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	0.7	2.6	1.8	-0.5	1.9
Consumer spending	-0.1	0.4	4.8	0.5	1.6
Fixed investment	1.4	1.2	0.4	1.2	2.9
Net trade (contribution pp)	-0.2	0.8	-1.5	-1.4	0.3
CPI inflation (end-year)	1.7	5.7	12.2	4.1	2.3
Unemployment rate	3.4	3.6	3.1	3.4	3.3
Policy interest rate (end-year)	0.00	0.00	2.50	3.00	2.00
Exchange rate, EURUSD (end-year)	1.15	1.13	1.00	1.00	1.00

Source: Fitch Ratings

France

We have trimmed our 2023 growth forecast for France to below 1%. While France is less dependent on natural gas than Germany and Italy, this has not shielded it from energy price and (idiosyncratic) supply issues. Our revised ECB rate view implies higher rates than we had expected, with an impact on growth. Much higher energy prices are delaying investment. But survey data for France have still consistently been more positive than in Germany.

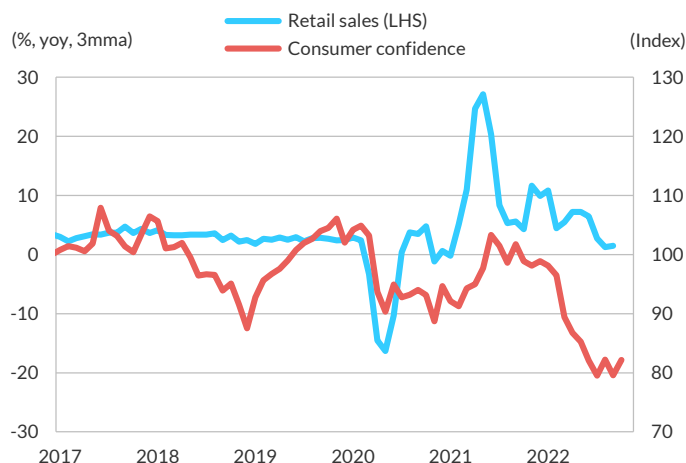
Recent economic performance has been in line with expectations as the economy grew 0.2% qoq in 3Q22, slowing from 0.5% in 2Q22. Consumption was static, while the main surprise was a strong pick-up in investment. Net trade subtracted 0.5pp from the growth rate. As elsewhere, an easing of supply-chain issues has allowed some areas of manufacturing to perform well. New orders are easing, but firms still have a backlog of orders to fulfil.

The shock to real incomes in France is milder than in many other EU countries, which should support consumption, preventing a more severe contraction. The government has extended support for households to offset the shock from higher energy prices. However, the economy minister warned that support would be more closely targeted in 2023, and consumers have been prepared for a 15% rise in home energy tariffs in January.

Inflation was the second-lowest of all eurozone countries at 7.1% for the HICP in November, unchanged on the previous month. Inflation is still concentrated in goods, especially food and energy, which have been responsible for the recent rise in the inflation rate.

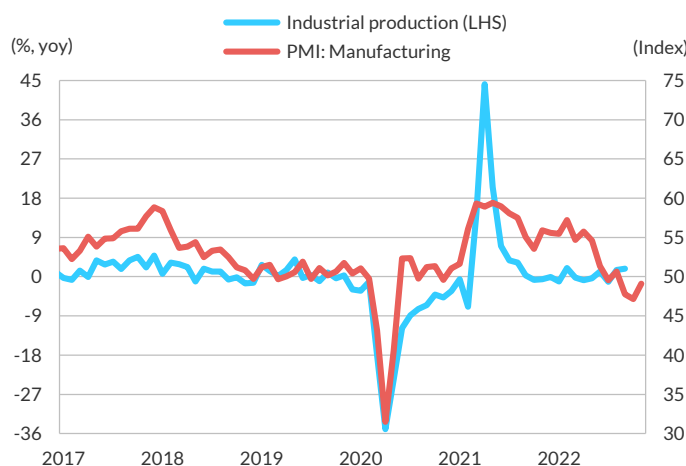
Job growth has gradually slowed in 2022 but the unemployment rate is at historical lows, even with participation rising. We expect the unemployment rate to rise slightly in 2023.

France - Retail Sales & Consumer Confidence



Source: Fitch Ratings, INSEE, Haver Analytics

France - Industrial Production



Source: Fitch Ratings, INSEE, S&P Global, Haver Analytics

France – Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	1.0	6.8	2.5	0.7	1.5
Consumer spending	0.6	5.3	2.5	0.2	1.7
Fixed investment	3.1	11.5	2.2	2.7	2.0
Net trade (contribution pp)	-0.2	0.1	-0.6	-0.5	-0.1
CPI inflation (end-year)	1.4	3.4	7.1	4.4	2.3
Unemployment rate	8.6	7.9	7.6	7.9	7.9
Policy interest rate (end-year)	0.00	0.00	2.50	3.00	2.00
Exchange rate, EURUSD (end-year)	1.15	1.13	1.00	1.00	1.00

Source: Fitch Ratings

Italy

We maintain our forecast for a contraction starting in 4Q22, based on the high exposure to the gas price and supply shock and the impact of higher prices on private consumption, but we have scaled this back and now estimate 2022 overall growth at 3.7%.

We have also trimmed our forecast contraction in 2023 by 0.6pp to -0.1% on a better carry-over from 4Q22 and the slight easing in the gas crisis. Some branches of industry have reduced production significantly – with basic metals and chemicals production falling 6.6% and 9.4% yoy in September, respectively, leading to an overall decline of 0.4% in industrial output in 3Q22 compared with 2Q22. But the economy has so far been somewhat more resilient to the energy shock.

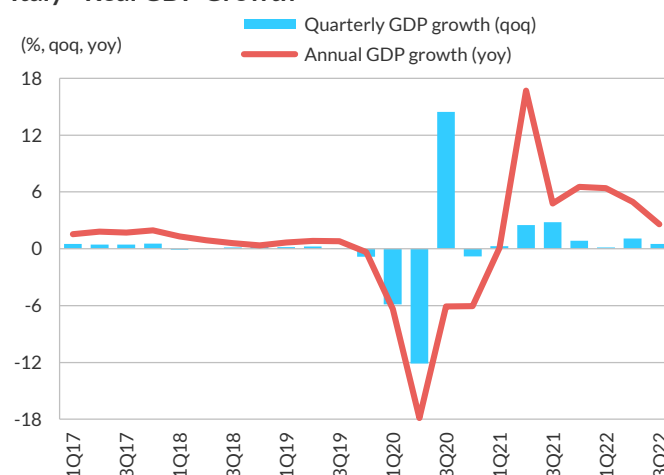
In 3Q22, the economy grew 0.5% qoq on a seasonally and calendar-adjusted basis, with a positive contribution from inventories and continued strong growth in household consumption, offset in part by surging imports. The contribution of net trade was negative. Real household disposable income has been falling since 4Q21, according to Istat, but has been supported by government programmes to offset higher energy bills.

Survey data rebounded in November, with consumer confidence jumping in what may have been a reaction to an announced fall in energy bills linked to wholesale prices and a change in the mechanism for setting these. In 2023 and 2024, activity will benefit from spending related to the Recovery and Resilience Plan, although this is taking longer to roll out than envisaged. By contrast, a tax break on home improvement, which has helped support Italian household investment, will be phased out.

Inflation quickened in October by 3.2pp, taking the annual rate for the HICP to 12.6%. It then edged down to 12.5% in November. The measure of gas, electricity and household fuel prices jumped by 46%, accounting for most of the rise in October. The scale of support to households being offered by the Italian government in 2023 is also much less than in Germany.

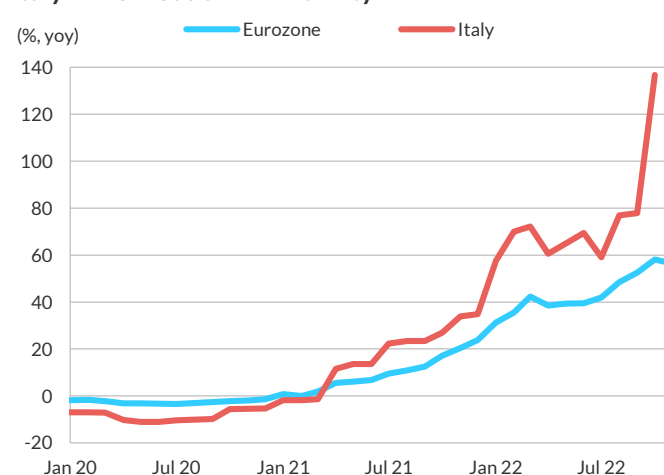
We have raised our near-term inflation forecasts from our September baseline, but it is likely that there will be some month-on-month deflation that brings inflation down from this peak in 1H23. As elsewhere, we expect the contribution from non-core elements to fade, allowing inflation to fall in 2023.

Italy - Real GDP Growth



Source: Fitch Ratings, Istat, Haver Analytics

Italy - HICP Gas and Electricity



Source: Fitch Ratings, Eurostat, Haver Analytics

Italy - Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	0.2	6.7	3.7	-0.1	1.5
Consumer spending	-0.5	5.2	4.7	0.9	1.5
Fixed investment	3.2	16.5	9.7	1.6	1.7
Net trade (contribution pp)	-0.1	-0.1	-1.1	-0.8	0.1
CPI inflation (end-year)	1.0	4.2	13.1	4.3	2.7
Unemployment rate	10.1	9.5	8.3	8.7	8.6
Policy interest rate (end-year)	0.00	0.00	2.50	3.00	2.00
Exchange rate, EURUSD (end-year)	1.15	1.13	1.00	1.00	1.00

Source: Fitch Ratings

Spain

Incorporating a revision to growth data from 1H22, we have revised up growth in Spain to 4.7% in 2022 – this incorporates a slowdown but not outright contraction in 4Q22 and 1Q23 – but have cut our growth forecast for 2023 by 0.3pp to 1.4%. A gloomier outlook for the global economy and higher interest rates are contributors to this change. Spain has a higher share of variable-rate mortgages than other large eurozone economies, increasing its exposure to higher ECB rates.

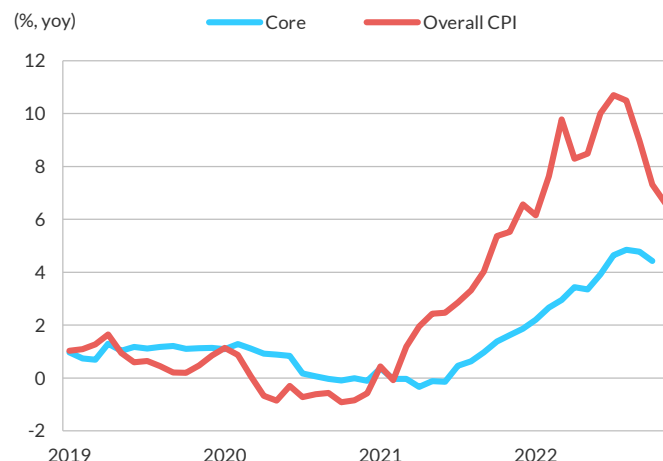
Our growth forecast for Spain in 2023 remains higher than the eurozone average. There remains more scope for catch-up in employment and in real output, which is still below pre-pandemic levels. Spain remains less dependent on gas than the average for the eurozone, and gas prices are lower than elsewhere in Europe. Elements of fiscal policy, such as a steep rise in pensions in 2023, will also support consumption.

The economy grew 0.2% qoq in 3Q22, faster than we expected in September. Consumption was relatively robust, but according to high-frequency data on consumer spending, it is now slowing. Net trade made a more negative contribution than we had assumed. Tourism grew strongly, with the regions that have the greatest exposure growing faster than others.

Inflation in Spain was among the first to accelerate in response to the energy price shock, but has bucked the trend in the eurozone, with the annual rate falling to 6.6% in November according to the flash estimate (for HICP), down 4.1pp from the peak in July. While other countries recorded a jump in household energy prices in September and October, Spain recorded deflation, based on the way that Spanish wholesale energy prices are reflected in regulated household energy tariffs. These fell in October as the average wholesale gas price fell 50% mom. The national wholesale gas price has also decoupled from the Dutch TTF benchmark. The government's price cap does allow for continued growth in household energy prices but will prevent rapid rises.

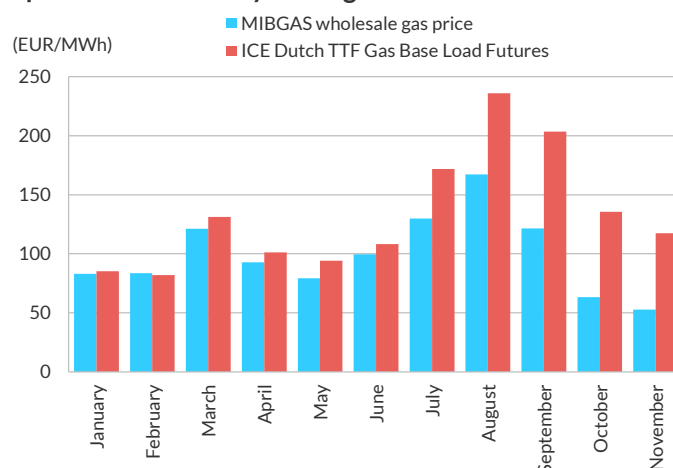
We expect inflation to continue to fall in 2023, but postponed energy price adjustments could lead to a re-acceleration in prices and core inflation will be slower to decelerate.

Spain - Inflation



Source: Fitch Ratings, Eurostat, Haver Analytics

Spain - 2022 Monthly Average Gas Prices



Source: Fitch Ratings, MIBGAS, Intercontinental Exchange, Haver Analytics

Spain – Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	0.3	5.5	4.7	1.4	2.4
Consumer spending	-0.1	6.0	2.2	1.7	1.8
Fixed investment	1.8	0.9	5.4	3.8	4.2
Net trade (contribution pp)	-0.5	0.3	2.9	-0.5	0.4
CPI inflation (end-year)	1.4	6.6	6.1	4.3	2.5
Unemployment rate	15.4	14.8	12.9	13.0	12.8
Policy interest rate (end-year)	0.00	0.00	2.50	3.00	2.00
Exchange rate, EURUSD (end-year)	1.15	1.13	1.00	1.00	1.00

Source: Fitch Ratings

Switzerland

We have revised down our 2023 growth forecast to 0.8% from 1.3% in the September GEO. A slowdown is unavoidable as the boost from reopening fades, and in line with the recession we expect in the eurozone. The economic sentiment measure (KSS) compiled by SECO shows this is negative, but households are more pessimistic than firms. PMIs for industry remain above 50, a very different picture from in Germany.

The main risk to our forecast is that gas-supply shortages occur, though these are not our base case. We expect a growth recovery in 2024 along with European trading partners.

In 3Q22, net trade made a positive contribution to growth, concentrated in goods. We expect export growth to slow. Private consumption will be supported by a very tight labour market, with unemployment as low as 2.1% in 3Q22. Consumption grew by 0.7% in 3Q22, despite negative consumer sentiment. Real wages are falling but this effect is less pronounced than in many other countries. The flipside of low unemployment is a shortage of workers, which is hampering the supply side of the economy, particularly in sectors such as construction, where output has been falling for eight consecutive quarters, despite robust demand.

Switzerland has Europe's lowest inflation rate, with the annual rate falling to 3.0% in November from a peak of 3.5% in August. Core inflation rose to 1.9%, 0.1pp up from October. Inflation will come under renewed pressure in 2023 with a large scheduled rise in gas and electricity costs. Longer-term inflation expectations are close to 2%.

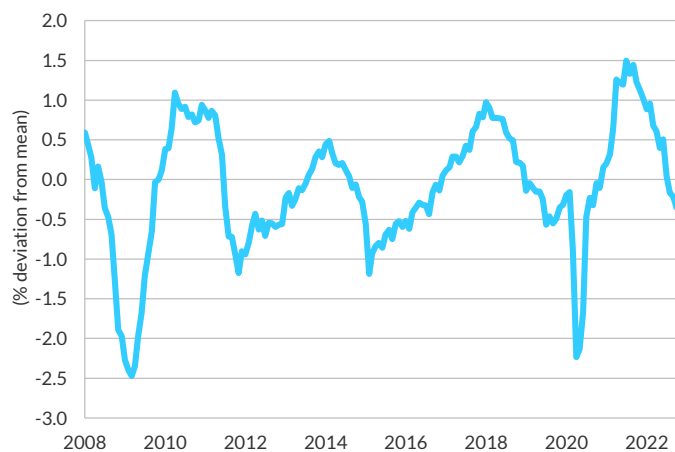
We have revised up our SNB interest rate path, partly in line with our expectations for faster tightening by the ECB. Following the authorities 50bp increase to 0.5% in September, we expect them to raise their benchmark rate by 50bp at the scheduled meeting in December, and that rates will peak at 1.5% in 2023.

Switzerland - Export and Import Volumes



Source: Fitch Ratings, SECO, Haver Analytics

Switzerland - Economic Confidence Indicator



Source: Fitch Ratings, SECO

Switzerland - Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	1.4	4.2	2.0	0.8	1.6
Consumer spending	0.1	1.7	4.1	1.5	1.4
Fixed investment	1.2	4.1	0.2	1.7	1.5
Net trade (contribution pp)	1.1	4.1	-0.4	-0.5	0.6
CPI inflation (end-year)	0.3	1.5	3.0	2.7	2.0
Unemployment rate	2.8	3.0	2.2	2.4	2.3
Policy interest rate (end-year)	-0.75	-0.75	1.00	1.50	1.00
Exchange rate, USDCHF (end-year)	0.96	0.91	0.99	0.98	0.98

Source: Fitch Ratings

Australia

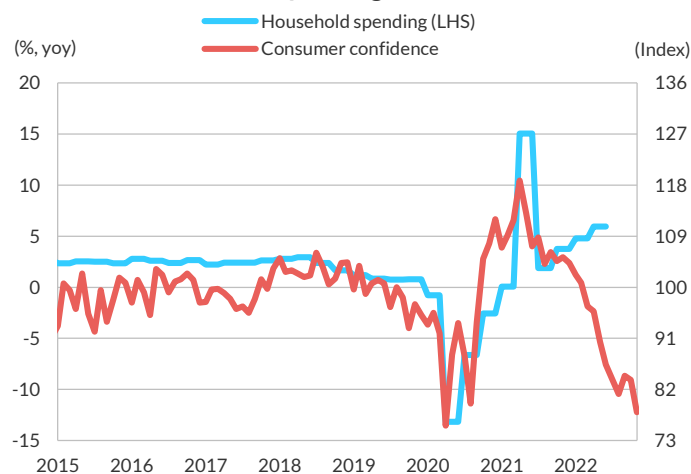
Australia's economy has proved resilient in 2022 even as the global outlook has deteriorated and we continue to expect GDP to expand by around 4% this year. However, we have cut our growth forecast for 2023 by 0.4pp to 1.5%, reflecting our weaker outlook for China and the global economy more generally, higher inflation and slightly faster policy tightening by the Reserve Bank of Australia (RBA).

GDP data for 3Q22 is not yet available but monthly data suggest that consumer spending on goods and services held up well in the third quarter, boosted by reopening effects. Meanwhile, the increases in capacity utilisation and monthly capital spending point to business investment growth remaining strong in 2H22.

Further ahead, though, Australia's economic prospects have deteriorated. On the domestic front, the latest surveys of businesses and consumers are consistent with GDP growth slowing sharply and the plunge in consumer confidence suggests that it is only a matter of time before household spending growth slumps. Although the labour market is very strong, with the participation and employment rates both historically high, nominal wage growth is still being outpaced by inflation, which is likely to reach close to 8% by year-end. The external backdrop has also weakened. The sharper slowdown in growth that we now expect in China, particularly given prolonged weakness in the property sector, will weigh on Australia's exports.

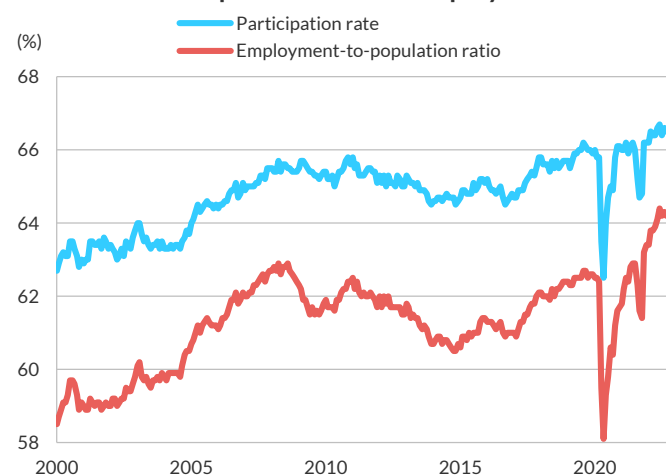
Inflationary pressures are set to ease in 2023 as the past rises in energy and food price inflation will not be repeated. But we still expect the headline rate to remain above the RBA's 2%-3% target in 2023. The RBA has already tightened by 275bp and in light of the strength and persistence of inflation we now expect a further 50bp of rate rises to come by early 2023, taking the cash rate to 3.35%. Households, whose debt is almost twice their disposable income, are having to contend with much higher interest payments. This is already taking its toll on the housing market and prices are now falling in year-on-year terms. We expect dwellings investment growth to slow next year.

Australia - Household Spending & Consumer Confidence



Source: Fitch Ratings, ABS, Westpac-Melbourne Institute, Haver Analytics

Australia - Participation Rate and Employment



Source: Fitch Ratings, ABS, Haver Analytics

Australia - Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	2.0	4.9	3.9	1.5	2.0
Consumer spending	1.0	5.0	7.1	2.3	2.0
Fixed investment	2.0	9.8	1.4	1.5	2.5
Net trade (contribution pp)	-0.1	-1.6	-1.7	0.1	0.0
CPI inflation (end-year)	1.8	3.5	7.8	3.5	2.3
Unemployment rate	5.5	5.1	3.7	4.2	4.4
Policy interest rate (end-year)	0.92	0.10	3.10	3.35	2.75
Exchange rate, USDAUD (end-year)	1.37	1.38	1.50	1.45	1.45

Source: Fitch Ratings

Canada

The Canadian economy grew strongly in 9M22, but our weaker forecasts for the US – its main trading partner – and the wider global economy mean that we have cut our 2023 GDP growth forecast to 0.6% from 0.8%. In 3Q22, GDP increased by 0.7% qoq, stronger than the +0.2% we expected in September's GEO as a rise in commodity exports more than offset a contraction in domestic demand. As a result, we have raised our 2022 GDP growth forecast by 0.3pp to 3.5%.

The recession that we now expect in the US will take its toll on Canadian exports, which are closely linked to the US business cycle. The new export orders component of Canada's manufacturing PMI remains well below the 50 no-change level and is consistent with big yoy falls in non-energy exports.

On the domestic front, the effects of high inflation, tighter financial conditions and the weakening housing market will weigh on household spending and investment. The cumulative 350bp increase in interest rates so far in 2022 has meant that many variable-rate mortgage holders, even those with fixed payments, face a large rise in interest payments that will inevitably curb household spending and residential investment. In October, house prices fell in year-on-year terms for the first time in almost two years. The weaker outlook is evident in the business surveys such as the CFIB Business Barometer and that of the Bank of Canada (BOC), which are pointing to economic growth slowing sharply in 1H23. This will put upward pressure on unemployment, which we now expect to rise to 6.1% in 2023 and 2024.

Inflation has been weaker than we expected in September's GEO, and downward trends in the prices of both agricultural commodities and oil suggest that the headline rate will continue to fall. We expect it to end 2022 at 6.8% and then drop steadily to 3% by end-2023 as base effects reduce the contribution from the energy and food components. The BOC's preferred measures of core inflation also suggest that underlying price pressures have peaked.

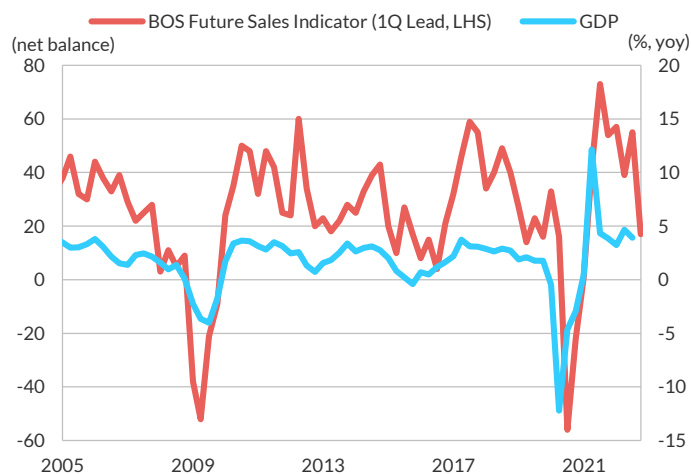
This strengthens our view that the BOC, which raised its policy interest rate by 50bp to 3.75% in late October, is coming to the end of its tightening cycle. The BOC is increasingly focused on the cumulative effect of its past tightening and emphasising that wage growth is "plateauing". We continue to expect one final 25bp rate rise in December.

Canada – Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	1.5	5.0	3.5	0.6	1.7
Consumer spending	1.3	5.0	4.6	0.8	2.1
Fixed investment	2.3	7.4	-0.6	-0.9	2.0
Net trade (contribution pp)	-0.4	-2.0	-1.8	-0.4	-0.3
CPI inflation (end-year)	2.0	4.8	6.8	3.0	2.5
Unemployment rate	7.0	7.4	5.3	6.1	6.1
Policy interest rate (end-year)	0.93	0.25	4.00	4.00	3.75
Exchange rate, USDCAD (end-year)	1.30	1.29	1.35	1.30	1.30

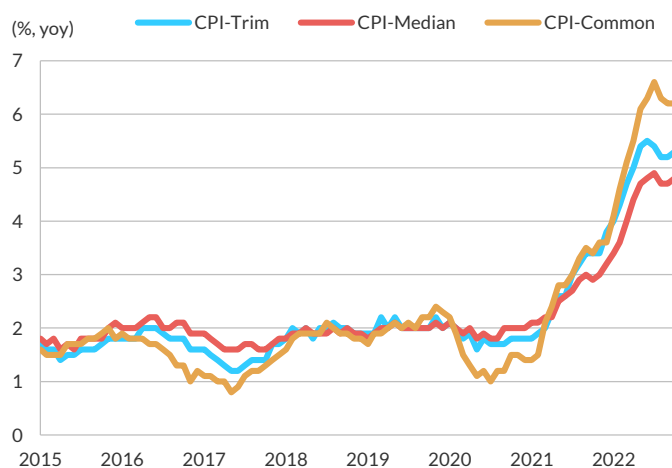
Source: Fitch Ratings

Canada - Future Sales Indicator and GDP



Source: Fitch Ratings, StatCan, Bank of Canada, Haver Analytics

Canada - Underlying Inflation Measures



Source: Fitch Ratings, StatCan, Haver Analytics

Brazil

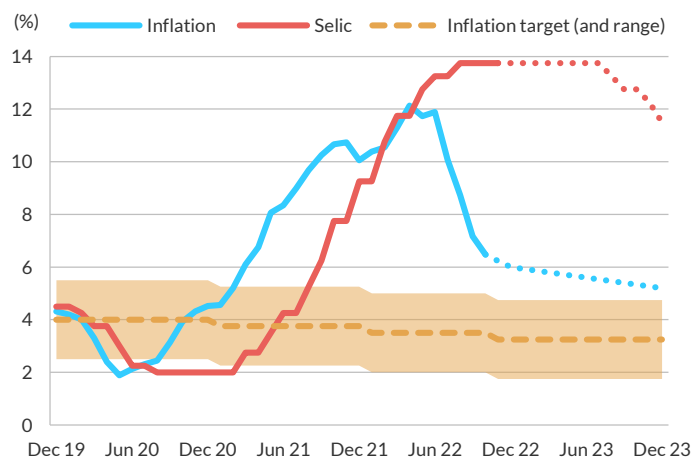
Fitch has revised up projected 2022 growth to 3.0% from 2.5%, on stronger than expected incoming data. Real GDP grew 0.4% qoq (sa) in 3Q22, following 1.0% in 2Q22 and 1.3% in 1Q22, supported by a recovering labour market, policy stimulus measures, and post-pandemic re-opening in the services sectors. Growth should slow in 4Q24, on the lagged effect of tight monetary policy, global economic deceleration, and domestic policy uncertainties, and Fitch projects 0.7% growth for 2023.

The growth outlook will be sensitive to details around the policy direction of the incoming administration of President Luiz Ignacio “Lula” da Silva, who will take office at the beginning of next year following his narrow victory over incumbent Jair Bolsonaro in October elections. Lula’s push for a large waiver from the country’s spending cap in 2023, and medium-term fiscal uncertainties posed by his intention to modify the cap, have prompted some market volatility and could reinforce a hawkish bias of the central bank. His pledge for greater state involvement in the economy could have a bearing on potential growth, though concrete plans and picks for key posts (ministries, state-owned enterprises) have yet to be detailed, and a conservative congress could pose some constraint on leftward policy direction.

Inflation fell further to 6.5% in October from its peak of 12.1% April. Large cuts on fuel taxes and moderation in global energy prices explain much of the decline in inflation, while core inflation measures remain high (around 9.2% in October) but have begun to moderate on monetary tightening. The central bank raised its Selic rate to 13.75% in August, which Fitch believes will be the peak of this aggressive tightening cycle that has seen rates rise by 1,175bp trough-to-peak. However domestic fiscal uncertainties and further expected US Fed rate rises should reinforce a hawkish bias. Fitch projects later and more gradual cuts to the Selic than we had expected to 11.5% by end-2023, and further increases cannot be ruled out should policy signals fuel further market volatility and de-anchor inflation expectations.

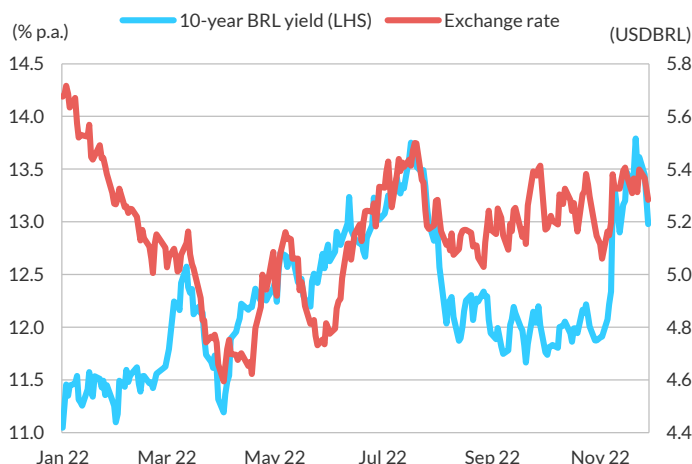
The Brazilian real has been volatile since the elections, selling off but then mostly recovering in response to mixed signals about the fiscal policy direction, although at around BRL/USD 5.25 currently has still strengthened 8% over the course of the year. It is likely to remain sensitive to further announcements and policy signals by the new government.

Brazil - Inflation and Policy Rate



Source: Fitch Ratings’ estimates, Central Bank of Brazil

Brazil - Government Bond Yields and Exchange Rate



Source: Fitch Ratings, Bloomberg

Brazil – Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	1.2	5.0	3.0	0.7	2.0
Consumer spending	1.2	3.7	4.2	1.7	2.0
Fixed investment	4.3	16.6	0.7	2.5	3.5
Net trade (contribution pp)	-0.2	-0.7	0.3	-0.7	0.0
CPI inflation (end-year)	4.5	10.1	6.0	5.2	3.5
Policy interest rate (end-year)	6.01	9.25	13.75	11.50	8.00
Exchange rate, USDBRL (end-year)	4.27	5.58	5.25	5.25	5.25

Source: Fitch Ratings

Russia

The economy continues to contract, but the depth of the decline has not been as large as expected when sanctions were imposed in early 2022. Flash estimates for 3Q22 showed a (non-seasonally adjusted) decline of 4% yoy, which equates to a (seasonally adjusted) quarterly fall of around -1.7%, according to our estimates. This is a smaller contraction than the 5.4% yoy decline we anticipated in the September GEO. For 2022 as a whole we now expect a GDP decline of -2.6% compared to -3.5% in September. And we expect the economy to continue contracting next year before modest growth resumes in 2024.

The latest high-frequency data point to some stabilisation in activity, including modest improvements in car sales and an increase in industrial output in October. Bank lending continues to support households and corporates though the growth of corporate loans in roubles is partly associated with the replacement of foreign currency loans and external financing. Russia has also continued to export oil to the EU despite the war, while also expanding into Asian markets. The EU along with the G7 and Australia adopted a USD60 pb cap on the price of Russian crude oil in early December (which will be reviewed in January 2023). Crude sold above that price will not be shipped using G7 and EU tankers or insured by European companies. Major global shipping and insurance companies are based within the G7. This comes on top of the EU import ban on Russian seaborne crude oil. It is unclear at this stage whether other buyers (including China, India and Turkiye) will be able to absorb the oil volumes to the EU (roughly 1.5 million barrels a day in October).

Longer-term prospects remain poor. The economy is undergoing a structural transformation with companies needing to rebuild new supply chains, reconstruct international business partnerships while facing large disinvestment by international corporates. These factors are all likely to imply a large supply shock to the economy over time, weighing on already weak trend growth.

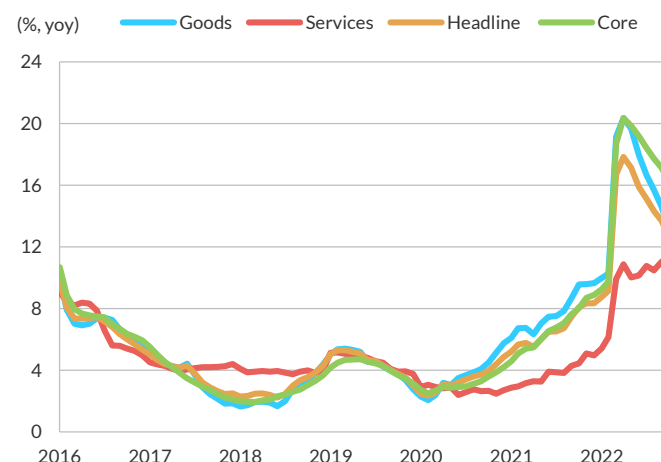
Headline annual inflation continues to slow and we expect it to end 2022 at 12% (revised down from a previous forecast of 14%). The recent troop mobilisation is expected to be disinflationary in the very near term as consumer demand slows but beyond that, the associated reduction in civilian labour supply will add to inflation pressures. With the CBR holding the policy rate at 7.5% since September we now expect a slight easing next year to 7% at end-2023) as annual inflation eases towards 8%.

Russia - Export and Import Volumes



Source: Fitch Ratings, Oxford Economics, Haver Analytics

Russia - Inflation Measures



Source: Fitch Ratings, Federal State Statistical Service, Haver Analytics

Russia – Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	1.8	4.7	-2.6	-2.5	1.7
Consumer spending	2.8	9.5	-4.9	-2.6	2.8
Fixed investment	1.7	6.8	0.4	-3.6	2.0
Net trade (contribution pp)	-0.6	-2.7	1.7	-2.0	-0.9
CPI inflation (end-year)	4.2	8.4	12.0	8.0	6.0
Policy interest rate (end-year)	6.93	8.50	7.50	7.00	6.50
Exchange rate, USDRUB (end-year)	66.30	74.29	63.00	70.00	75.00

Source: Fitch Ratings

India

The economy grew more than expected in 3Q22, increasing 6.3% yoy (non-seasonally adjusted) owing to a large boost from consumption and investment, and above our September GEO forecast of 5.5% yoy. Despite the stronger-than-expected outturn, we have kept our growth forecast at 7.0% in the financial year ending March 2023 (FY23). India is expected to record one of the fastest growth rates among emerging markets in our Fitch20 coverage this year.

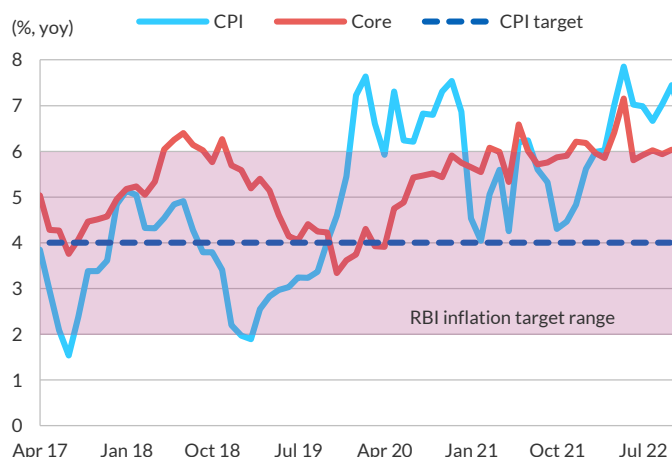
India is shielded to some extent from global economic shocks given the domestically focused nature of its economy, with consumption and investment making up the bulk of the country's GDP. However, India is not impervious to global developments. The worldwide economic slowdown is expected to reduce demand for Indian exports and weakness is already evident in recent data – merchandise exports declined for the first time in almost two years including in textiles, petroleum products and engineering goods. Monetary policy tightening and high inflation have also contributed to a slowdown in imports, an easing in personal loan growth and falling purchasing power. Tighter financial market conditions are also weighing on demand for capital goods, which serves as a leading indicator for investment.

That said, economic resilience is reflected in upbeat labour market conditions with unemployment easing and labour participation improving. The employment sub-index of the manufacturing PMI also accelerated in October to an almost three year high while the services sector equivalent remained in expansion.

Inflation eased to 6.77% in October though core inflation edged up again after moderating over the summer, and households' inflation expectations remain high as food price inflation remains elevated. Weakness in the rupee against the US dollar is adding to inflationary concerns at the RBI given that a third of the CPI basket consist of imports.

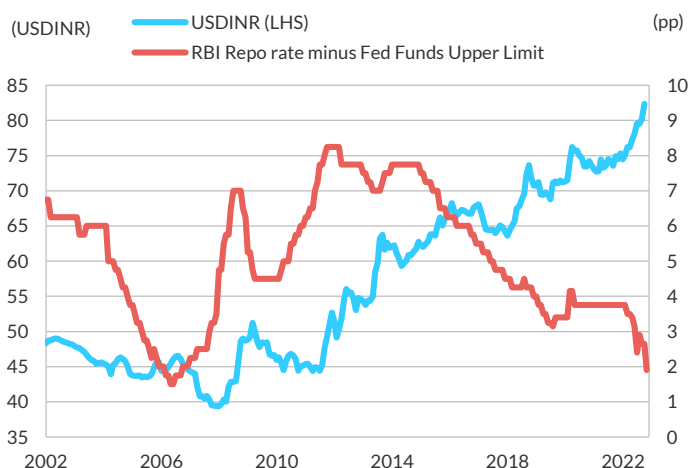
The RBI has raised rates by a cumulative 190bp since the start of the tightening cycle in April 2022, lagging behind the Fed's 350bp increases over the same period. The RBI has already intervened to support the rupee and further rate rises are likely to support the currency and to curtail underlying inflationary pressure. We now expect the RBI to increase policy rates to 6.15% by December and to then hold this rate throughout 2023.

India - CPI and RBI Inflation Target



Source: Fitch Ratings, MOSPI, Reserve Bank of India, Haver Analytics

India - USDINR and RBI-Fed Policy Rate Differential



Source: Fitch Ratings, Reserve Bank of India, Fed, Haver Analytics

India - Forecast Summary

(%) FY starting April	Annual Avg. 2017-2021	FY21-22	FY22-23F	FY23-24F	FY24-25F
GDP	3.8	8.7	7.0	6.2	6.9
Consumer spending	4.1	7.9	12.2	5.7	5.7
Fixed investment	5.2	15.8	13.4	8.1	7.5
Net trade (contribution pp)	-0.9	-2.9	-4.4	-0.2	0.2
CPI inflation (end-cal. year)	4.6	5.7	6.5	5.0	5.0
Policy interest rate (end-cal. year)	5.28	4.00	6.15	6.15	5.75
Exchange rate, USDINR (end-cal. year)	70.39	74.30	80.00	80.00	80.00

Source: Fitch Ratings

Korea

Korea's economy is set for a sharp slowdown in 2023 as export demand cools and faster-than-anticipated policy tightening to tame inflation hurts domestic demand. GDP grew by 0.3% qoq in 3Q22, faster than the 0.1% we expected in the September GEO. While there was a negative contribution from net exports as imports growth outpaced that of exports, domestic demand grew strongly. Consumer spending increased significantly, suggesting that there was still pent-up demand following the lifting of Covid-19 restrictions in April, and investment growth was especially strong helped by a rise in machinery and equipment investment.

But we think this marked the high point for Korea's post-pandemic growth recovery. We now expect a much bigger slowdown in Korea's economy in 2023, with growth of just 1.2% next year after 2.6% in 2022. That is substantially weaker than the 1.9% for 2023 that we forecast in September's GEO and reflects the weaker outlook for the global economy and Chinese GDP in particular. Korea is more vulnerable than most given the high share of exports in GDP and heavy trade exposures with China. The weakening in global economic conditions is already showing in Korea's production and trade data. Even though supply-chain pressures have eased, the trade data for October and first 20 days of November were very weak, especially in the semiconductor sector. Indeed, chip production is now lower than it was a year ago and manufacturers' expectations of new orders and investment plans have worsened significantly since May.

The domestic outlook has also worsened. Headline inflation is now on a downward trend, but it remains very high at more than 5%, and core inflation is still rising. Moreover, the weakness in the won, which has depreciated by around 7% on a trade-weighted basis since the start of the year, has the potential to keep goods inflation higher for longer.

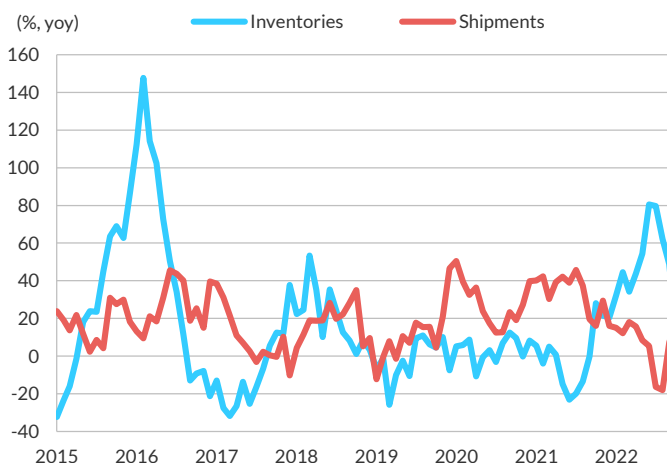
The Bank of Korea is prioritising inflation-targeting, delivering a 25bp rate rise to 3.25% in November and signalling more increases to come. However, there are already signs that the strength of inflation and high interest rates are weighing on households and businesses: confidence measures have fallen and the steady decline in retail sales suggests that once the re-opening boost has faded, consumer spending will slow sharply. These factors, along with growing strains in the corporate credit markets, suggest the tightening cycle is nearing an end. Fitch expects one final 25bp rate rise in early 2023, to 3.5%, with the BOK then starting to ease in 2024.

Korea - Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	2.3	4.1	2.6	1.2	2.7
Consumer spending	1.4	3.7	4.4	1.9	1.8
Fixed investment	2.4	2.8	-1.0	2.6	2.6
Net trade (contribution pp)	2.5	2.7	1.3	0.2	0.8
CPI inflation (end-year)	1.4	3.7	5.0	2.0	1.6
Policy interest rate (end-year)	1.14	1.00	3.25	3.50	3.00
Exchange rate, USDKRW (end-year)	1144	1187	1350	1300	1300

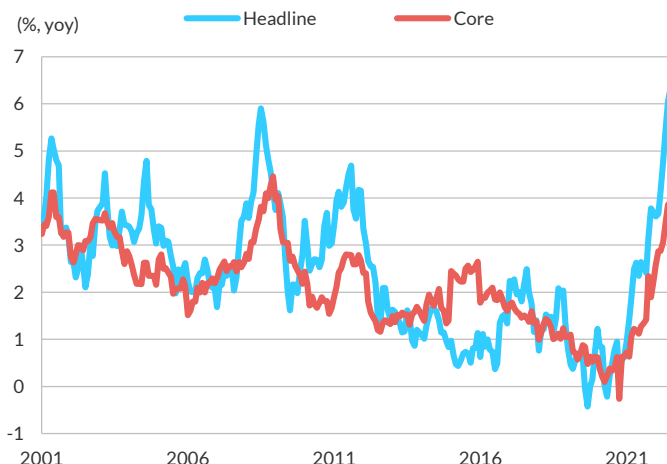
Source: Fitch Ratings

Korea - Semiconductors Shipments and Inventories



Source: Fitch Ratings, Statistics Korea, Haver Analytics

Korea - Headline and Core Inflation



Source: Fitch Ratings, Statistics Korea, Haver Analytics

Indonesia

Another strong export performance in 3Q22 helped to underpin a non-seasonally adjusted 5.7% yoy gain, matching our September GEO forecast. Solid household spending and an increase in non-construction investment also supported growth in the quarter. High-frequency indicators point to near-term strength in the domestic economy as highlighted by upbeat consumer sentiment and an above-50 print (i.e. expanding) in the manufacturing PMI.

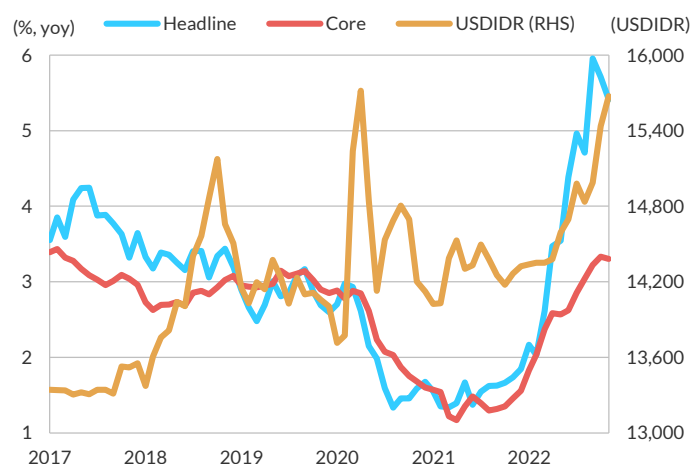
We have kept our growth expectation for this year at 5.2%, but now expect the economy to expand by 4.8% next year (revised down from 5.2%) as the boost provided by reopening the economy fades and the cumulative impact of past monetary tightening weighs on the economy. The government's commitment to reduce the budget deficit will also affect growth dynamics in 2023 as will the slowdown in global commodity prices.

While India and China remain Indonesia's main export markets for coal, Indonesia has also increasingly been able to supply the EU, making up a shortfall created by the EU's ban on Russian coal.

Annual headline inflation eased to 5.4% in November while core inflation was unchanged at 3.3% and is likely to remain elevated in the coming months. The increase in domestic fuel prices due to reduced subsidies contributed to the pick-up in core inflation as higher energy costs spread through the economy.

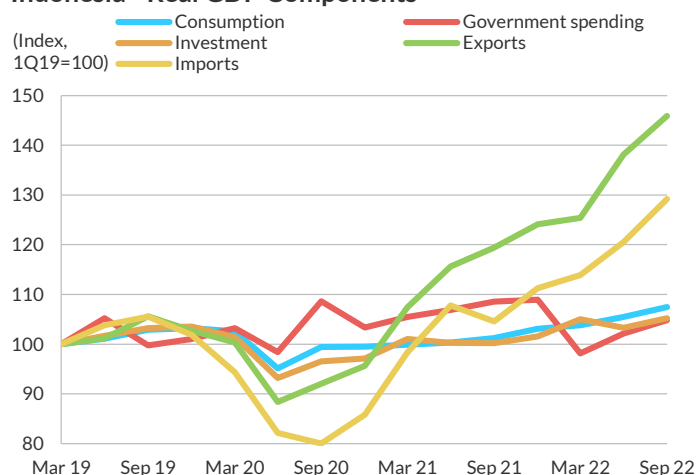
Bank Indonesia's (BI) initial reluctance to raise policy rates resulted in the rupiah weakening relative to the US dollar as the Fed increased rates more decisively from mid-year. BI began increasing in August, trailing emerging-market counterparts, but has since "front-loaded" rises, increasing policy rates by a cumulative 175bp so far. We expect BI to retain a hawkish bias given the weakness in the rupiah and see policy rates rising to 5.75% in early 2023 where they should remain throughout the rest of the year. The impact of policy rate increases and last year's month-on-month inflation numbers dropping out of the annual CPI measure should help inflation to fall towards the BI's inflation target (3% +/- 1%) by end-2023.

Indonesia - Inflation and the Exchange Rate



Source: Fitch Ratings, Badan Pusat Statistik, Bank Indonesia, Haver Analytics

Indonesia - Real GDP Components



Source: Fitch Ratings, Badan Pusat Statistik, Haver Analytics

Indonesia - Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	3.4	3.7	5.2	4.8	5.6
Consumer spending	2.9	2.0	5.1	4.4	4.4
Fixed investment	3.2	3.8	4.3	5.2	5.7
Net trade (contribution pp)	0.6	1.0	1.3	1.3	1.1
CPI inflation (end-year)	2.7	1.9	5.2	3.0	3.0
Policy interest rate (end-year)	4.61	3.50	5.25	5.75	4.75
Exchange rate, USDIDR (end-year)	14131	14269	15500	15500	15500

Source: Fitch Ratings

Mexico

Economic activity continued to improve through 3Q22, and performed better than expected, growing by 4.3% yoy, compared with our previous expectation of 1.8%. As a result, and incorporating upward revisions to previous quarters, we are upgrading our 2022 growth projection to 3.0% from 2.5% in September. Our 2023 growth projection is unchanged at 1.4% and we forecast 1.6% for 2024. We anticipate annualised growth rates of around 1% for much of next year. The economy will face challenges from an expected slowdown of the US economy, which will dent external demand for Mexico's manufacturing exports, the most dynamic sector of the economy. Fitch anticipates US GDP growth at 0.2%, which includes a mild recession beginning in 2Q23.

Consumption continues to benefit from continued labour-market improvement and inbound remittances, whose growth is decelerating but still grew by 19% on a 12-month rolling basis in September 2022. Unemployment and underemployment rates have reached their pre-pandemic levels and continue to fall. Nevertheless, high inflation may derail robust consumption performance if it persists at current levels. Sluggish investment continues to constrain growth prospects. Private investment is near pre-pandemic levels but is more than 10% below its previous peak in July 2018. Weak business confidence is partly related to regulatory uncertainty, particularly in the electricity sector. The US government began a consultation process under the United States-Mexico-Canada Agreement (USMCA) framework, alleging that recent energy and electricity policy decisions contravene the agreement.

Near-shoring is an important growth opportunity for Mexico, given increased US-China tensions and manufacturers' desire for shorter and more resilient supply chains due to current dislocations affecting supply and prices. Further reliance of the US on Mexican imports may limit the fallout from slower US growth. Increasingly, evidence points towards higher demand for Mexico's production (although it has not translated into higher investment) and suppliers' relocation out of China.

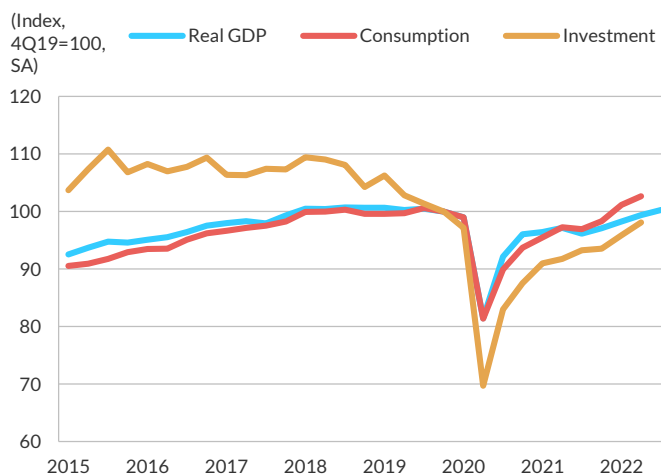
Inflation declined to 8.4% in October from 8.7% in September. Core inflation continues to rise, also reaching 8.4% in October. Banxico began to tighten monetary policy in June 2021, raising the policy rate by 600bp to 10% as of November. We anticipate Banxico will continue policy tightening to avoid further de-anchoring of inflation expectations against the backdrop of stubbornly high inflation. We project that the policy rate will reach 10.50% by end-2022.

Mexico - Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	0.2	4.7	3.0	1.4	1.6
Consumer spending	0.7	7.5	6.8	1.8	1.6
Fixed investment	-2.7	9.5	5.7	1.4	2.2
Net trade (contribution pp)	0.0	-2.2	-1.1	-1.0	-0.1
CPI inflation (end-year)	4.7	7.4	8.0	4.2	3.5
Policy interest rate (end-year)	6.43	5.50	10.50	11.00	9.50
Exchange rate, USDMXN (end-year)	19.84	20.58	20.00	21.00	21.00

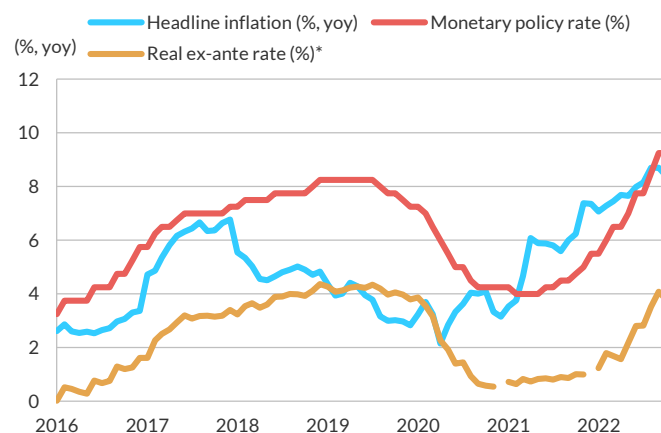
Source: Fitch Ratings

Mexico - Real GDP Components



Source: Fitch Ratings, INEGI, Haver Analytics

Mexico - Interest Rate and Inflation



*Real ex-ante rate uses 12-month inflation expectations from Banxico's survey.
Source: Fitch Ratings, Banxico

Poland

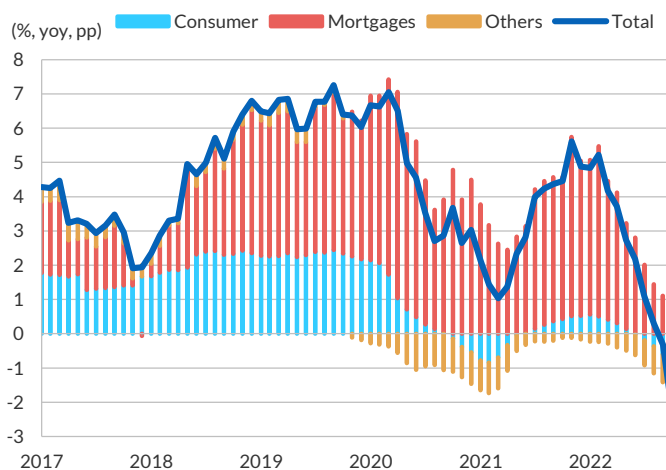
A significant upward revision to 1Q22 GDP and a stronger outturn in 3Q22 – relative to our September projection – has resulted in a higher growth forecast for 2022. The initial print for 1Q22 was 2.5% qoq but this was revised to a very large gain of 4.3% qoq due to a boost from inventories. Growth in 3Q22 of 1.0% qoq (September GEO: -0.4% qoq) was driven by a large increase in exports but partly offset by declines in consumption and investment.

Despite the better outturn, Poland’s economy is likely to weaken given external challenges from the global economic slowdown and the war in Ukraine. High inflation, slowing household credit and weak consumer confidence will also weigh on the outlook for consumer spending. We now expect growth of just 1.1% in 2023, revised down from 1.5%.

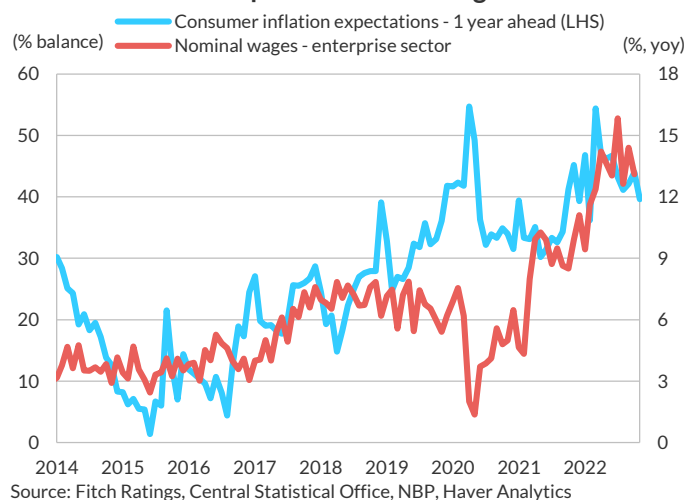
Policy rates have been on hold at 6.75% since September of this year after 500bp worth of tightening in just one year. Recent dovish signals by the National Bank of Poland (NBP) have put in doubt whether policymakers want to increase rates further and NBP now appears to have adopted a wait and see approach. The Bank is hoping that slower growth and cumulative monetary policy tightening will be enough to bring inflation back down to target of 1.5%-3.5%.

The NBP also appears willing to tolerate a higher inflation rate to support the economy even as inflation expectations remain high and wage growth continues to grow at around 13%. With annual headline CPI inflation at 17.4% in November a further increase in inflation is still likely if the government withdraws part or all of its anti-inflation shield (which temporarily lowered VAT on food and utility bills until the end of this year). In any case, the presence of the shield did not stop inflation from rising this year. We expect headline inflation to peak early in 2023 at around 21% and to ease to 13% by the year-end. But with the zloty recently weak relative to the US dollar, the NBP is likely to keep rates on hold next year.

Poland - Lending to Households



Poland - Inflation Expectations and Wage Growth



Poland – Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	4.0	6.8	5.7	1.1	2.6
Consumer spending	2.9	6.2	3.6	0.2	2.3
Fixed investment	4.2	2.0	4.8	3.1	3.9
Net trade (contribution pp)	0.2	-1.2	-0.7	0.0	0.2
CPI inflation (end-year)	2.9	8.7	18.0	13.0	7.0
Policy interest rate (end-year)	1.06	1.75	6.75	6.75	5.50
Exchange rate, USD/PLN (end-year)	3.80	4.06	4.50	4.50	4.50

Source: Fitch Ratings

Turkiye

Growth for 2022 is unchanged relative to our September projection of 5.2% despite a better outturn in 3Q22 (-0.1% qoq versus -0.5% qoq) and small downward revisions to growth data the first two quarters of this year. Growth in 3Q22 was driven by strong private and government consumption but offset by a second consecutive contraction in investment and rising imports. Turkiye's economy will face increasing challenges next year as its largest trading partner, the eurozone, enters recession. Ongoing geopolitical uncertainties will limit export growth and weigh on investment.

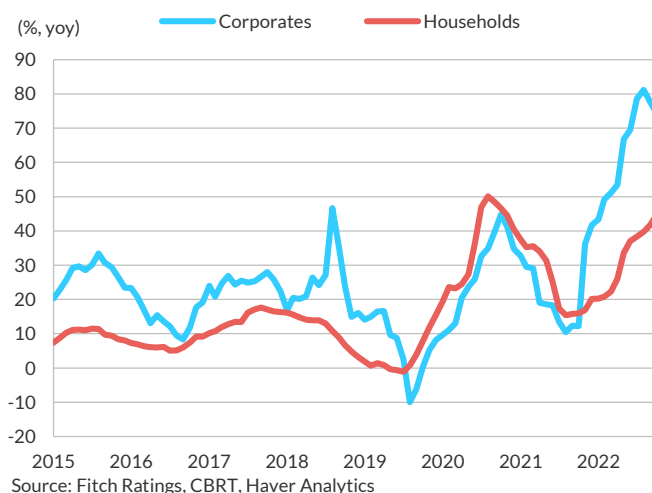
Consumers have continued to spend even as inflation has surged, supported by favourable labour market developments (labour force participation is now back to pre-pandemic levels), fiscal measures to support those on low income, tax cuts on energy and two increases in the minimum wage.

Headline inflation rose to 84.4% yoy in November while producer prices rose by 136% yoy. We expect overall inflation to decline at the end of this year as significant month-on-month inflation prints in December 2021 and January 2022 drop out of the annual CPI rate. That said, CPI should still end 2023 at 55% yoy.

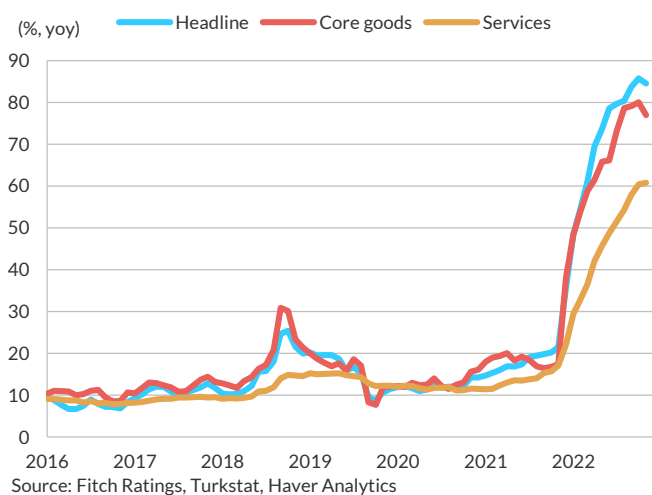
Despite high inflation, the Central Bank of the Republic of Turkiye (CBRT) has continued to cut policy rates. In September's GEO we expected the bank to keep the policy rate prevailing at the time at 13% until year-end. But we also raised the possibility that President Recep Tayyip Erdogan's pronouncements could sway the central bank to lower rates. At the end of November, the CBRT cut rates to 9% but said in its statement it had now ended the rate-cutting cycle.

The outlook for policy rates is highly uncertain at this stage and partly dictated by the timing of the general election, which needs to take place before June 2023. We expect that policy rates will remain at 9% at least until the election takes place. Any tightening via policy rates, though, will likely have to take into account the large and increasing number of macro-prudential policies that have been introduced in recent months to lower the domestic cost of financing and reduce financial dollarisation. Ultimately though our view remains that the current economic framework is inconsistent – given deeply negative real policy rates – and we assume that CBRT rates will increase to 13% by end-2023.

Turkiye - Total Lending to Corporates and Households



Turkiye - Headline and Core Inflation



Turkiye - Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	4.9	11.4	5.2	2.9	2.9
Consumer spending	5.3	15.3	17.2	5.2	1.9
Fixed investment	2.1	7.4	1.0	0.5	2.3
Net trade (contribution pp)	1.1	4.8	1.1	-0.6	0.6
CPI inflation (end-year)	14.9	36.1	75.0	55.0	48.0
Policy interest rate (end-year)	14.37	14.00	9.00	13.00	13.00
Exchange rate, USD TRY (end-year)	6.00	12.99	20.00	24.90	27.70

Source: Fitch Ratings

South Africa

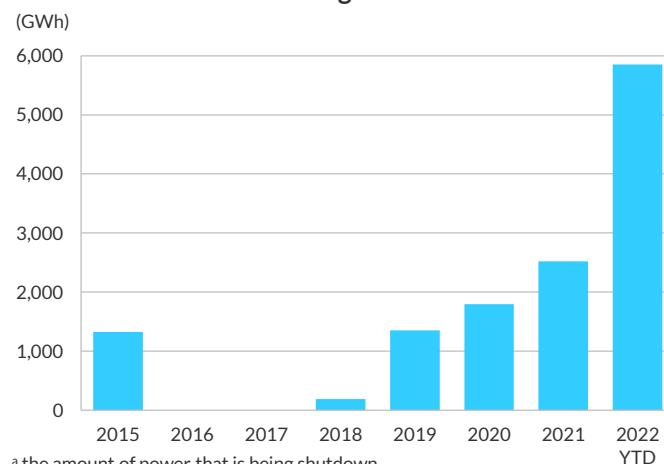
We expect the economy to weaken further, with growth affected by waning support from commodity prices, high inflation, slower global growth and insufficient energy supply. Data for 3Q22 GDP were unavailable at the time of this GEO, but high-frequency data point to subdued economic activity as highlighted by the manufacturing PMI survey and retail sales.

Household spending has been supported by growth in disposable income, better employment levels and social transfers since the pandemic but we expect this to moderate in 2023 as the economy slows and inflation erodes real purchasing power. The cooling in external demand and the decline in commodity prices have weakened the rand against the US dollar, contributing to the rise in headline inflation since the start of 2022. The latest annual CPI print for October showed a moderation to 7.58% from a peak of 7.85% in July even as core inflation trended higher in the period.

Persistent shutdowns of the power grid, as demand exceeds available supply, have weighed heavily on the economy in 2022 and are likely to continue into 2023 as the number of generating units undergo maintenance. The South African Reserve Bank (SARB) estimated in the October monetary policy review that load-shedding shaved 1.4pp from growth in 2022. Given these domestic and external challenges, we now expect the economy to grow 1.1% in 2022, revised down from our previous forecast of 1.6%.

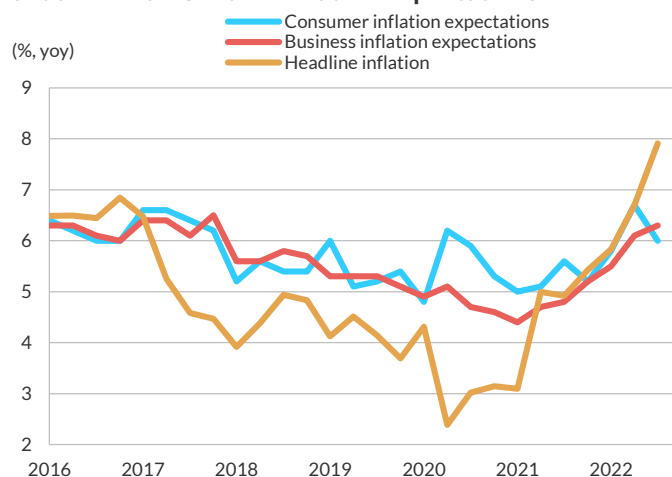
Policy rates have doubled since the start of the tightening cycle in November 2021 to reach 7%. We expect the central bank to continue raising rates to a peak of 7.50% early next year and to remain there until end-2023. An increase in headline CPI and household inflation expectations has raised concern at the SARB that these could spill over into higher wage demands. Nominal wages are expected to rise this year and next, leading to some upward pressure on unit labour costs. A higher policy rate would seek to counter rand weakness and curtail underlying inflationary pressures.

South Africa - Load Shedding^a



^a the amount of power that is being shutdown
Source: Fitch Ratings, EskomSePush

South Africa - CPI and Inflation Expectations



Source: Fitch Ratings, BER, Statistics South Africa, Haver Analytics

South Africa - Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	0.3	4.9	1.6	1.1	1.7
Consumer spending	1.1	5.6	2.7	1.1	1.7
Fixed investment	-4.0	0.2	4.6	2.6	2.6
Net trade (contribution pp)	0.0	0.1	-1.8	-0.1	0.1
CPI inflation (end-year)	4.4	5.9	7.2	5.6	4.5
Policy interest rate (end-year)	5.57	3.75	7.00	7.50	6.25
Exchange rate, USDZAR (end-year)	14.45	15.91	17.00	17.20	17.20

Source: Fitch Ratings

Appendix 1

Quarterly GDP QOQ

(%)	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
US	0.7	1.7	-0.4	-0.1	0.7	0.3	0.3	-0.4	-0.8	0.2
Eurozone	2.3	0.5	0.6	0.8	0.2	-0.3	-0.5	0.4	0.4	0.3
China	0.4	1.3	1.6	-2.7	3.9	-0.4	1.0	1.0	1.8	1.7
Japan	-0.6	1.0	0.1	1.1	-0.3	0.3	0.2	0.3	0.4	0.5
UK	1.8	1.6	0.7	0.2	-0.2	-0.5	-0.7	-0.3	0.0	0.2
Germany	0.8	0.0	0.8	0.1	0.4	-0.6	-0.7	0.2	0.5	0.4
France	3.3	0.6	-0.2	0.5	0.2	-0.1	0.0	0.2	0.5	0.4
Italy	2.8	0.8	0.2	1.1	0.5	-0.6	-0.6	0.1	0.5	0.4
Spain	3.1	2.3	-0.2	1.5	0.2	0.1	0.1	0.3	0.7	0.6
Switzerland	1.8	0.1	0.3	0.1	0.2	0.1	0.2	0.3	0.3	0.3
Australia	-1.8	3.9	0.7	0.9	0.5	0.5	0.2	0.2	0.3	0.3
Canada	1.4	1.7	0.7	0.8	0.7	0.1	-0.2	0.0	0.2	0.3
Brazil	0.4	0.9	1.3	1.0	0.4	-0.4	0.0	0.2	0.4	0.3
Russia	-0.9	0.5	-0.3	-1.9	-1.7	-1.9	-1.2	0.1	2.1	1.5
India	11.7	2.7	0.0	-0.5	4.5	0.0	0.3	1.8	1.9	2.0
Korea	0.2	1.3	0.6	0.7	0.3	-0.2	0.3	0.3	0.5	0.8
Mexico	-1.1	1.0	1.2	1.1	0.9	0.3	0.2	0.2	0.3	0.3
Indonesia	0.2	2.5	1.8	1.0	0.5	1.3	1.3	1.3	1.2	1.2
Turkiye	2.7	1.6	0.6	1.9	-0.1	0.6	1.0	0.8	0.4	0.6
Poland	2.1	1.6	4.3	-2.3	1.0	-0.5	-0.4	1.4	1.4	0.9
South Africa	-1.8	1.4	1.7	-0.7	-0.2	0.2	0.4	0.6	0.6	0.5
Developed ^a	0.9	1.4	0.0	0.3	0.4	0.1	0.0	-0.1	-0.2	0.3
Emerging ^b	1.5	1.4	1.3	-1.5	2.7	-0.3	0.6	0.9	1.5	1.4
Emerging ex-China	2.9	1.5	0.8	0.0	1.1	-0.2	0.1	0.8	1.1	1.1
World ^c	1.1	1.4	0.5	-0.4	1.3	-0.1	0.3	0.3	0.5	0.7

^a US, Japan, France, Germany, Italy, Spain, UK, Canada, Australia and Switzerland

^b Brazil, Russia, India, China, South Africa, Korea, Mexico, Indonesia, Poland and Turkiye

^c 'Fitch 20' countries weighted by nominal GDP in US dollars at market exchange rates (three-year average)

Source: Fitch Ratings

Appendix 2

Quarterly GDP YOY

(%)	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
US	5.0	5.7	3.7	1.8	1.9	0.5	1.2	0.9	-0.6	-0.7
Eurozone	3.9	4.8	5.5	4.3	2.1	1.3	0.2	-0.2	0.0	0.6
China	4.9	4.0	4.8	0.4	3.9	2.3	1.7	5.6	3.5	5.6
Japan	1.2	0.5	0.9	1.6	1.9	1.2	1.3	0.5	1.2	1.4
UK	8.5	8.9	10.9	4.4	2.4	0.3	-1.1	-1.6	-1.5	-0.8
Germany	1.9	1.2	3.5	1.7	1.3	0.7	-0.8	-0.7	-0.7	0.3
France	3.6	5.1	4.8	4.2	1.0	0.4	0.7	0.4	0.7	1.1
Italy	4.8	6.5	6.4	5.0	2.6	1.2	0.4	-0.6	-0.6	0.4
Spain	4.2	6.6	6.7	6.8	3.8	1.6	1.9	0.8	1.2	1.8
Switzerland	4.0	3.7	4.4	2.2	0.5	0.8	0.6	0.8	0.9	1.1
Australia	4.1	4.5	3.3	3.6	6.1	2.6	2.1	1.5	1.3	1.2
Canada	4.3	3.9	3.2	4.7	3.9	2.3	1.4	0.7	0.1	0.3
Brazil	4.4	2.1	2.4	3.7	3.6	2.4	1.0	0.3	0.3	1.0
Russia	4.0	5.0	3.5	-4.1	-4.0	-5.8	-6.6	-4.6	-0.9	2.5
India	8.4	5.4	4.1	13.5	6.3	3.9	4.2	6.7	4.1	6.2
Korea	4.0	4.2	3.0	2.9	3.1	1.5	1.2	0.8	0.9	1.8
Mexico	4.3	1.0	1.8	2.4	4.3	3.6	2.5	1.5	0.9	0.9
Indonesia	3.5	5.0	5.0	5.4	5.7	4.7	4.3	4.6	5.3	5.2
Turkiye	7.9	9.6	7.5	7.7	3.9	3.0	3.4	2.3	2.9	2.8
Poland	6.5	8.5	8.6	5.8	3.6	2.4	-2.2	1.5	1.9	3.3
South Africa	3.0	1.7	2.7	0.2	2.2	1.0	-0.4	1.0	1.7	2.1
Developed ^a	4.3	4.8	4.1	2.6	2.1	0.8	0.8	0.4	-0.2	0.0
Emerging ^b	5.1	4.2	4.4	2.4	3.6	2.1	1.4	4.0	2.8	4.6
Emerging ex-China	5.5	4.5	3.9	5.1	3.3	1.7	1.1	1.9	1.9	3.2
World ^c	4.6	4.6	4.2	2.5	2.7	1.3	1.1	1.8	1.0	1.8

^a US, Japan, France, Germany, Italy, Spain, UK, Canada, Australia and Switzerland

^b Brazil, Russia, India, China, South Africa, Korea, Mexico, Indonesia, Poland and Turkiye

^c 'Fitch 20' countries weighted by nominal GDP in US dollars at market exchange rates (three-year average)

Source: Fitch Ratings

Contacts

Economics



Brian Coulton
Chief Economist
+44 20 3530 1140
brian.coulton@fitchratings.com



Olu Sonola
+1 212 908 0583
olu.sonola@fitchratings.com



Jessica Hinds
+44 20 3530 2213
jessica.hinds@fitchratings.com



Robert Ojeda-Sierra
+44 20 3530 1664
robert.ojeda-sierra@fitchratings.com



Pawel Borowski
+44 20 3530 1861
pawel.borowski@fitchratings.com



Charles Seville
+44 203 530 2642
charles.seville@fitchratings.com

Sovereign Ratings



Todd Martinez
Americas
+1 212 908 0897
todd.martinez@fitchratings.com



Thomas Rookmaaker
Asia
+852 2263 9891
thomas.rookmaaker@fitchratings.com



Michele Napolitano
Western Europe
+44 20 3530 1882
michele.napolitano@fitchratings.com



Shelly Shetty
Americas
+1 212 908 0324
shelly.shetty@fitchratings.com



Paul Gamble
Emerging Europe
+44 20 3530 1623
paul.gamble@fitchratings.com



Jan Friederich
Middle East and Africa
+852 2263 9910
jan.friederich@fitchratings.com

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link <https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Copyright © 2022 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.