Fitch Ratings

Global Economic Outlook – September 2022

Supply Shocks and Inflation Are Hitting the World Economy Hard

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> "We've had something of a perfect storm for the global economy in recent months, with the gas crisis in Europe, a sharp acceleration in interest rate rises, and a deepening property slump in China."
>
> Brian Coulton, Chief Economist, Fitch Ratings

Deep and Wide Cuts to Growth Forecasts

The European gas crisis, high inflation and a sharp acceleration in the pace of global monetary policy tightening are taking a heavy toll on economic prospects. Fitch Ratings has cut growth forecasts sharply and widely since the June Global Economic Outlook (GEO).

We now expect world GDP to grow by 2.4% in 2022 – revised down by 0.5pp – and by just 1.7% in 2023, cut by 1.0pp. The eurozone and UK are now expected to enter recession later this year and the US is expected to suffer a mild recession in mid-2023.

We forecast that US and eurozone growth in annual terms will be quite close to 0% next year, roughly in line with the downside stagflation scenario we set out in the March GEO and elsewhere.

China's recovery is constrained by Covid-19 pandemic restrictions and a prolonged property slump. We now expect growth to slow to 2.8% this year and recover to only 4.5% next year.

Gas Crisis Is Driving Europe into Recession

The latest GEO forecast assumes a full or near-complete shut-off of Russian pipeline gas to Europe. Despite EU efforts to find alternatives, total gas supply to the EU will fall significantly in the near term, with the impact felt through industrial supply chains. This would be exacerbated if rationing became necessary to avoid outright gas shortages, a key risk in Germany.

The crisis has pushed up European wholesale gas and electricity prices nearly tenfold. An unfettered pass-through to retail gas and electricity prices could have huge impacts on CPI inflation. A three- to four-fold rise in retail gas and electricity prices would add more than 15pp to the CPI. Governments are forging responses to protect consumers and we anticipate more muted retail price hikes. But these measures will have significant fiscal costs.

'Volcker Moment' for Global Central Banks

High and persistent inflation, elevated near-term inflation expectations and tight labour markets have prompted the Fed, Bank of England (BOE) and ECB to turn more hawkish in recent months. Policy rates are increasing much more rapidly than expected in June.

The Fed is now expected to take rates to 4% by year-end and hold them there through 2023; the ECB refinancing rate is expected to rise to 2% by December; and the BOE Bank Rate is forecast to reach 3.25% by February 2023. The Fed and BOE are in quantitative tightening (QT) mode, with the BOE planning outright bond sales.

Fiscal and Monetary Policy Tensions

In contrast to the role of QE in the pandemic, central bank policies are no longer supportive of fiscal easing to protect households and firms from economic shocks. With liquidity conditions tightening, large-scale fiscal easing could push up long-term real interest rates.

Related Research

Global Economic Outlook (June 2022)
Inflation Dynamics and Recession Risks (March 2022)
Gas Crisis to Push Eurozone Into Recession (September 2022)

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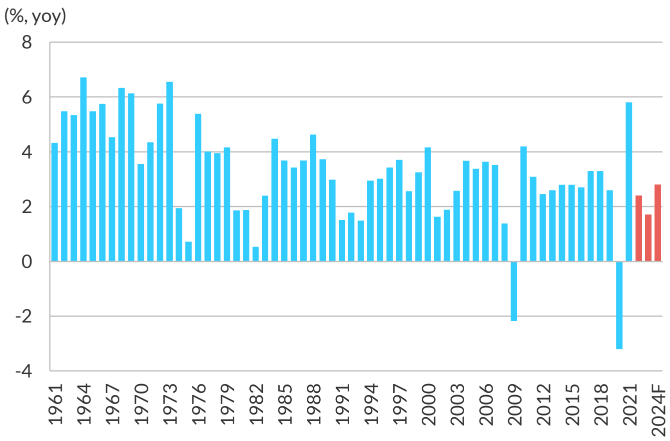
Global Forecast Summary

(%)	Annual Average 2017-2021	2021	2022F	2023F	2024F
GDP Growth					
US	1.9	5.7	1.7	0.5	1.7
Eurozone	1.0	5.2	2.9	-0.1	2.3
China	6.0	8.1	2.8	4.5	4.7
Japan	-0.2	1.7	1.7	1.3	1.1
UK	0.7	7.4	3.4	-0.2	1.9
Developed[a]	1.3	4.9	2.1	0.6	1.8
Emerging[b]	4.3	7.3	2.9	3.6	4.2
Emerging ex-China	2.4	5.9	3.1	2.5	3.5
World[c]	2.4	5.8	2.4	1.7	2.8
Inflation (end of period)					
US	2.5	7.0	7.0	3.6	2.7
Eurozone	1.5	5.0	9.3	4.3	2.7
China	2.0	1.5	2.7	2.3	2.4
Japan	0.3	0.8	3.0	1.3	1.0
UK	2.1	5.4	10.0	3.2	2.7
Interest Rates (end of period)					
US	1.22	0.25	4.00	4.00	3.50
Eurozone	0.00	0.00	2.00	2.00	1.75
China[d]	3.15	2.95	2.65	2.65	2.65
Japan	-0.10	-0.10	-0.10	-0.10	-0.10
UK	0.39	0.25	3.00	3.25	3.00
US 10-year yield	1.91	1.51	3.60	3.75	3.75
Exchange Rates and Oil					
Oil (USD/barrel)	60.9	70.6	100.0	85.0	65.0
USDJPY (end-period)	109.6	114.2	135.0	135.0	125.0
USDEUR (end-period)	0.87	0.88	1.00	1.00	1.00
GBPUSD (end-period)	1.31	1.34	1.15	1.15	1.15
USDCNY (end-period)	6.73	6.37	6.90	6.90	7.00

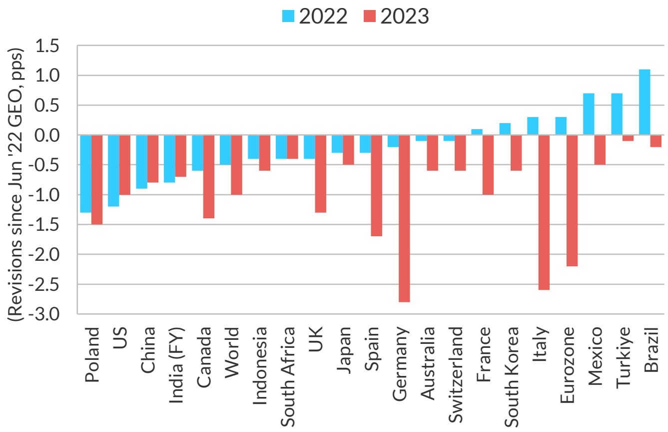
[a] US, Japan, France, Germany, Italy, Spain, UK, Canada, Australia and Switzerland
[b] Brazil, Russia, India, China, South Africa, Korea, Mexico, Indonesia, Poland and Turkiye
[c] 'Fitch 20' countries weighted by nominal GDP in US dollars at market exchange rates (three-year average)
[d] One-Year Medium-Term Lending Facility
Source: Fitch Ratings

World GDP Growth



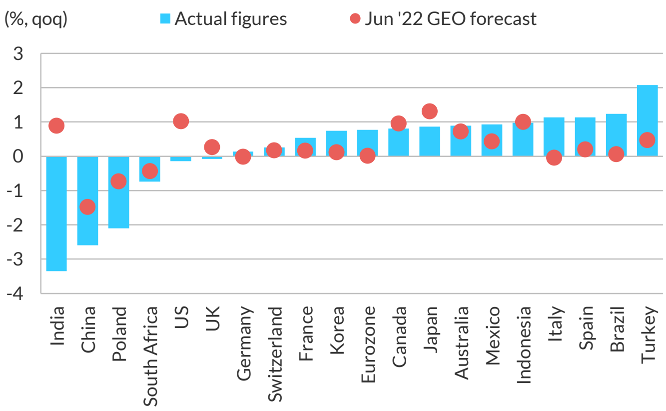
Source: Fitch Ratings, World Bank, Haver Analytics

Revisions to Annual GDP Growth Forecasts



Note: Forecasts for Fitch20 excluding Russia
Source: Fitch Ratings

GDP 2Q22 Outturns vs Forecasts



Note: Data for Fitch20 excluding Russia
Source: Fitch Ratings, national statistical offices, Haver Analytics

Forecast Highlights

We have revised down sharply our world GDP forecasts since the June GEO due to the European gas crisis, more rapid global monetary policy tightening and a significantly weaker outlook in China. We now expect world growth to slow to 2.4% in 2022 and 1.7% in 2023, lowered by 0.5pp and 1.0pp, respectively, since June. These revisions are large and geographically broad-based. We expect all Fitch 20 economies to see weaker growth in 2023 compared to June. World growth next year will still be positive in per-capita terms but would be well below the long-run average of around 2.7%.

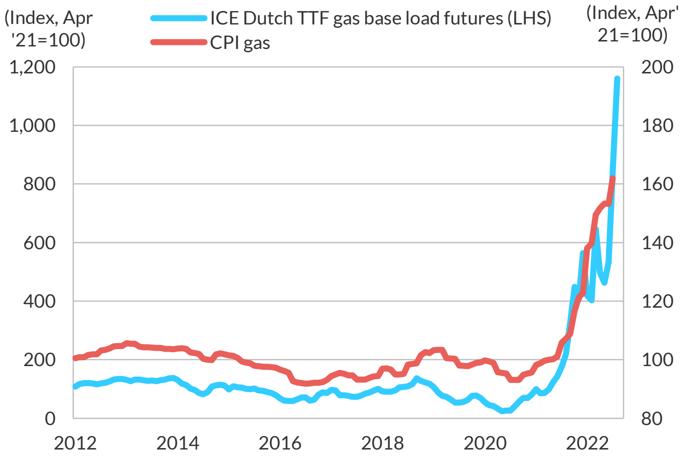
The biggest forecast cuts have been to the eurozone in response to the natural gas crisis. We now expect eurozone GDP to contract by 0.1% in 2023, compared to our prior forecast of growth of 2.1%. This is despite recent better-than-expected outturns for eurozone growth in 2Q22 as economies re-opened and international tourism returned. This positive surprise has resulted in a slightly higher annual growth forecast for 2022 – at 2.9% versus 2.6% in June – but this is just a reflection of the arithmetic of annual averages. With the energy crisis now unfolding in Europe, we expect the eurozone economy to enter recession in the current quarter. Germany and Italy are being hit hardest and we have cut their 2023 annual forecasts by 2.8pp and 2.6pp, respectively, to -0.5% and -0.7%.

US growth has also been revised down to 1.7% in 2022 and 0.5% in 2023, revisions of 1.2pp and 1.0pp respectively. For 2022 the revisions largely reflect weaker-than-expected incoming data for 2Q22, which saw a second consecutive quarter of contraction. However, the modest falls in GDP in 1H22 were driven by volatility in net trade and the pace of inventory accumulation. Current conditions do not look like a recession – job growth remains exceptionally strong, consumer spending is still growing - and we anticipate a resumption of GDP growth in 2H22. Nevertheless, the Fed is now raising interest rates at a rapid pace and this will increasingly weigh on job growth and consumer demand in 2023. Weaker global growth and the stronger dollar will also dampen US exports. We now expect the economy to slip into genuine recession territory – with rising unemployment - in 2Q23 and 3Q23.

China suffered a deeper-than-expected downturn in 2Q22 amidst the Shanghai Covid-19 lockdown, and the recovery since June has been tepid. We have lowered our forecast for 2022 to 2.8% from 3.7% in June. Despite the lower baseline level of GDP this year, we have also revised down the 2023 growth forecast to 4.5% from 5.3%. This reflects both the weaker global and European outlook but also the slump in the domestic property market, which is proving to be deeper and more durable than expected.

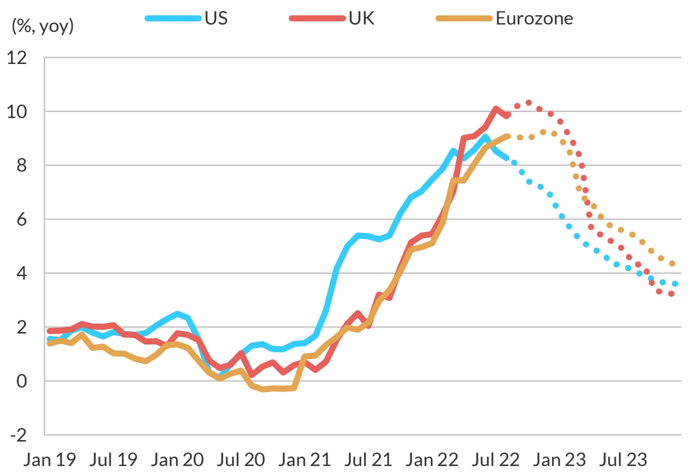
Emerging markets (EM) excluding China have, in aggregate, bucked the trend for this year with the growth forecast for 2022 revised up by 0.6pp to 3.1%. This partly reflects upward revisions to growth in Brazil, Mexico and Turkey – following stronger-than-expected data in 2Q22 – but is mainly due to the much smaller decline we now anticipate in Russian GDP in 2022. Official Russian GDP data suggest activity declined by less than expected in 2Q22 – partly reflecting aggressive import compression – and we now expect the economy to decline by only 3.5% this year (compared to -8.0% in June). Nevertheless the breadth of the global slowdown, tightening global financial conditions and falling non-energy commodity prices

Eurozone Gas CPI and Wholesale Gas Prices



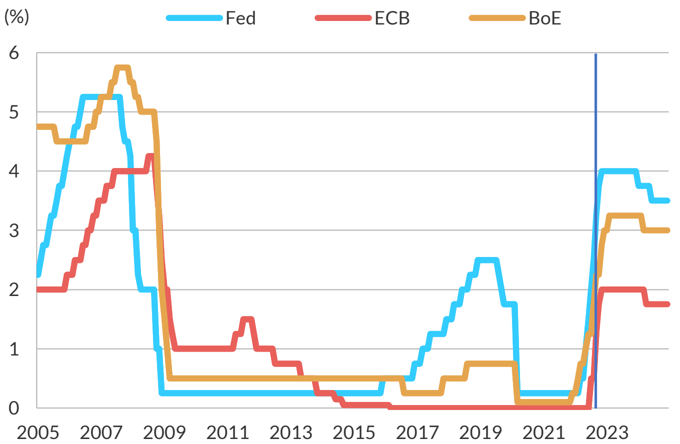
Source: Fitch Ratings, Intercontinental Exchange, Eurostat, Haver Analytics

CPI Inflation Monthly Forecasts



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

Policy Interest Rates Outlook - US, Eurozone & UK



Source: Fitch Ratings, Fed, ECB, BoE, Haver Analytics

point to weaker growth and we have revised down our 2023 EM ex-China forecast by 0.5pp to 2.5%.

We have again revised up our global inflation forecasts, despite weaker growth. Annual average inflation forecasts for 2022 and 2023 are about 1pp higher across the Fitch20 countries on average. But there have been particularly large upward revisions to annual average 2023 inflation forecasts for Germany, Italy and Spain – of around 350bp – and for Poland. Policy interest rate forecasts for the end of this year have been revised up by 100bp for the Fed, ECB and BOE. In addition to a faster pace of rate increases in the near-term, we also expect higher peaks for rates in this tightening cycle as central banks take rates above neutral.

Impact of the European Gas Crisis

The European gas crisis is a major adverse supply shock, boosting costs and prices, reducing output, and hurting national income through a deterioration in the terms of trade. Lower gas supplies and more expensive power will affect industrial supply chains, and the squeeze on real incomes and profit margins from higher inflation will reduce aggregate demand. Our recent report on the impacts of a full Russian shut-off concluded that eurozone GDP in 2023 would be around 2pp lower than in our June GEO forecast, with bigger effects in Germany (3pp) and Italy(2.5pp).

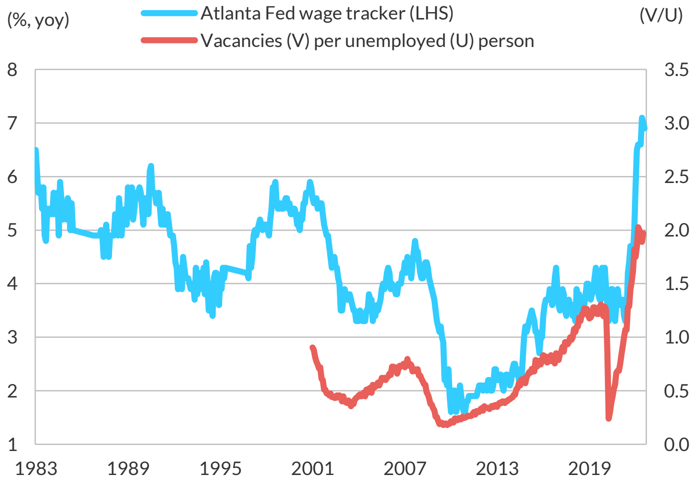
The forecasts in this GEO are broadly consistent with this figuring. However, two key uncertainties surrounding these estimates relate to the possibility of gas rationing – which could amplify production disruptions – and difficulties in predicting the scale of the inflation shock resulting from the crisis. Extreme volatility in European wholesale gas prices in recent weeks has underscored the latter. In addition, European governments are unlikely to allow an unfettered pass-through from higher wholesale gas prices to household power and heating bills.

To comprehend the order of magnitude, we consider what a 'full' pass-through of the rises in wholesale gas prices might mean. Wholesale gas prices in the EU and UK have risen roughly tenfold since April 2021. This huge increase has nearly been matched by an equivalent increase in European and UK wholesale electricity prices. This partly reflects the significant share of gas in electricity production but especially the predominance of gas producers as 'marginal' suppliers to wholesale electricity markets. European wholesale power markets link prices received by all suppliers to that of the marginal supplier.

Prior to the crisis, the pass-through from wholesale gas and electricity prices to retail prices was muted at around 10%, reflecting the impact of VAT, distribution costs and other charges which dampened the impact of fluctuations in wholesale costs. However, this was when wholesale price fluctuations were modest. The recent increases were so large that they now dwarf the impact of these other factors.

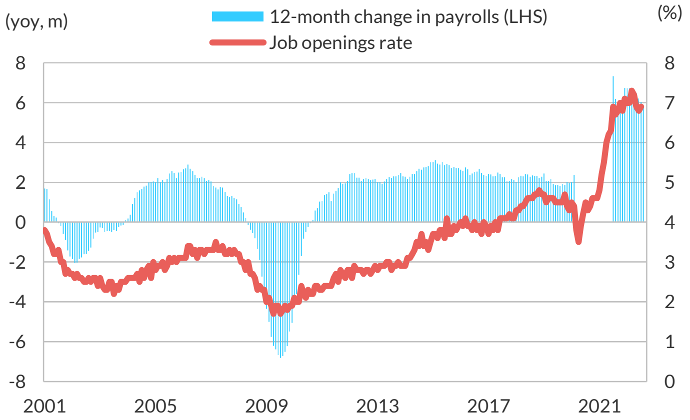
There are grounds for believing that a much higher pass-through rate (absent government intervention) of 30%-40% would now seem more realistic. This would be consistent with the adjustments to UK retail gas and electricity price caps previously announced by the UK regulator Ofgem. The cap rose by 54% in April 2022; it was scheduled to increase by a further 80% in October; and was expected to rise by 50% in January 2023, prior to the recently

US Wage Growth and Vacancies/Unemployed



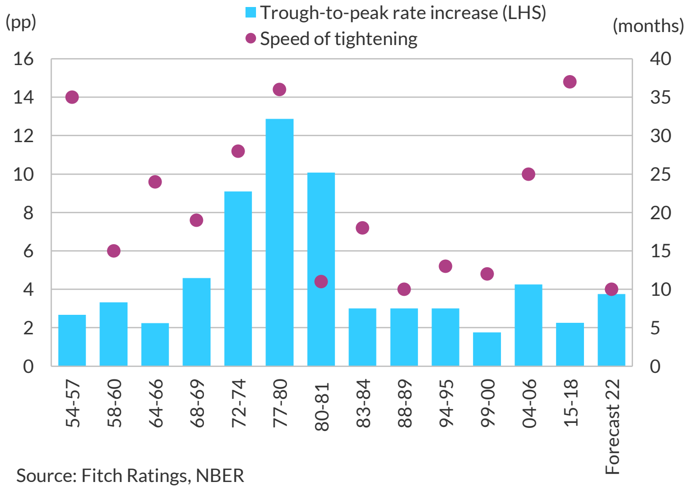
Source: Fitch Ratings, Atlanta Fed, Haver Analytics

US Jobs Growth and Job Opening Rate



Note: pandemic observations for payrolls excluded
Source: Fitch Ratings, Bureau of Labour Statistics, Haver Analytics

Fed Tightening Episodes



Source: Fitch Ratings, NBER

announced UK price freeze. These increases would have resulted in a cumulative rise in UK retail gas and electricity bills of 360% between April 2021 and January 2023. Increases in retail gas and electricity prices in Estonia – where pass-through from wholesale prices is high – have been of a similar magnitude, up by 250% since April 2021.

The implications of a three- to four-fold increase in retail gas and electricity bills on the overall CPI would be profound, as evidenced by inflation in Estonia already reaching almost 25%. The weight of gas and electricity in the consumer basket is around 5%-6% in major western European countries, implying a rise in the overall CPI of more than 15pp following a 300% increase in bills. Shocks to the cost of living on this scale seem unlikely to be tolerated, as witnessed by the UK's recent intervention with a retail price freeze from October and EU discussions of plans for windfall taxes and caps on wholesale prices paid to non-gas electricity producers.

Retail gas and electricity prices have so far increased by about 50%-60% since April 2021 in the eurozone and UK. Our inflation forecasts assume that there will be further increases of about 30%-35% from current levels, so that the overall increase will eventually reach 100%. This implies heavy intervention by governments to cushion the pass-through. However, the figuring above suggests that fiscal costs of such intervention could be large. Moreover, price-freeze measures can increase the risk of rationing by reducing incentives to reduce energy consumption.

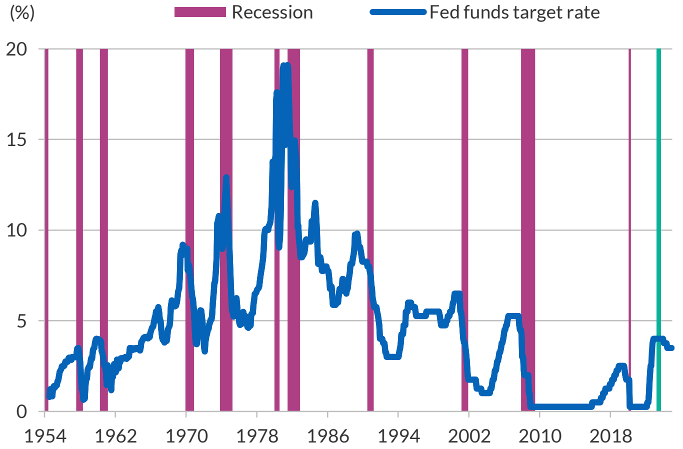
Central Banks Have a "Volcker Moment"

There have been big changes in recent months in central banks' reaction functions. The Fed, ECB and BOE have progressively reappraised the desired policy trajectory from one of gradual tightening back towards neutral settings to the need for a rapid tightening to above neutral. All three central banks have engaged in outsize rate rises since June, with two 75bp increases from the Fed in June and July, moves of 50bp and 75bp from the ECB in July and September, and a 50bp increase from the BOE in August. These were all faster than we anticipated in June. At the same time, forward guidance – initially aimed at persuading financial markets that policy rates would not rise too fast – has been more or less abandoned. Rapid QT is now underway by the Fed, and the BOE plans to engage in outright bond sales, moving beyond the Fed's 'passive' approach of allowing a constrained run-off of maturing QE assets.

Persistently high headline inflation, the recent intensification of energy supply shocks and unrelentingly tight labour market conditions have contributed, but the change of approach goes beyond what can be explained by incoming information. Rather, central banks appear to have changed their thinking about the appropriate response to current conditions. Specifically, fears have grown about inflation becoming self-reinforcing as high headline numbers fuel near-term inflation expectations and tight labour market conditions boost wage growth. This is a potent mix for wage-price spirals to develop, as workers in a strong bargaining position – reflected in a high ratio of vacancies to unemployment – attempt to resist the erosion of real wages by high headline inflation.

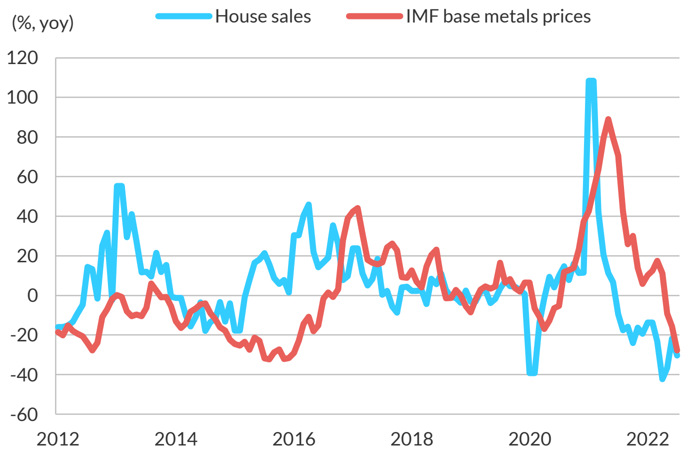
The change of central bank attitude is despite evidence in recent months that some sources of inflationary pressures are starting to ease. Supply-chain pressures in global consumer goods markets and

US Policy Interest Rate Cycles and Recession Periods



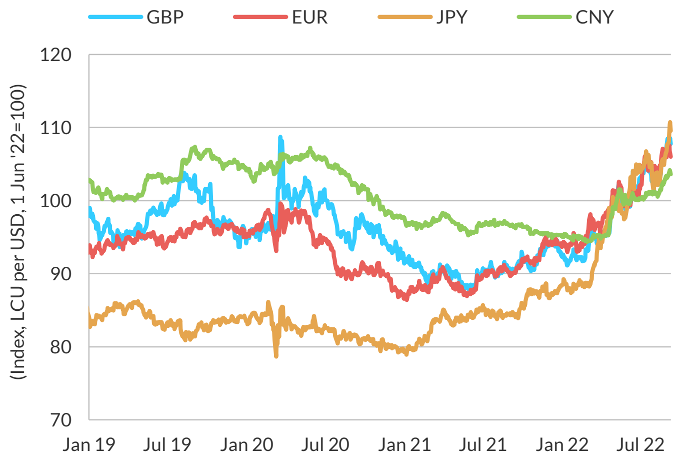
Source: Fitch Ratings, Fed, NBER, Haver Analytics

China House Sales & IMF Base Metals Price Index



Source: Fitch Ratings, IMF, NBS

Selected Currencies vs US Dollar



Source: Fitch Ratings, Wall Street Journal, Haver Analytics

merchandise trade flows have been easing, and the jump in global grain prices caused by the Russia-Ukraine war has been reversed. Oil prices have declined – we have revised down our 2022 price assumption by USD5 to USD100 a barrel (Brent) – and base metals prices are turning down.

Central banks are now much more concerned about inflation becoming entrenched, threatening the medium-term credibility of inflation targets. A de-anchoring of inflation expectations would require more aggressive tightening – with higher output costs – later on. Hence they are now focused on using their monetary policy tools to bring down inflation, with the near-term impact on activity and jobs a secondary concern. Speeches at Jackson Hole in August – including a short speech from Fed Chairman Jay Powell in which he referenced former Fed Chairman Paul Volcker – cemented this change. Indeed the Fed now appears to be actively seeking a slowdown in job growth to reduce the ratio of vacancies to unemployment and ease pressure on wages. While core inflation pressures still appear more muted in the eurozone, the hawks are also in the ascendance at the ECB.

Mild US Recession on the Horizon

The historical evidence on monetary policy tightening resulting in US recessions is too compelling to ignore and recession is now our base case forecast for 2023. This looks set to be one of the fastest monetary policy-tightening cycles in US history with the trough-to-peak hike in rates taking only 10 months. Nevertheless, the US recession we expect is quite mild. The peak level of rates will still be quite low at 4%. US household finances are much stronger now than in 2008, the banking system is healthier, and there is little evidence of over-building in the housing market. The projected recession is broadly similar to that of 1990-1991, which followed similarly rapid Fed tightening in 1989-1990. Nevertheless, downside risks stem from non-financial debt-to-GDP, which is much higher now than in the 1990s. The impact of QT on asset prices is also highly uncertain.

China Property Slump

China's housing market slump has been deeper than expected. Given the role of the sector as a key driver of the domestic economy there has been surprisingly little policy easing in response. Financial pressures among private developers have also unnerved some prospective buyers, fearful of projects not being completed. The protracted housing slowdown has been a key factor in our downward revision of China's growth forecast and it is likely to reverberate both regionally in APAC and globally. Housing sales in China correlate very strongly with global base metals prices.

Surging US Dollar

The US dollar has strengthened markedly since June. It partly reflects increased monetary policy divergence as the Fed turns much more hawkish. The adverse terms-of-trade shock in Europe stemming from the energy crisis has also been a factor. Dollar strength means the US is exporting domestic inflation, adding to monetary policy challenges elsewhere. This includes EMs, where financial conditions are highly sensitive to the dollar.

United States

We have made sharp cuts to our US GDP growth forecasts for both 2022 and 2023 on weak incoming data, much more aggressive-than-anticipated Fed tightening, and the downturn in Europe. We now expect GDP growth of 1.7% this year – revised down from 2.9% in the June GEO – and 0.5% in 2023, lowered from 1.5%. A mild recession is now expected in mid-2023.

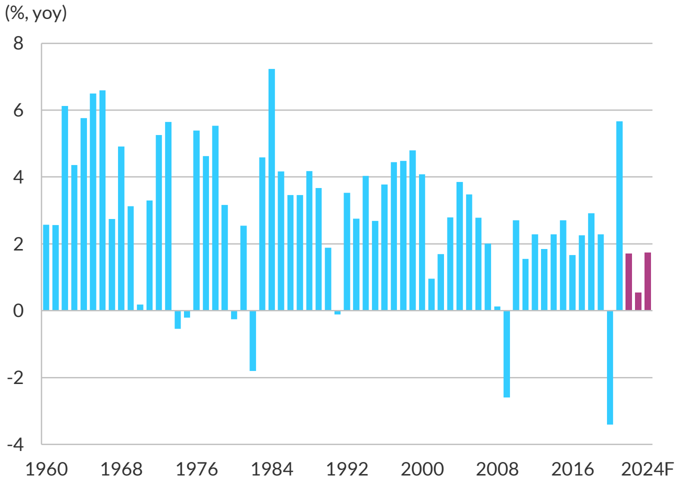
US GDP fell unexpectedly by 0.1% in 2Q22 (0.6% annualised) – compared to our June GEO forecast of a 1.0% expansion – and marked the second consecutive quarter of declining GDP. However, the ongoing strength of the labour market and continued expansion in private consumption in 1H22 make it hard to view this as a genuine 'recession'. Moreover, the sharp slowdown in inventory accumulation in 2Q22 – which subtracted 0.5pp from GDP – looks unlikely to be repeated. There are few signs of a major inventory overhang.

Aggregate household-sector labour income continues to expand robustly – supported by strong employment and nominal wage growth – and real consumer spending rose by a further 0.2% month-on-month in July. Households built up large savings buffers throughout the pandemic and they have been gradually drawing these down this year. We think consumer spending will drive a modest expansion in real GDP in 2H22 at around 0.3% per quarter.

However, we expect the US economy to head into genuine recession territory – albeit relatively mild by historical standards – from 2Q23. This reflects the lagged impact of aggressive Fed tightening, the drag on real wages from high inflation and the knock-on impacts of the downturn in Europe. Housing investment and durables spending will bear the brunt of tighter financing conditions initially, but a slowdown in job growth and rising unemployment next year will take a wider toll on consumer spending.

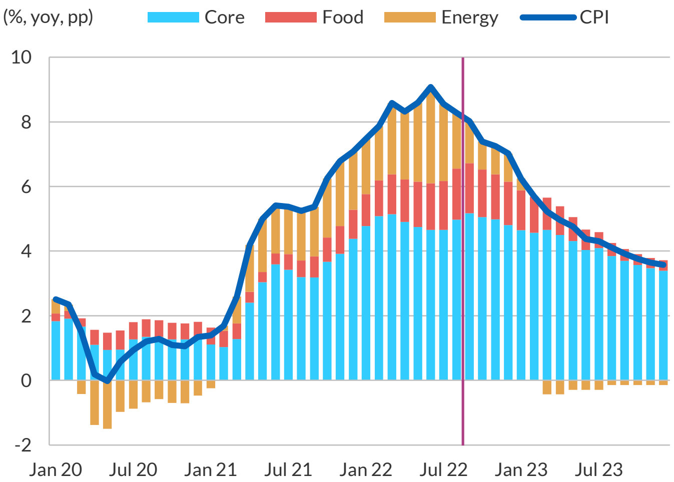
The Fed is now expected to raise interest rates to 4% by end-2022 and then maintain them until early 2024. While recent CPI inflation prints have shown some signs of improvement on core goods inflation, services inflation is rising. It reached 6.1% in August and is likely to rise further over the next six months or so. We expect core inflation to rise to 6.6% later this year and then to come down only slowly through 2023. On the basis of this forecast, the Fed would unlikely be willing to pivot to rate cuts next year.

US - Annual GDP Growth



Source: Fitch Ratings, Bureau of Economic Analysis, Haver Analytics

US - CPI Inflation Contributions



Source: Fitch Ratings' estimates, BLS, Haver Analytics

United States - Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	1.9	5.7	1.7	0.5	1.7
Consumer spending	2.3	7.9	2.5	0.9	1.9
Fixed investment	3.4	7.8	1.3	-0.1	2.2
Net trade (contribution pp)	-0.6	-1.9	-1.1	-0.3	-0.5
CPI inflation (end-year)	2.5	7.0	7.0	3.6	2.7
Unemployment rate	5.1	5.4	3.7	4.7	5.2
Policy interest rate (end-year)	1.22	0.25	4.00	4.00	3.50
Exchange rate, USDEUR (end-year)	0.87	0.88	1.00	1.00	1.00

Source: Fitch Ratings

Eurozone

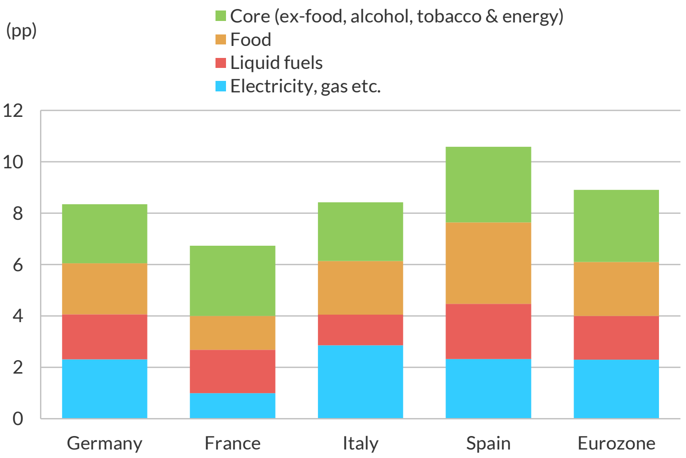
Europe is undergoing its most severe energy shock since the 1970s. Rocketing import prices have led to a huge deterioration in the terms of trade. For Germany, this was more than 5% in 1H22. Russia closed flows of natural gas through the Nord Stream gas pipeline in early September and looks unlikely to reopen it. Energy shortages and rationing are a high risk in parts of the eurozone during the winter, depending on its severity.

Eurozone growth was 0.8% qoq (sa) in 2Q22, a similar pace to 1Q22, and was 4.1% yoy. Many economies grew faster than in 1Q22, as pandemic restrictions were lifted, but German GDP stalled. Labour markets continued to hold up, with the unemployment rate static at 6.7% in 2Q22, yet momentum is fading. We have lowered our eurozone growth forecast and expect GDP to decline qoq for three consecutive quarters in 3Q22-1Q23. We forecast an contraction of 0.1% in 2023, a downward revision of 2.2pp All countries will attempt to consume less gas, which will weigh first on industrial activities. Consumption will be affected by the shock to real wages from higher inflation.

Core inflation is still lower in the eurozone than in the US, but the energy price shock is larger. Overall inflation will average 8.1% in 2022 and 6% in 2023, with the potential to exceed this. Household energy costs, which are 7% of the basket, were 43% higher yoy in July 2022. Even so, the rise in tariffs for households has only been a fraction of the tenfold rise in wholesale gas price rises since August 2021. Most governments are announcing plans to shield domestic consumers from the full force of these rises at potentially large fiscal cost.

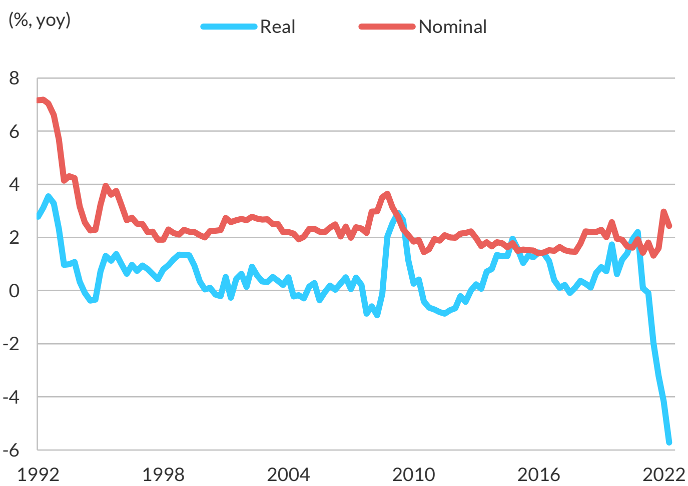
ECB monetary policy is tightening much more quickly than we expected in response to higher inflation and policymakers' fears that medium-term expectations could become de-anchored. Following the 75bp rise in the ECB's Main Refinancing Operations rate in September, we expect further rises to 2% by end-2022. Given inflation risks and the ECB's volte-face on the desired interest rate path, the bank could raise rates even higher. Further tightening to beyond a neutral level is possible, even amidst recession. Unlike other major central banks that have begun QT, the ECB will continue reinvesting maturing QE assets. Moreover, the bank responded to a widening in Italian sovereign bond spreads by announcing an anti-fragmentation tool in July designed to prevent spreads widening "more than justified by country-specific fundamentals."

Eurozone - Contributions to July 2022 Annual CPI



Source: Fitch Ratings, Eurostat, Haver Analytics

Eurozone - Quarterly Negotiated Wages



Source: Fitch Ratings, ECB, Eurostat, Haver Analytics

Eurozone - Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	1.0	5.2	2.9	-0.1	2.3
Consumer spending	0.1	3.7	3.4	-0.4	2.6
Fixed investment	2.3	4.1	2.9	2.3	2.2
Net trade (contribution pp)	0.1	1.3	-0.2	-0.4	0.4
CPI inflation (end-year)	1.5	5.0	9.3	4.3	2.7
Unemployment rate	8.1	7.7	6.9	7.4	7.2
Policy interest rate (end-year)	0.00	0.00	2.00	2.00	1.75
Exchange rate, EURUSD (end-year)	1.15	1.13	1.00	1.00	1.00

Source: Fitch Ratings

China

We have lowered our forecasts for GDP growth in 2022 and 2023 by 0.9pp and 0.8pp since the June GEO, to 2.8% and 4.5%, respectively. This reflects a larger-than-anticipated decline in GDP in 2Q22, a deeper and longer slump unfolding in the property market and the deterioration in the global outlook.

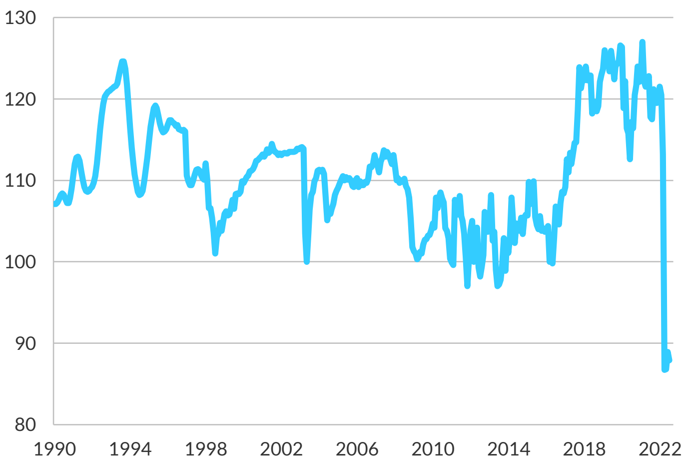
GDP fell by 2.6% qoq in 2Q22, leaving it just 0.5% higher than in 2Q21. This was deeper than the 1.5% qoq decline we anticipated in June (+2.0% yoy) though still much shallower than during the initial Covid-19 lockdown in 2Q20. Activity recovered in June after Shanghai lockdown restrictions were eased, but momentum dropped off sharply in July with retail sales, fixed-asset investment and industrial production all exhibiting surprising slowdowns.

Ongoing restrictions and testing requirements as part of the "Dynamic Zero" Covid-19 approach are weighing heavily on consumer spending, particularly services, such as catering and travel. Consumer confidence surveys have experienced unprecedented falls in recent months, unemployment rates remain well above levels at the start of year, and youth unemployment has risen sharply. Nevertheless, there seems little prospect of any major easing in the zero-Covid approach in the near term.

Meanwhile the slump in the housing market has deepened and looks set to last longer than previously anticipated. Housing starts in the first seven months of the year were down by 37% yoy, and sales were 27% lower. These are by far the worst numbers since China's private property market was established and they are showing no sign of improvement. Some building projects have stalled due to financial stress among property developers, unsettling households' confidence in the pre-sales model.

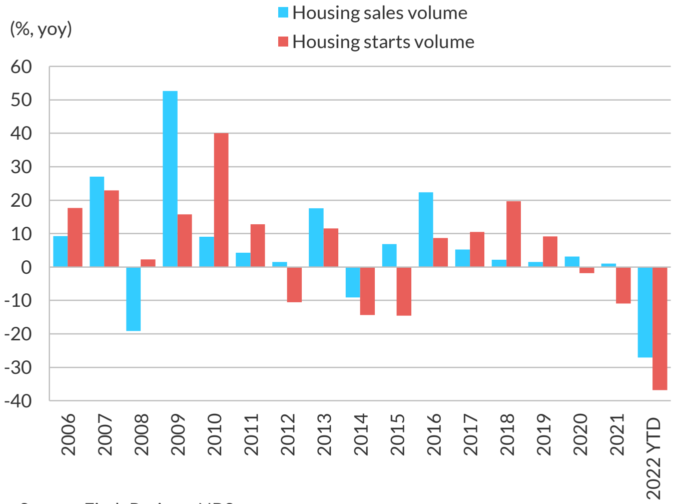
Housing activity directly accounts for about 14% of GDP and has strong multiplier impacts on the other industries. Previous property downturns have prompted significant credit easing, but this looks conspicuously absent at the current juncture. While People's Bank of China (PBOC) recently announced a modest cut in policy interest rates, banks' reserve requirements have not been lowered since April and Fitch's measure of aggregate credit growth slowed by 0.4pp to 10.4% yoy in July. Infrastructure investment has been picking up but this is unlikely to be enough on its own to prompt a sharp reacceleration in domestic demand. Moreover, export growth – which has been one of the bright spots of the recovery over the past 12-18 months – is likely to suffer next year as the eurozone and the US head into recession. We now forecast GDP growth to remain well below 5% next year.

China - Consumer Confidence



Source: Fitch Ratings, NBS, Haver Analytics

China - Housing Starts and Sales



Source: Fitch Ratings, NBS

China - Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	6.0	8.1	2.8	4.5	4.7
Consumer spending	6.8	12.6	-0.4	4.5	4.3
Fixed investment	4.8	2.7	3.0	4.1	4.4
Net trade (contribution pp)	0.6	2.4	1.6	0.3	0.4
CPI inflation (end-year)	2.0	1.5	2.7	2.3	2.4
Policy interest rate (end-year)	3.15	2.95	2.65	2.65	2.65
Exchange rate, USDCNY (end-year)	6.73	6.37	6.90	6.90	7.00

Source: Fitch Ratings

Japan

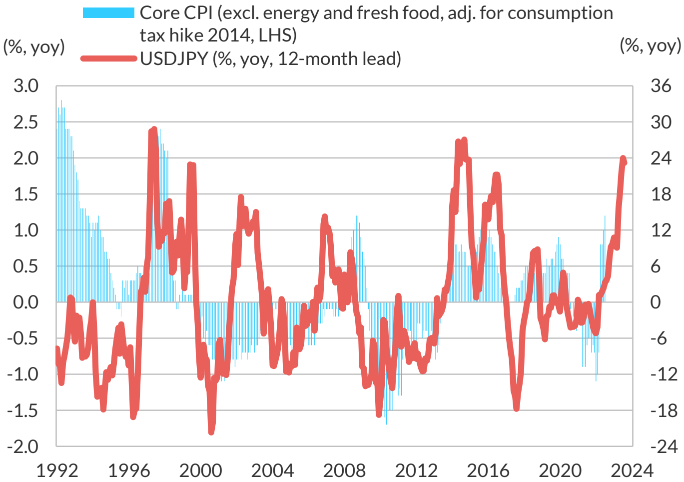
Domestic demand continues to recover and supply-chain constraints on autos production are easing, but we have lowered our GDP growth forecasts for 2022 and 2023 in light of the weaker outlook for global growth. We now expect GDP to grow by 1.7% this year and 1.3% in 2023, revised down by 0.3pp and 0.5pp, respectively, since June.

GDP grew by 0.9% qoq in 2Q22, weaker than the 1.3% we expected in the June GEO. However, the 2Q22 shortfall mainly reflected inventory dynamics, while consumption and fixed investment both posted healthy expansions of 1.2. Monthly data point to GDP picking up in 3Q22 helped by an easing in supply-chain disruptions and the gradual reopening of inbound travel and tourism. Industrial production and autos output both increased markedly in June and July, as semiconductor shortages eased and exports to China recovered. Machinery orders point to expanding investment and we have pencilled in GDP growth of 0.7% qoq in 3Q22.

Nevertheless, Japan will feel the impact of the global slowdown and we have pared back our expectations for exports. In annual terms, export volumes are only expected to grow by 0.5% in 2023 as the US enters mild recession, Europe struggles amid the gas crisis, and China's recovery remains sluggish. Higher inflation will also weigh on the consumer outlook. Headline CPI inflation reached 2.6% in July – the highest rate since 1990 (excluding the consumption tax hike in 2014) – and we expect it to rise to 3% later this year. The sharp decline in the value of the yen has already pushed up core inflation – which increased further to 1.2% in July – and this dynamic looks set to continue for a while. Nominal wage growth remains subdued.

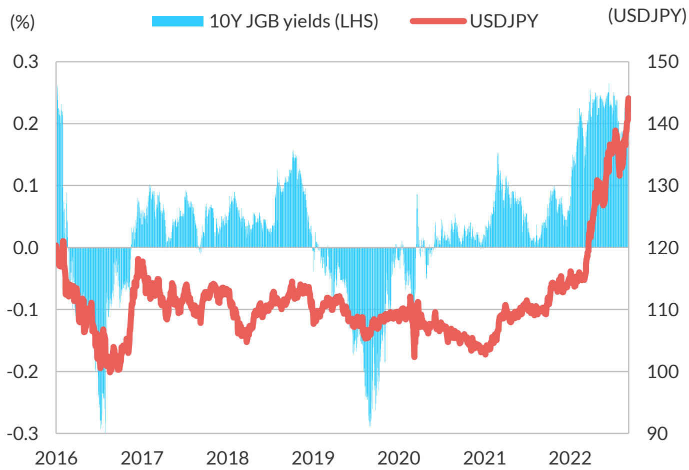
The weakening yen and rising inflation has brought the Bank of Japan's (BOJ) monetary policy approach into focus. The BOJ has been among the few major global central banks not to have tightened policy at all since early 2021 and the widening differential between domestic and US interest rates has pushed the yen to more than JPY/USD 140, the weakest since the late-1990s. Market pressure on the JGB 10-year yield cap eased over the summer, reflecting the dip in US Treasury yields, but could easily re-emerge. We continue to expect the possibility of some adjustment to BOJ policy, such as a modest 10-20bp widening of the tolerance band for the JGB 10-year yield, particularly if inflation is higher than expected, the yen weakens further and US Treasury yields rise.

Japan - Core CPI Inflation and the Yen



Source: Fitch Ratings, Bank of Japan, MIC, Haver Analytics

Japan - 10Y JGB Yields and USDJPY



Source: Fitch Ratings, Tullett Prebon Information, Refinitiv, Haver Analytics

Japan - Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	-0.2	1.7	1.7	1.3	1.1
Consumer spending	-0.6	1.3	3.0	1.4	1.2
Fixed investment	-0.7	-1.3	-1.0	2.4	2.1
Net trade (contribution pp)	0.1	1.1	-0.4	-0.1	0.0
CPI inflation (end-year)	0.3	0.8	3.0	1.3	1.0
Unemployment rate	2.6	2.8	2.6	2.6	2.6
Policy interest rate (end-year)	-0.10	-0.10	-0.10	-0.10	-0.10
Exchange rate, USDJPY (end-year)	109.6	114.2	135.0	135.0	125.0

Source: Fitch Ratings

United Kingdom

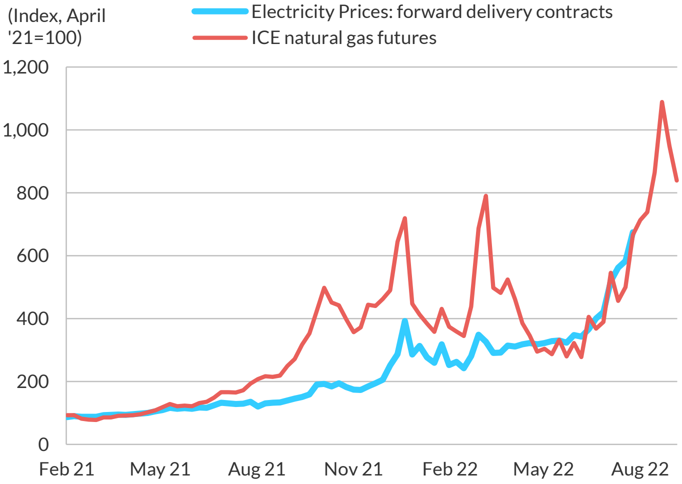
We have cut the UK growth forecast for 2023 as the natural gas crisis intensifies, interest rates rise more rapidly and downturns in the UK's main trading partners affect exports. GDP fell by 0.1% in 2Q22 – compared to an expectation of +0.3% in the June GEO – and monthly data point to no growth in 3Q22. The economy is expected to enter recession in 4Q22. We have revised down full-year growth for 2022 to 3.4% (from 3.8% in June), and now project it will contract -0.2% in 2023, revised down from growth of 1.1% in June.

The UK economy is being hit hard by the gas crisis, despite low direct exposure to Russian pipeline gas supplies. Disruptions to European gas markets have resulted in astronomical increases in UK wholesale gas and electricity prices. Wholesale gas prices have doubled since May and are now around 10 times higher than in April 2021. Wholesale electricity prices rose sevenfold between April 2021 and July 2022 and surged again in August. This reflects the dominant role of natural gas producers as marginal suppliers of electricity – and hence price setters – in wholesale power markets.

An unfettered pass-through of these wholesale price dynamics would result in eye-watering jumps in UK inflation in the months ahead. The UK energy regulator Ofgem announced in late-August that the UK retail energy price cap – designed to ensure wholesale price changes are reflected in retail tariffs – would rise by 80% in October and further large increases of more than 50% were predicted for January 2023. Our calculations suggest UK inflation would have risen to around 16.5% in early 2023 on this basis, with UK retail electricity and gas prices seeing a cumulative increase of 360% since April 2021. The government has stepped in by guaranteeing that retail gas and electricity prices will rise by only 27% in October with no further increases for the next two years. This will prevent the immediate surge in CPI inflation and will head off a deeper recession caused by the shock to household real incomes. But there are no free lunches. The guarantee will be costly and the increase in government borrowing will put upward pressure on long-term real interest rates.

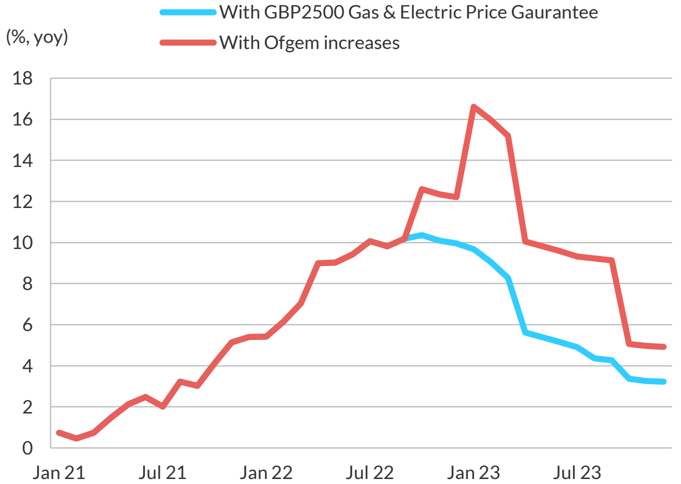
With inflation around 10% and a vicious supply shock unfolding, the BOE has become more hawkish. Tight labour markets are raising fears of a wage-price spiral, amid rising inflation expectations and a weakening pound. Interest rates rose by 50bp in August and we expect further 50bp increases in September and November and 25bp in December and February 2023, taking rates to 3.25%. The BOE is also shrinking its balance sheet.

UK Electricity and Gas Prices (Weekly Averages)



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

UK - CPI Inflation Scenarios



Source: Fitch Ratings, ONS, Ofgem, Haver Analytics

United Kingdom - Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	0.7	7.4	3.4	-0.2	1.9
Consumer spending	0.2	6.2	4.1	0.0	1.9
Fixed investment	0.0	5.9	6.0	1.1	2.7
Net trade (contribution pp)	0.0	-1.5	-3.4	-0.4	-0.1
CPI inflation (end-year)	2.1	5.4	10.0	3.2	2.7
Unemployment rate	4.3	4.5	3.9	4.8	5.0
Policy interest rate (end-year)	0.39	0.25	3.00	3.25	3.00
Exchange rate, GBPUSD (end-year)	1.31	1.34	1.15	1.15	1.15

Source: Fitch Ratings

Germany

The German economy slowed in 2Q22, growing by 0.1% qoq, returning to its pre-pandemic level. The overall result was held back by a decline in construction on a seasonally adjusted basis – other types of investment grew – and by a negative contribution from net trade as imports rose. Consumers spent more as the economy reopened following the lifting of pandemic restrictions at the end of March, around 8% yoy in real terms. Nominal household spending growth outpaced income growth as the savings rate declined.

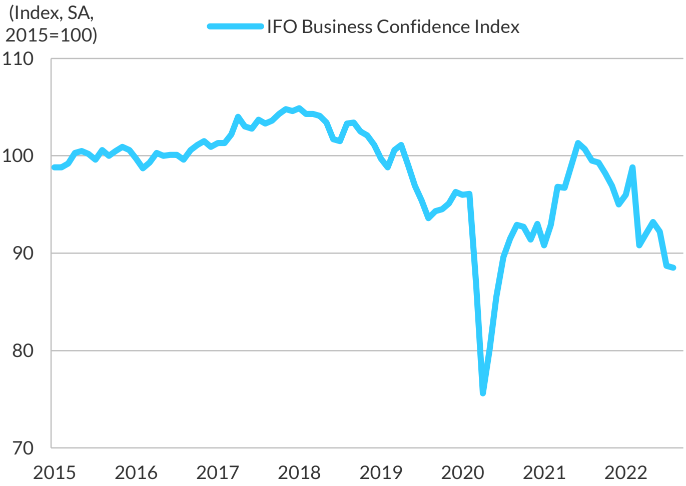
The energy price and supply shock has interrupted this recovery and will put the economy back into recession. Germany has been reliant on Russia for about 60% of its gas in normal times. The terms of trade deteriorated by 5% in 1H22, as import prices outpaced export prices. A government package announced in September to help households and businesses with higher costs has not been fully detailed, but Fitch assumes it will not offset the full cost of the shock. Energy prices already passed onto consumers have led inflation to 8.8%, reducing real wages. Industrial users of gas have already adapted and brought about a substantial fall in gas use, but shortages are likely to curtail production in some sectors.

We expect consumption growth to decline and turn negative in 3Q22, leading to a recession. GDP will fall by 0.5% in 2023. The composite PMIs for Germany showed further slippage into negative territory in August, with services sector activity and prospects weakening as well as manufacturing. With little relief to the energy supply shock in 2023, we expect a muted recovery. Higher interest rates will also slow the economy.

Employment will likely be supported as during the pandemic by government programmes to help companies weather the energy shock and keep workers on the payroll. Given the shock to output, we would nonetheless expect unemployment to rise.

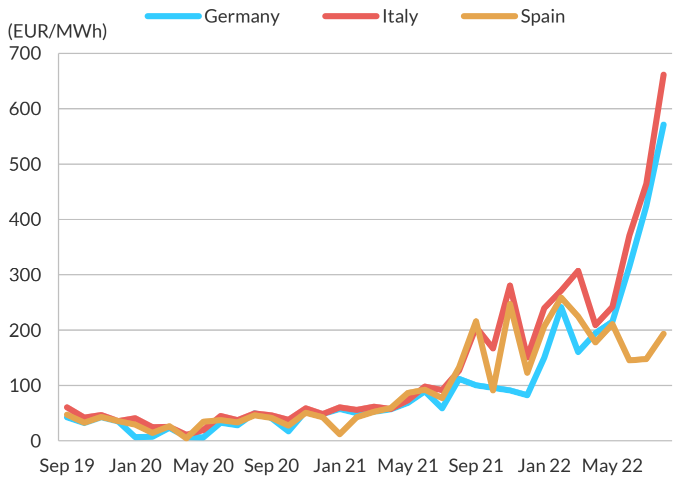
We expect inflation to continue to rise in the next few months, peaking in December and then start to fall, despite further rises in household energy prices. Even this forecast assumes only a very partial pass-through of the rise in wholesale energy prices to consumers, based on the authorities' policy response. There are risks that inflation may rise still further, given the potential for spillovers from energy prices to other goods and services and supply-side disruptions.

Germany - Business Confidence



Source: Fitch Ratings, ifo-Institut für Wirtschaftsforschung, Haver Analytics

Germany - Wholesale Power Prices



Source: Fitch Ratings, Bloomberg

Germany - Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	0.7	2.6	1.4	-0.5	2.3
Consumer spending	-0.1	0.4	4.4	0.2	2.2
Fixed investment	1.4	1.2	-0.1	1.5	3.1
Net trade (contribution pp)	-0.2	0.8	-2.0	-1.4	0.3
CPI inflation (end-year)	1.7	5.7	10.7	4.1	2.3
Unemployment rate	3.4	3.6	3.2	3.5	3.4
Policy interest rate (end-year)	0.00	0.00	2.00	2.00	1.75
Exchange rate, EURUSD (end-year)	1.15	1.13	1.00	1.00	1.00

Source: Fitch Ratings

France

The French economy outperformed expectations in 2Q22, growing by 0.5% qoq. The Bank of France's September analysis shows growth continuing in 3Q22 based on supply-side surveys. Supply constraints eased markedly, helping a number of industries, although remain relatively high. Consumption of services caught up after pandemic restrictions ended, while goods consumption fell.

The outlook is darkening as a result of the energy crisis and the slowdown in Germany, but we see a milder slowdown than elsewhere. This is partly because of France's energy mix, which is much less dependent on gas, softening the impact of the energy shock, and the effect of government policies, which further cushioned the blow to real incomes.

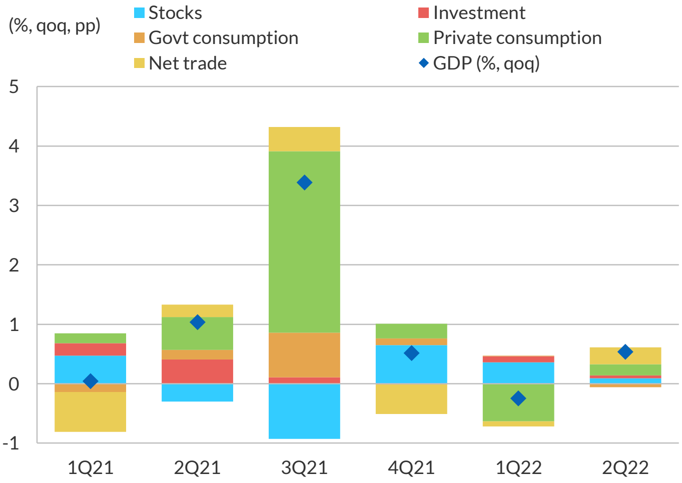
Dependence on gas for primary energy consumption was just 19% in 2020. France has, however, faced a recent idiosyncratic shock as drought and maintenance needs forced the shutdown of many of its nuclear reactors. Although the situation is set to improve, this has driven up wholesale power prices to their highest among the 'big four' eurozone economies, up approximately 20-fold yoy, leading energy-intensive industries to call for intervention in the power market.

The government has frozen the regulated tariffs of household gas and electricity until December 2022 under the so-called "tariff shield" first introduced in October 2021. As a result, the contribution to inflation from energy prices rises in France is among the lowest in the EU, and the shock to consumer demand is therefore lower than in some other European economies. National statistics bureau INSEE estimates that government policies are holding down the annual inflation rate by 2.5pp. Our inflation and growth forecast rests on the assumption that the government is likely to prolong assistance in some form that prevents a very sharp rise in consumer energy prices, but as demonstrated since October 2021, this will not eliminate energy price inflation.

Inflation is the lowest among the four largest eurozone economies, with the HICP recording a 6.5% annual rise in August. According to INSEE estimates, energy price inflation fell to 22% yoy. We see a decline in inflation in 2023.

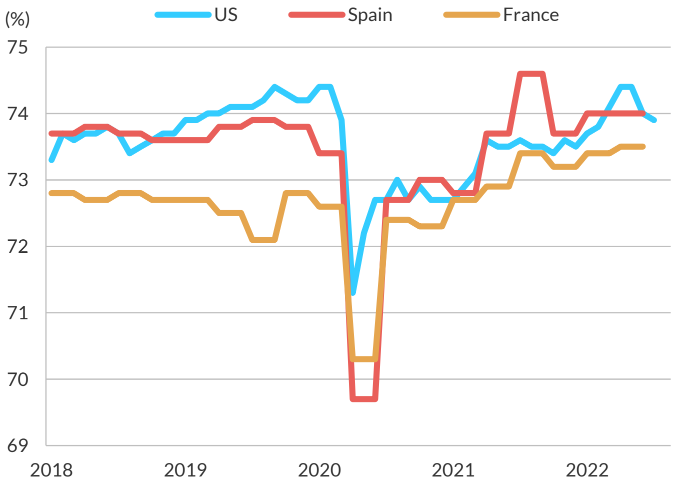
The recovering economy continued to draw more workers into the labour market in 1H22, as the participation rate rose. We expect a marginal rise in unemployment in 2023 as the economy slows.

France - Contribution to QoQ Real GDP



Source: Fitch Ratings, ECB, Haver Analytics

France - Labour Force Participation Rate (16-64 years)



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

France - Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	1.0	6.8	2.5	1.1	1.9
Consumer spending	0.6	5.3	2.6	0.9	2.1
Fixed investment	3.1	11.5	1.7	2.6	2.0
Net trade (contribution pp)	-0.2	0.1	-0.3	-0.2	0.1
CPI inflation (end-year)	1.4	3.4	6.5	3.4	2.0
Unemployment rate	8.5	7.9	7.6	7.7	7.8
Policy interest rate (end-year)	0.00	0.00	2.00	2.00	1.75
Exchange rate, EURUSD (end-year)	1.15	1.13	1.00	1.00	1.00

Source: Fitch Ratings

Italy

The economy grew strongly in 2Q22, expanding by 1.1% qoq and featuring a strong rebound in consumption following reopening from the pandemic. Exports are performing well despite developments in Russia and China. Momentum in the economy is slowing. August PMIs showed both manufacturing and services sector expectations and order books deteriorating although they were still close to the 'no change' 50 mark. National statistics bureau Istat's measure of consumers' assessment of the overall economic situation turned negative.

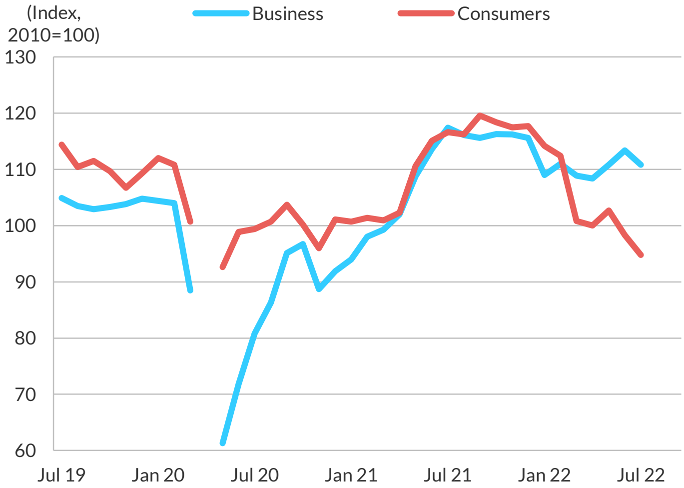
We have lowered our growth expectations for 2022 and now forecast the economy will contract in 2023 as a result of the energy shock. This will result from a direct hit to production as well as to consumer purchasing power. Italy is one of the most gas-reliant EU states in terms of its energy mix, with gas powering 50% of electricity generation compared with 20% in the EU as whole. Russia supplied 40% of gas imports in 2021. Even if 80% of Russian gas imports were replaced, total gas supply would fall 5%-10%, with a direct knock-on effect for the productive sector.

Fitch calculations show a larger increase in economy-side spending on gas as a share of GDP in Italy than in other major eurozone economies. Based on an assumption of an annual average gas price of USD55/mcf in 2023, whole economy spending on gas could rise to more than 5% of GDP in 2023, up to 2pp more than Germany. This will leave fewer resources for spending on other goods and services. It may make some production uneconomic, forcing closures. Italy has also made less progress than Germany in reducing consumption of gas in response to falling supplies.

Italy, along with Germany, has had the steepest rises in retail electricity and gas prices, of around 55% yoy in July 2022. Inflation will cut real purchasing power, affecting private consumption. The government will spend EUR33 billion (1.9% of GDP) in 2022, mainly through reductions of electricity and gas bills, tax credits for businesses, and reductions of excise duties, to soften the economic blow to households. The government formed after elections on September 25 may follow other European governments in announcing a further policy response to rising energy prices.

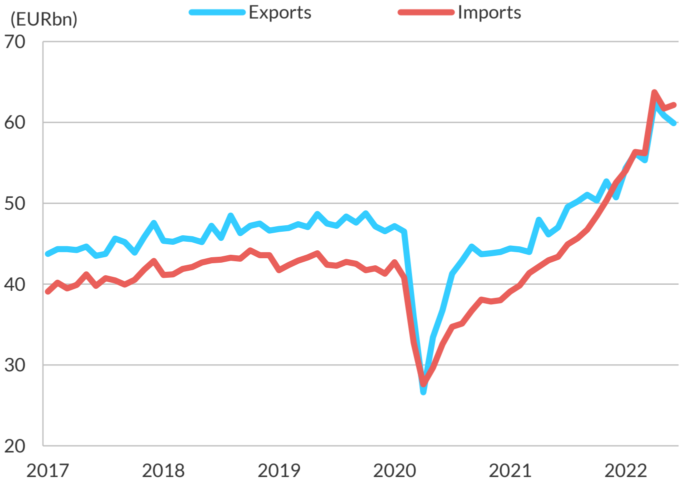
Italy's Recovery and Resilience Plan supported by EU funds should ensure positive momentum in investment. There is also investment in the energy sector to increase gas import capacity from non-Russian sources.

Italy - Confidence Indicators



Source: Fitch Ratings, ISTAT

Italy - Monthly Goods and Services Trade



Source: Fitch Ratings, Banca d'Italia, Haver Analytics

Italy - Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	0.1	6.6	3.0	-0.7	2.6
Consumer spending	-0.5	5.2	3.1	-1.4	3.2
Fixed investment	3.1	17.0	8.9	1.7	1.9
Net trade (contribution pp)	-0.1	0.0	-1.0	-0.3	0.2
CPI inflation (end-year)	1.0	4.2	8.5	3.3	2.1
Unemployment rate	10.1	9.5	8.3	8.8	8.7
Policy interest rate (end-year)	0.00	0.00	2.00	2.00	1.75
Exchange rate, EURUSD (end-year)	1.15	1.13	1.00	1.00	1.00

Source: Fitch Ratings

Spain

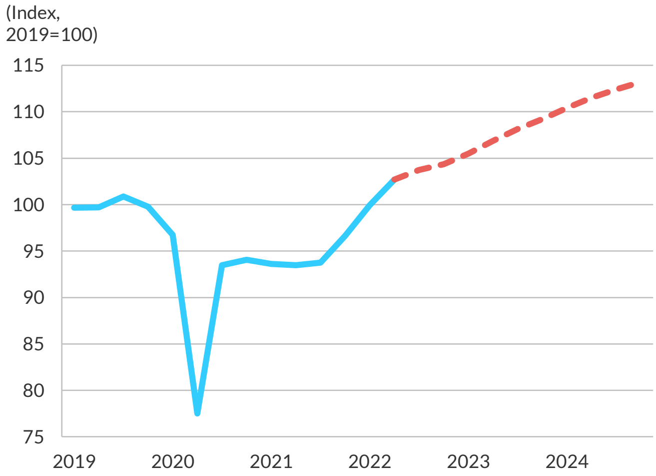
Spain's GDP will grow by 4.1% in 2022, outperforming most other large eurozone economies, driven by the recovery in the services sector in 1H22. Quarterly growth of 1.1% in 2Q22 was faster than in France and Germany and the same as Italy. Growth has benefitted from a strong recovery in tourism, with hotel stays just 2% below 2019 levels in July. Despite growing by 6.3% yoy in 1H22, real output has yet to regain its 2019 level. However, employment has more than recovered, with unemployment below its 4Q19 low.

We expect growth to turn briefly negative qoq by 4Q22. Leading indicators, such as PMIs for goods and services, are hovering around the 'no change' 50 mark. Spain is less directly exposed to the European energy shock but will face some consequences in both supply and demand. We forecast growth in 2023 of 1.7%. Spending on projects linked to the Recovery and Resilience Programme with the EU will keep investment growing. ECB monetary tightening will start to weigh on private investment, with the bank's research suggesting that economies, such as Spain and Italy with a greater share of small firms, are more likely to be affected.

Gas is a less important part of the energy mix in Spain than in much of Europe, and direct reliance on Russian gas (pre-cut-off) was 14% as of July 2022. Spain and Portugal have both delinked the gas prices paid by power plants and industry from the wholesale market price, fixing it at around EUR70/MWh, or one-third of the market price. This should forestall a rapid rise in retail gas and electricity consumer prices. The government has frozen increases in household electricity and gas bills until May 2023. The country is not immune to disruptions in neighbouring countries and is still paying much higher prices for LNG, which has long been its main source of gas imports.

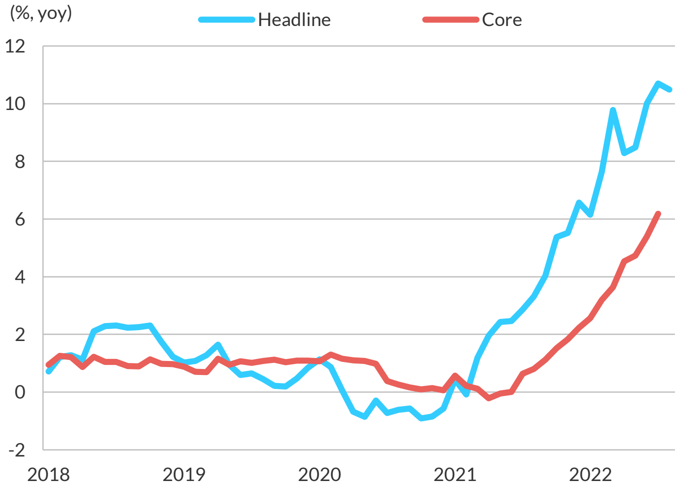
Inflation is still the highest among the 'big four' eurozone economies at 10.5% in August but we think it has peaked. While the headline rate fell, core inflation moved up to 6.4%. Food prices have made an outsized contribution relative to the other large eurozone economies, with food and energy driving half of annual inflation.

Spain - Fixed Investment



Source: Fitch Ratings, Eurostat, Haver Analytics

Spain - Inflation



Source: Fitch Ratings, Eurostat, Haver Analytics

Spain - Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	0.3	5.1	4.1	1.7	3.4
Consumer spending	-0.3	4.6	2.9	1.9	3.5
Fixed investment	2.5	4.3	8.8	4.6	4.2
Net trade (contribution pp)	-0.4	0.4	1.0	-0.5	0.4
CPI inflation (end-year)	1.4	6.6	7.8	3.8	2.3
Unemployment rate	15.4	14.8	12.9	13.1	13.0
Policy interest rate (end-year)	0.00	0.00	2.00	2.00	1.75
Exchange rate, EURUSD (end-year)	1.15	1.13	1.00	1.00	1.00

Source: Fitch Ratings

Switzerland

The Swiss economy heads into a more challenging period in a relatively strong position, and we expect it to slow but avoid recession. We have lowered our 2023 growth forecast by 0.6pp to 1.3%, a comparatively mild revision.

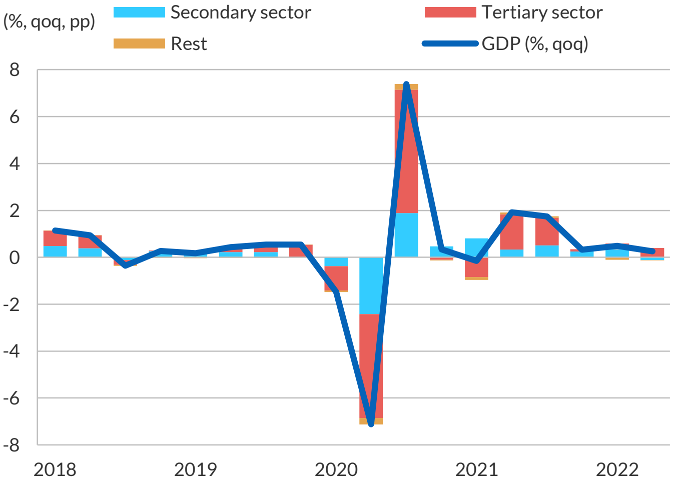
Consumption growth accelerated in 2Q22 to 1.4% qoq (5.7% annualised), helped by a boost from reopening and a strong continued rebound in tourism and hospitality. Overall GDP growth nonetheless slipped to 0.3% as exports fell.

However, the energy price and supply shock will not spare the Swiss economy, with authorities there urging businesses and consumers to reduce gas consumption by 15% on a voluntary basis to avoid rationing. Switzerland is less dependent on gas than its neighbours, but a potential shortfall could curtail industry. The manufacturing sector has grown exports by 10% yoy in 1H22 but it already faces challenges from lack of labour supply and supply-chain issues. Given the highly open nature of the economy, overall exports are now also vulnerable to a slowdown in Germany and the rest of Europe. The less cyclical pharmaceutical industry is slowing after recent rapid growth. The KOF Economic Barometer, derived from a survey of businesses, fell for a fourth successive month in August to below its long-term average.

The fall in real wages as a result of inflation will take a relatively modest toll on consumption relative to what we expect in most of Europe. The electricity regulator announced that household tariffs would rise by 27% on average in 2023, a far steeper rise than in 2022. However, electricity, gas and other household energy sources account for just 3.5% of CPI, half of the average for the eurozone, with gas having just a 0.6% share.

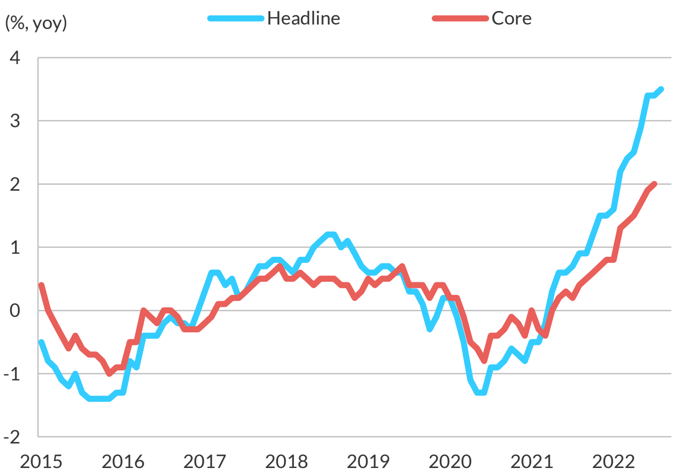
Inflation reached a multi-decade high of 3.5% in August, with core inflation at 2%. Energy contributed around 1pp (electricity prices were up 2.4% yoy while gas prices rose 58%). While much lower than the eurozone average, inflation is uncomfortably high in the view of the Swiss National Bank (SNB), which raised its policy rate by a surprise 50bp to -0.25% in June, pre-dating the ECB's first interest rate rise. We have revised our Swiss rates forecast and now expect a further 50bp of tightening in 2022 and 50bp in 2023. Swiss franc appreciation against the euro is helping to dampen price pressures. The SNB will be guided also by the steeper ECB rate path.

Switzerland - GDP Growth Contributions



Source: Fitch Ratings, State Secretariat for Economic Affairs, Haver Analytics

Switzerland - Headline and Core Inflation



Source: Fitch Ratings, Swiss Federal Statistical Office, Haver Analytics

Switzerland - Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	1.4	4.2	2.5	1.3	1.7
Consumer spending	0.1	1.7	3.9	1.6	1.6
Fixed investment	1.2	4.1	0.8	2.0	1.5
Net trade (contribution pp)	1.1	4.1	-1.4	-0.9	0.6
CPI inflation (end-year)	0.3	1.5	3.5	2.5	2.0
Unemployment rate	2.8	3.0	2.3	2.3	2.3
Policy interest rate (end-year)	-0.75	-0.75	0.25	0.75	0.75
Exchange rate, USDCHF (end-year)	0.96	0.91	0.98	0.97	0.97

Source: Fitch Ratings

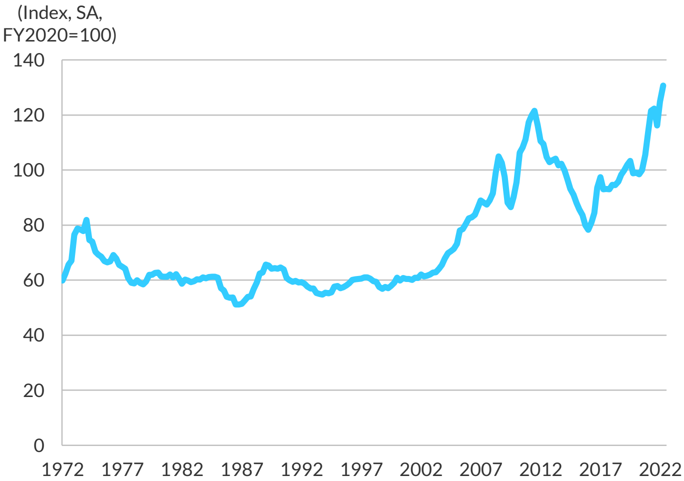
Australia

The Australian economy is showing near-term resilience in the face of global volatility and we still expect GDP to expand by around 4% this year. Nevertheless, we have cut our growth forecast for 2023 by 0.6pp to 1.9% reflecting the global slowdown – including weakness in China – and the lagged impacts of more aggressive monetary tightening from the Reserve Bank of Australia (RBA). GDP grew by 0.9% qoq in 2Q22, faster than the 0.7% we anticipated in the June GEO. Consumption expanded by 2.2% – helped by ongoing reopening in the services sector – and there was a strong contribution from net trade. Several factors point to growth dynamics remaining robust in the near term, including rapid employment and household income growth, strong household savings buffers, a large pipeline of investment projects underway and swiftly expanding business credit. High prices for LNG and coal have also pushed the terms of trade to record highs – boosting national income – while services exports are recovering as international borders reopen.

However, the darkening global economic outlook and more aggressive monetary tightening from the RBA have prompted us to cut our 2023 growth forecast. Australia's export cycle is closely linked to China's property market. The slump in housebuilding in China will weigh on Australia's iron ore export volumes and global iron ore prices. The latter have been falling since April. On the domestic front, high and rising inflation and the RBA's increasingly hawkish response is likely to take a significant toll on consumer spending and housing activity next year. Inflation has recently risen to 6.1% and with domestic gas and electricity prices expected to jump sharply in 2H22, is likely to exceed 7% by year-end.

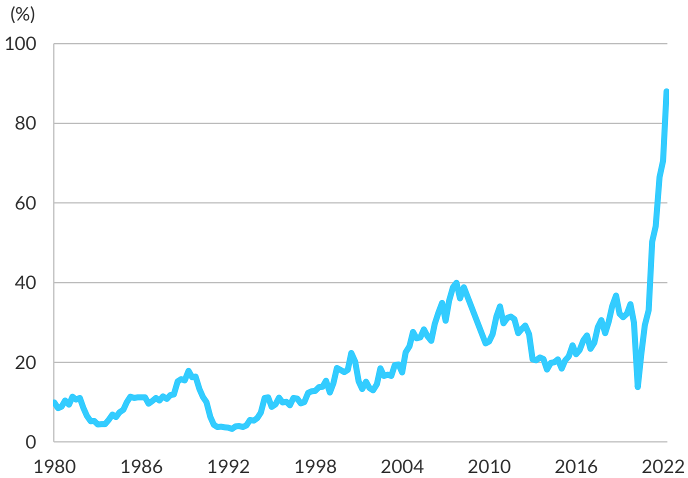
With labour-market conditions extremely tight – as evidenced by the ratio of vacancies to unemployment – the RBA is concerned about inflation becoming embedded and self-reinforcing. The RBA has raised interest rates by 225bp since April 2022 to 2.35% and we now expect a further 75bp of increases by year-end, taking the cash rate to 3.1%. This is a big upward revision from our previous forecast of 1.85% at year-end. The housing market has already started to respond, with house prices falling month-on-month since May and we expect dwellings investment to slow in 2023. Higher interest rates will also weigh on household budgets given the high household debt-to-income ratios of nearly 190%. With nominal wage growth still below 3% yoy, high inflation is eating into real wages, which will further constrain consumption growth next year.

Australia - Terms of Trade



Source: Fitch Ratings, Australian Bureau of Statistics, Haver Analytics

Australia - Vacancies-to-Unemployment Ratio



Source: Fitch Ratings, Australian Bureau of Statistics, Haver Analytics

Australia - Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	2.0	4.9	3.9	1.9	2.1
Consumer spending	1.0	5.0	7.1	2.5	2.0
Fixed investment	2.0	9.8	1.4	2.0	2.5
Net trade (contribution pp)	-0.1	-1.6	-1.7	0.2	0.2
CPI inflation (end-year)	1.8	3.5	7.8	3.5	2.3
Unemployment rate	5.5	5.1	3.7	4.1	4.3
Policy interest rate (end-year)	0.92	0.10	3.10	3.10	2.75
Exchange rate, USDAUD (end-year)	1.37	1.38	1.45	1.45	1.45

Source: Fitch Ratings

Canada

The Canadian economy grew strongly in 1H22, its performance diverging from its main trading partner, the US. Consumption rebounded by 2.3% qoq in 2Q22, also bringing strong growth in goods and services imports. As a commodity exporter, Canada's terms of trade have improved. Non-residential investment should continue to grow, based on the Bank of Canada survey, and PMI measures are still positive.

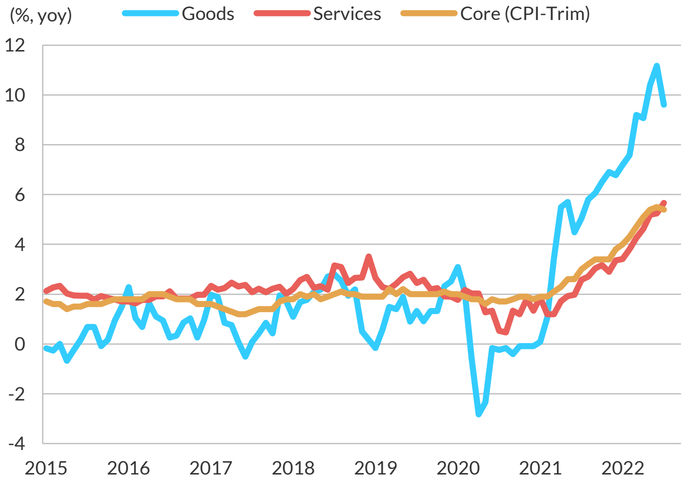
However, we have cut our growth forecast for 2023. Monthly GDP data show a deceleration, with a -0.1% contraction in the flash GDP estimate for July. Higher interest rates, a slowing US economy, capacity constraints and a correction in housing market activity and residential investment will all weigh on growth prospects in the remainder of 2022 and 2023.

Despite a recent increase, unemployment, at 5.4%, remains below pre-pandemic levels. This signals that the economy is running out of room to grow at above-trend rates. The Bank of Canada's business outlook survey published in July showed many firms expecting higher wage increases and shortages of labour. Core inflation is consistently increasing, strengthening to 5.5% in July. Services inflation has accelerated even as pressure on goods prices has fallen, helped by declining gasoline prices.

These factors led the Bank of Canada to raise its policy rate by 75bp to 3.25% at its September meeting to cool excess demand. We have raised our interest rate forecast to 4% by end-2022 and see an end to rate rises soon after that, provided growth and inflation moderate as we expect.

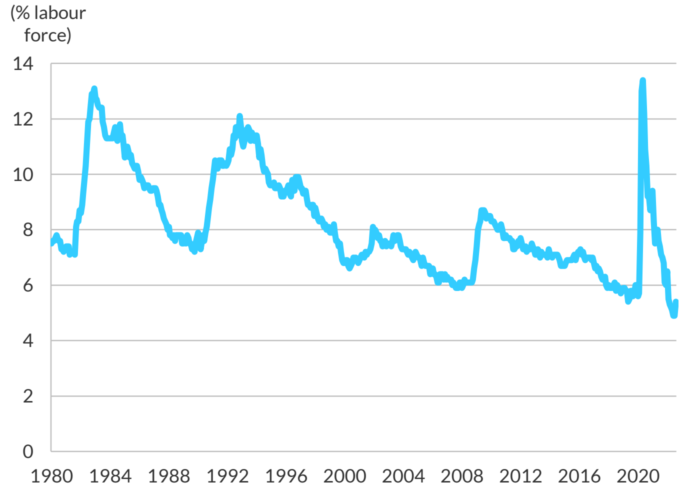
We expect a combination of rising interest rates and economic slowdown or recession as potentially concerning for the housing market. Residential investment accounts for half of all investment, and will contract, as will the significant share of activity related to real-estate transactions. We believe Canada will avoid recession and the housing market correction will be manageable, but there is a risk of a more severe correction that could affect households via the wealth effect and the rest of the economy via the credit channel. However, while Canadian households are highly indebted, a majority of them will not see their mortgage payments rise immediately.

Canada - Goods, Services and Core Inflation



Source: Fitch Ratings, Statistics Canada, Haver Analytics

Canada - Unemployment Rate



Source: Fitch Ratings, Statistics Canada, Haver Analytics

Canada - Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	1.4	4.5	3.2	0.8	1.6
Consumer spending	1.3	4.9	5.2	1.0	1.8
Fixed investment	2.0	7.1	-0.1	-0.4	2.5
Net trade (contribution pp)	-0.4	-1.9	-2.0	-0.3	-0.5
CPI inflation (end-year)	2.0	4.8	7.4	3.8	2.7
Unemployment rate	7.0	7.4	5.2	5.4	5.6
Policy interest rate (end-year)	0.93	0.25	4.00	4.00	3.75
Exchange rate, USDCAD (end-year)	1.30	1.29	1.30	1.30	1.30

Source: Fitch Ratings

Brazil

Stronger-than-expected incoming data has prompted an upward revision in Fitch's growth projection for 2022 to 2.5%, from 1.4%. Real GDP grew 1.2% qoq (sa) in 2Q22, maintaining the solid momentum in 1Q22 (1.1%). The recovery has been supported by further strengthening of the labour market, services sector re-opening, a recovery in hydroelectric production after last year's drought, some policy measures, and high commodity prices.

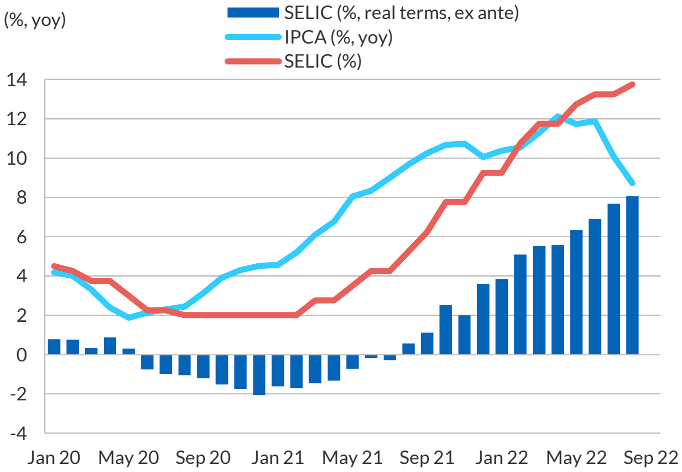
However, activity is likely to slow in the remainder of 2022 and into 2023 as a result of the lagged effect of domestic monetary policy tightening, slower global growth, tighter external financing conditions and uncertainties related to the October election cycle. Fitch projects growth of 0.8% for 2023, down from 1.0% previously. Growth prospects will also hinge on the economic plans and signals of the next government, particularly regarding fiscal policy and state involvement in the economy.

Inflation fell to 8.7 % yoy in August from a peak of 12.1% in April, due to the favourable impact from cuts to fuel taxes and some softening of international oil prices that has facilitated downward revision of energy prices by Petroleo Brasileiro S.A. (Petrobras). Fitch expects inflation will continue declining to 6.5% by year-end on favourable base effects, and to 5.2% by end-2023. This would, however, still be above target as a result of inertia and the reversal of some of the tax cuts introduced this year.

The Banco Central do Brazil (BCB) lifted its policy rate to 13.75% in August, among the world's highest in real terms. Fitch believes this represents the end of its tightening cycle. The BCB has signalled possible further rate rises to anchor inflation expectations, but expectations have begun to moderate in recent central bank surveys. Fitch expects the decline in inflation and inflation expectations should enable the BCB to begin cutting rates next year, to 10.0% by end-2023 and 8.0% by end-2024.

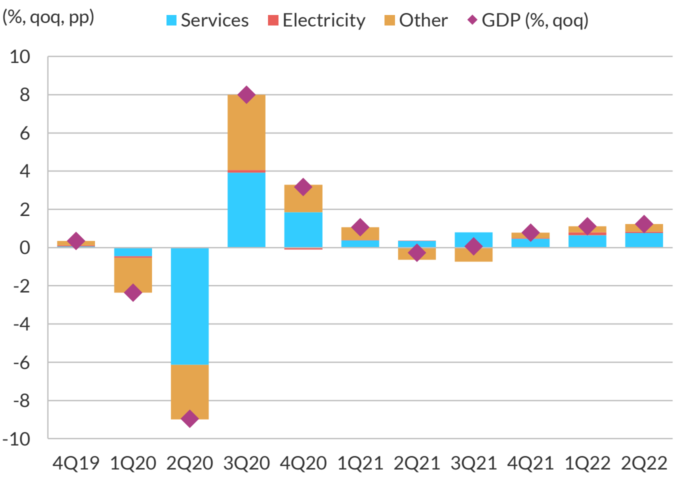
The Brazilian real has been volatile and fluctuated in line with other benchmark emerging-market currencies in recent months, reflecting support from exceptionally high domestic real rates and high (although volatile) commodity prices, news flow about global monetary tightening, and election uncertainties.

Brazil - Inflation and Interest Rates



Source: Fitch Ratings, IBGE, BCB, Haver Analytics

Brazil - GDP Growth and Composition



Source: Fitch Ratings, IBGE

Brazil - Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	1.0	4.6	2.5	0.8	2.0
Consumer spending	1.0	3.6	3.8	0.8	1.7
Fixed investment	4.7	17.3	-0.6	3.9	4.1
Net trade (contribution pp)	-0.2	-0.8	0.3	-0.5	0.0
CPI inflation (end-year)	4.5	10.1	6.5	5.2	3.5
Policy interest rate (end-year)	6.01	9.25	13.75	10.00	8.00
Exchange rate, USDBRL (end-year)	4.27	5.58	5.20	5.20	5.20

Source: Fitch Ratings

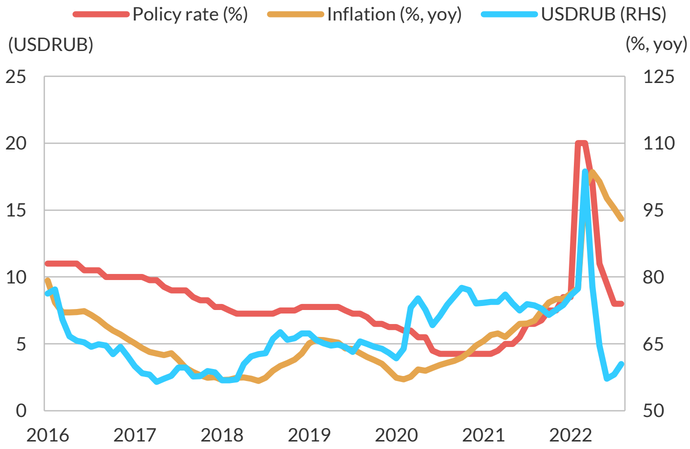
Russia

Figures published by the statistics office Rosstat showed a much smaller contraction in 2Q22 than we expected in June. The seasonally adjusted data showed a 1.9% fall, much better than the decline of 9.0% qoq that we had expected. Import compression has been dramatic with a 30% annual decline now expected this year. The better outturn for 2Q22 and recent activity data for July and August suggests that the economic downturn may be bottoming out at the start of 3Q22, with retail sales, industrial production and the manufacturing PMI index improving. The services PMI, however, dropped back below 50. Given these trends we now expect a GDP contraction of 3.5% this year (June GEO -8.0%) and -2.6% in 2023 (-1.5% before) as the Western-led oil import restrictions come into effect in December and gas exports to Europe are shut off.

The smaller pace of contraction in 2022 does not signal the start of Russia's economic recovery. With reduced access to Western technology, significant corporate disinvestment and growing demographic challenges, the country's potential growth is expected to fall in coming years. Sanctions will continue to affect Russia's supply chain. The availability of key intermediate imports for sectors such as aviation and pharmaceuticals will be severely affected and there will be a further drag from European countries reducing their dependence on Russian energy exports.

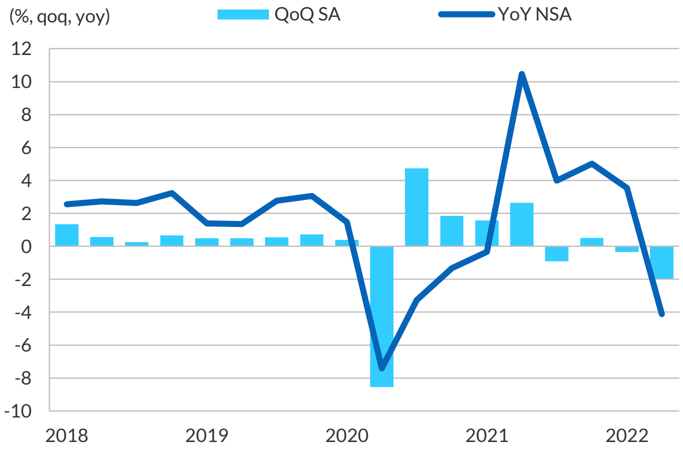
The USD/RUB exchange rate has strengthened to around 60 from a low of 130 in early March, helped by ongoing flows of energy revenues – helped by rising gas prices – which have led to a significant jump in the current account surplus. Capital controls also helped the Russian rouble and while some of these restrictions have been relaxed, these are only being eased for countries that did not join the sanctions imposed by Western governments. A stronger rouble has helped to contain inflationary pressures with annual CPI easing to 14.3% in August from a peak of 17.8% yoy in April. Inflation expectations have also moderated rapidly and hence our end-2022 annual CPI projection is now 14% rather than 16%. The Central Bank of Russia cut policy rates to 8% in July and we expect it to cut further again next year, a change from our previous expectation of 8.5% flat throughout the forecast horizon.

Russia - Inflation, Policy Rates and USDRUB



Source: Central Bank of Russia, Rosstat, Haver Analytics

Russia - Quarterly and Annual Growth Rates



Source: Fitch Ratings, Rosstat, Haver Analytics

Russia - Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	1.8	4.7	-3.5	-2.6	1.6
Consumer spending	2.8	9.5	-6.8	-3.4	2.3
Fixed investment	1.7	6.8	-11.0	-3.9	2.1
Net trade (contribution pp)	-0.6	-2.7	3.3	-2.6	-0.7
CPI inflation (end-year)	4.2	8.4	14.0	8.0	6.0
Policy interest rate (end-year)	6.93	8.50	8.00	7.50	7.00
Exchange rate, USDRUB (end-year)	66.30	74.29	65.00	70.00	75.00

Source: Fitch Ratings

India

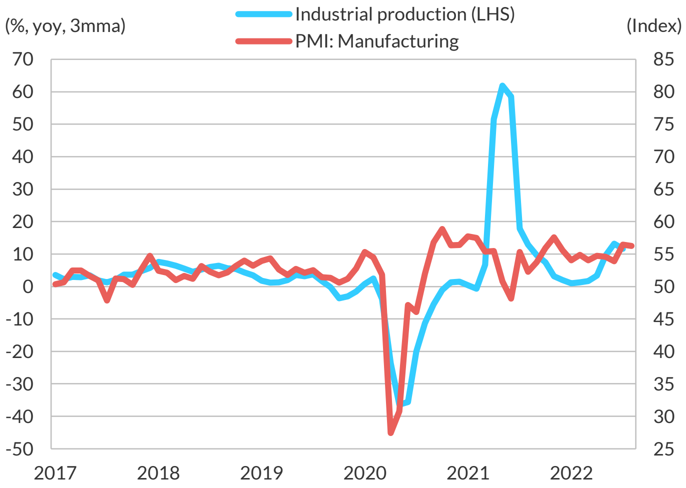
The economy recovered in 2Q22 with growth of 13.5% yoy, but this was below our June GEO expectation of an increase of 18.5% yoy. Seasonally adjusted estimates show a 3.3% qoq decline in 2Q22 though this seems to be at odds with high-frequency indicators. Both the manufacturing and services PMI indices improved in 2Q22 while industrial output rose by a strong 3.2% month-on-month in June, particularly in consumer durables. The manufacturing PMI index also recovered strongly in July and remained upbeat in August, with the Reserve Bank of India (RBI) saying that "domestic activity remains resilient."

Nevertheless, we expect the economy to slow given the global economic backdrop, elevated inflation and tighter monetary policy. Compared to our June GEO forecasts we now expect the economy to grow 7% in the financial year to end-March 2023 (FY23) from 7.8% previously, with FY24 also slowing to 6.7% from 7.4% before.

Inflation moderated in August as crude oil prices eased but the risk to food inflation persists given negative seasonality towards the end of this year. Core inflation, which excludes food, fuel and light, remained elevated at 6% while inflation expectations have also stayed high. The RBI's latest survey of household inflation expectations eased in July, but expectations are still far above pre-pandemic levels. Destabilising inflation expectations could risk triggering second-round effects, according to the minutes of the RBI's August policy meeting. While the RBI expects monthly inflation data to be volatile in the near term, its expectation is for CPI to ease towards the end of the year.

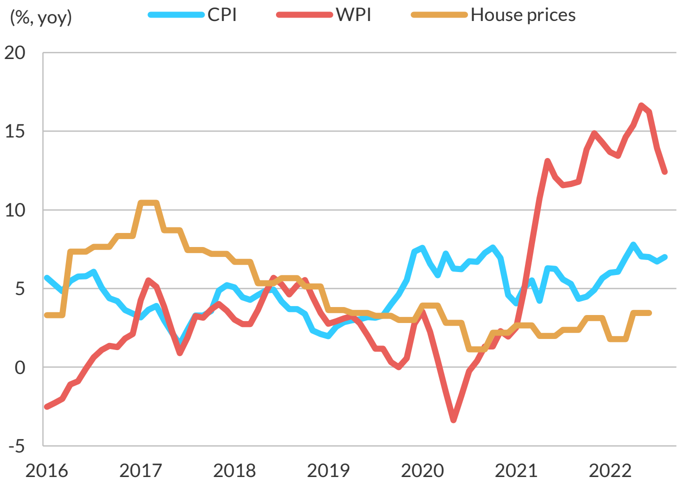
The RBI has already front-loaded its policy rate rises, tightening by a total of 140bp since the start of 2022 to 5.4% in August. We expect the RBI to continue raising, to 5.9% before year-end. The RBI remains focused on reducing inflation, but said that its decisions would continue to be "calibrated, measured and nimble" and dependent on the unfolding dynamics of inflation and economic activity. We therefore expect policy rates to peak the near future and to remain at 6% throughout next year.

India - Industrial Production and PMI



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

India - CPI, WPI and House Price Inflation



Source: Fitch Ratings, MOSPI, MoCI, Oxford Economics, 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	6.7	7.1
Consumer spending	4.1	7.9	8.6	4.0	5.4
Fixed investment	5.2	15.8	8.9	6.9	7.3
Net trade (contribution pp)	-0.9	-2.9	-1.2	1.5	0.7
CPI inflation (end-cal. year)	4.6	5.7	6.2	5.0	5.0
Policy interest rate (end-cal. year)	5.28	4.00	5.90	6.00	5.75
Exchange rate, USDINR (end-cal. year)	70.39	74.30	79.00	80.00	80.00

Source: Fitch Ratings

Korea

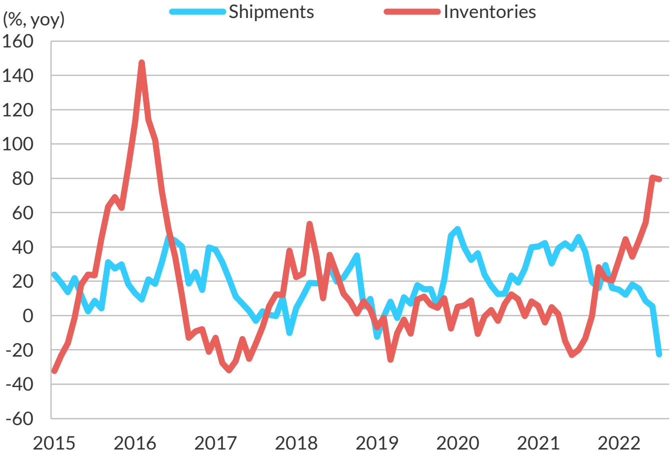
With Covid-19 restrictions lifted in mid-April, private consumption bounced back strongly in 2Q22, growing 0.7% qoq, higher than the 0.1% qoq increase we expected in June's GEO. At the same time, exports contracted significantly in the quarter, due to decreases in motor vehicles and petroleum products, and reflecting softer trade with China. Slower global growth and the weaker outlook in China are expected to slow the Korean economy in 2H22. Some of that weakness is already evident in the weak industrial production numbers for July, while the manufacturing PMI fell further below the neutral 50 level. The output and new orders subcomponents of the PMI index also dropped quite sharply in August.

Semiconductor producers also recorded their first fall in factory shipments in almost three years, falling almost 23% yoy in July. Inventories increased again and chip production slowed for the fourth straight month, a sign that major producers are responding to the slowdown in demand. Domestically, slower credit growth to households, higher policy rates and high inflation are expected to dent consumers' purchasing power.

Annual headline inflation moderated in August with a decline to 5.7% from what may prove to be the peak of 6.3% in July, as global crude oil prices eased. However, annual core inflation, which strips out food and energy, rose to its highest level in 13 years at 4.0% yoy, doubling since November 2021. The month-on-month increases in core inflation have slowed recently while the sharp drop in wage growth in 2Q22 and the slower pace of economic growth should help to reduce core inflationary pressures. Inflation expectations are also moderating though they still remain high. Current inflation is still a long way above the Bank of Korea's (BoK) 2% inflation target.

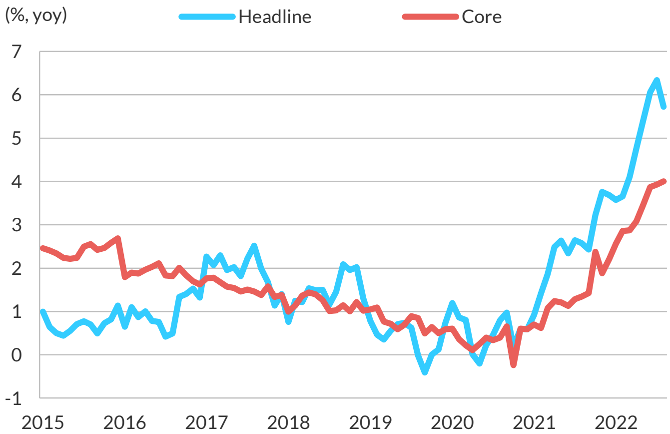
The BOK has raised policy rates by a cumulative 200bp since the start of the current tightening cycle to 2.5%, and recent BOK commentary suggests the central bank will raise rates further. Fitch expects the BoK to increase rates by a further 25bp before the end of the year, keep rates on hold in 2023, then ease in 2024.

Korea - Semiconductors Shipments and Inventories



Source: Fitch Ratings, Statistics Korea, Haver Analytics

Korea - Headline and Core CPI Inflation



Source: Fitch Ratings, Statistics Korea, Haver Analytics

Korea - Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	2.3	4.1	2.6	1.9	2.6
Consumer spending	1.4	3.7	3.6	1.9	3.0
Fixed investment	2.4	2.8	-2.2	1.8	1.4
Net trade (contribution pp)	0.2	0.9	1.1	0.2	0.6
CPI inflation (end-year)	1.4	3.7	5.0	1.5	1.6
Policy interest rate (end-year)	1.14	1.00	2.75	2.75	2.50
Exchange rate, USDKRW (end-year)	1,144	1,187	1,300	1,250	1,250

Source: Fitch Ratings

Indonesia

The economy grew in line with our expectations in 2Q22 at 5.4% yoy, which in seasonally adjusted quarterly terms is estimated at 1% qoq. Growth was driven by a strong increase in government spending, a sharp jump in exports and a boost from consumer spending. While households remain upbeat, consumer confidence and retail sales have moderated slightly.

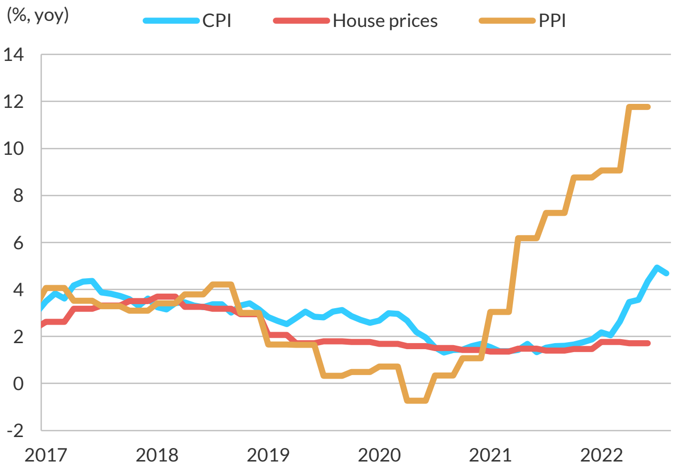
Given our downgrades to Chinese and global growth, and with the boost from reopening fading, we now expect the economy to grow 5.2% this year – revised down from 5.6% in our June GEO – and next before seeing recovering to 5.6% in 2024. We expect that higher interest rates, a further fall in commodity prices and the government's proposed reduction of the budget deficit will also weigh on growth.

Bank Indonesia (BI) had until recently been reluctant to raise policy rates given that core or underlying inflation has remained relatively contained despite rising to 3% in August. However, recent weakness in the rupiah, still above-target headline inflation at 4.7%, and the prospect of rising fuel and food price inflation prompted BI finally to increase rates by 25bp in August to 3.75%.

The government's decision to lift the price of subsidised fuel to IDR10,000 a litre in early September from IDR7,650 is likely to lead to higher inflation in the near term. Moreover, food inflation remains high at 8.3% yoy; this may lift inflation expectations that could have second-round effects and push up core CPI.

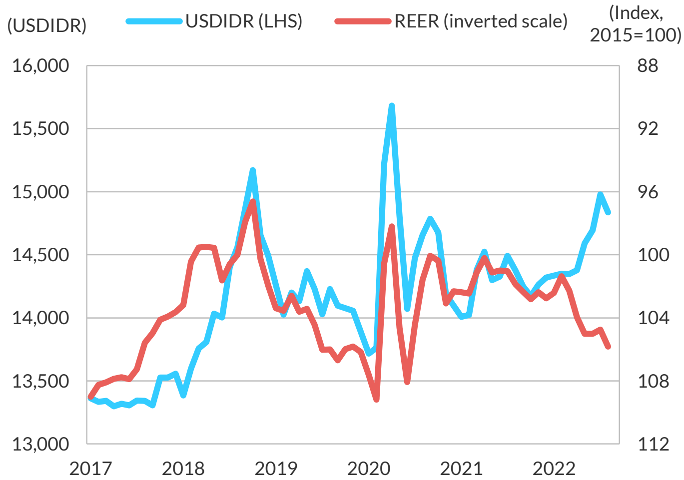
We continue to expect a further 25bp rise to 4% before the end of the year, then to 5% by end-2023 before easing in 2024. The rupiah has weakened since June but the moves have been fairly muted and, with our view of higher policy rates ahead, the rupiah should remain supported.

Indonesia - CPI, PPI and House Price Inflation



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

Indonesia - Exchange Rates



Source: Fitch Ratings, Refinitiv, OECD, Haver Analytics

Indonesia - Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	3.4	3.7	5.2	5.2	5.6
Consumer spending	2.9	2.0	4.4	4.5	4.5
Fixed investment	3.2	3.8	3.5	4.5	5.7
Net trade (contribution pp)	0.6	1.0	1.3	1.3	1.0
CPI inflation (end-year)	2.7	1.9	4.2	3.0	3.0
Policy interest rate (end-year)	4.61	3.50	4.00	5.00	4.75
Exchange rate, USDIDR (end-year)	14,131	14,269	14,850	14,850	14,850

Source: Fitch Ratings

Mexico

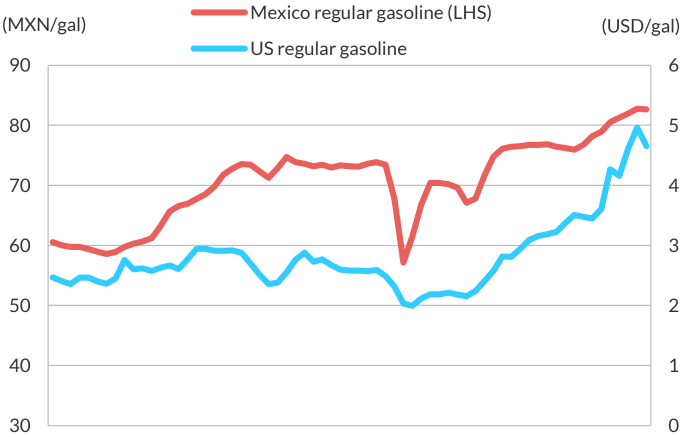
The economy has recovered steadily through 1H22, and performed better than expected in 2Q22, growing by 2% yoy, compared with our previous expectation of 1.1%. Recent monthly economic indicators continued to show growth, with national statistics body INEGI's estimate of economic activity in July showing 1.5% annual growth led by manufacturing. Autos output rose 31% yoy in August. Sustained labour improvement, coupled with robust remittances inflows, support steady consumption growth. As a result, we are upgrading our 2022 growth projection to 2.5% from 1.8% in June.

However, we are lowering our 2023 growth projection to 1.4% from 1.9%. We expect 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. Manufacturing PMIs, a leading indicator, slipped into contractionary territory in July and remained there in August. We expect that real GDP will not reach pre-pandemic levels until 2023.

The limited fiscal impulse during the pandemic and a reversal of monetary policy easing has restrained the economic recovery, as authorities prioritise macroeconomic stability. Sluggish investment further constrains growth prospects. Weak business confidence is partly related to regulatory uncertainty, particularly in the electricity sector. The government favours more state intervention in the energy sector. The US government began a consultation process under the USMCA (United States-Mexico-Canada Agreement) framework, alleging that recent energy and electricity policy decisions contravene the free trade agreement.

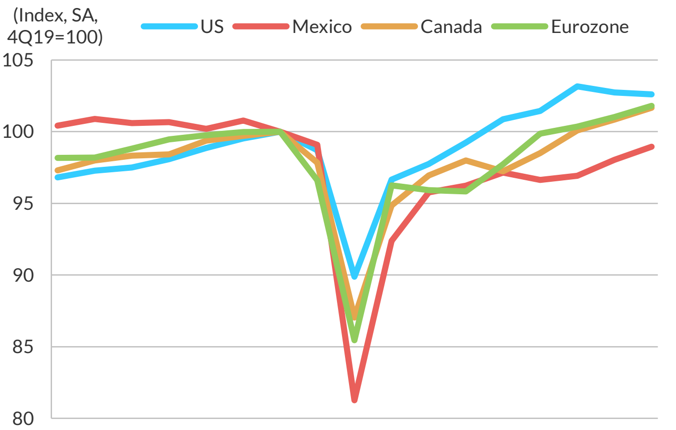
Pandemic-related demand distortions, supply-chain disruptions and elevated commodity prices continue to lift inflation to levels not seen in the past two decades, and it rose again to 8.7% in August with core inflation at 8%. The government's fiscal stimulus mechanism has constrained gasoline price increases in the face of higher oil prices and has prevented even higher levels of headline inflation. Estimates suggest this has lowered headline inflation by up to 2.5pp. We expect inflation will gradually decrease, returning to Banco de Mexico's inflation target range by 2024. Fitch expects Mexico's central bank will continue its policy tightening to avoid further de-anchoring of inflation expectations against a backdrop of stubbornly high inflation. Policy rates are now likely to reach 10% by year-end, a 450bp increase through the year, well above our previous forecast of 8.5%, but we expect they will be cut next year once inflationary pressures ease.

Mexico - Fuel Price, Mexico vs US



Source: Fitch Ratings, BLS, CRE, Haver Analytics

Mexico - Quarterly Real GDP



Source: Fitch Ratings, BEA, INEGI, StatCan, Eurostat, Haver Analytics

Mexico - Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	0.2	4.8	2.5	1.4	1.6
Consumer spending	0.7	7.5	6.3	1.7	1.6
Fixed investment	-2.7	9.5	3.5	0.8	2.0
Net trade (contribution pp)	0.0	-2.2	0.1	-0.9	0.0
CPI inflation (end-year)	4.7	7.4	7.0	4.2	3.5
Policy interest rate (end-year)	6.43	5.50	10.00	9.00	8.50
Exchange rate, USDMXN (end-year)	19.84	20.58	20.00	21.00	21.00

Source: Fitch Ratings

Poland

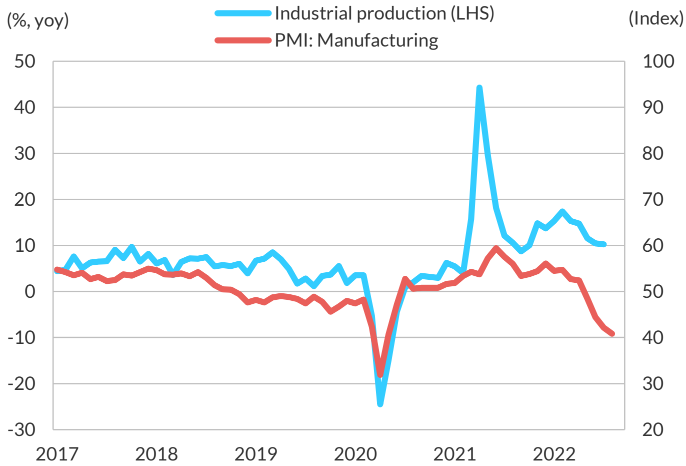
Following a strong post-pandemic expansion at the start of 2022, the economy contracted 2.1% qoq in 2Q22 due to a sharp adjustment in inventories and weaker net trade. The decline in activity proved to be sharper than we expected in June's GEO (-0.7% qoq) though data at the start of 3Q22 appeared to show some stabilisation in activity, highlighted by stronger retail sales in July and a monthly increase in seasonally adjusted industrial production. That said, the PMI manufacturing index for August dropped further into contraction territory, with output and new orders at rates not seen since the first wave of the pandemic in 2020. Deteriorating conditions in manufacturing have been accompanied by a marked shortening of suppliers' delivery times, suggesting that supply-chain disruptions during the pandemic have continued to ease.

We now expect the economy to enter a technical recession in 3Q22 and to stagnate in 4Q22. Given this revised growth profile, we have lowered our GDP forecast for this year to 3.9% from 5.2%, and we have halved next year's growth to 1.5%. Consumer expenditure has remained strong, supported by favourable labour market trends, rising wages and the large influx of Ukrainian refugees. But with inflation running at 16.1% yoy in August and policy rates 450bp higher than at the start of the year, we expect the consumer to trim purchases.

We expect inflation to continue increasing, peaking at 20% early next year before easing in 2023, though remaining above the central bank's target of 2.5% (+/-1 percentage point band). Inflation has been driven by a positive output gap as well as second-round effects on inflation from rising wages, with the latter growing 16% yoy in July.

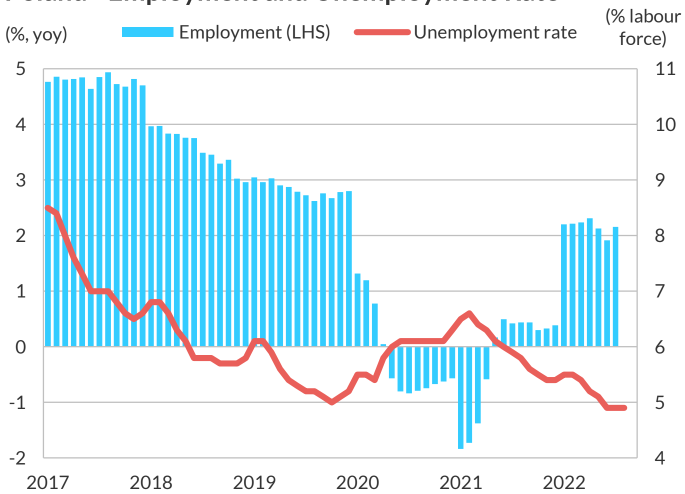
In June, National Bank of Poland (NBP) Governor Adam Glapinski said the central bank was gradually approaching the end of its rate-rising cycle. Fiscal policy is complicating matters though, given the government's commitment to implement a 5pp cut in the basic income tax rate (to 12% from 17%) and other measures, such as the payment holiday for mortgage holders. NBP raised rates again by 25bp to 6.75% in August and we now expect rates rising to 7.5% by year-end, revised up from a forecast of 7% in the June GEO. Rates are expected to fall to 7% by end-2023.

Poland - Industrial Production and PMI



Source: Fitch Ratings, CSO of Poland, HSBC, S&P Global, Haver Analytics

Poland - Employment and Unemployment Rate



Source: Fitch Ratings, CSO of Poland, Haver Analytics

Poland - Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	3.7	6.0	3.9	1.5	2.3
Consumer spending	3.2	6.1	4.2	2.0	1.9
Fixed investment	3.7	3.9	5.6	2.4	4.0
Net trade (contribution pp)	0.1	-1.5	-1.7	-0.1	-0.1
CPI inflation (end-year)	2.9	8.7	18.0	9.0	5.0
Policy interest rate (end-year)	1.06	1.75	7.50	7.00	5.25
Exchange rate, USDPLN (end-year)	3.80	4.06	4.70	4.50	4.50

Source: Fitch Ratings

Turkiye

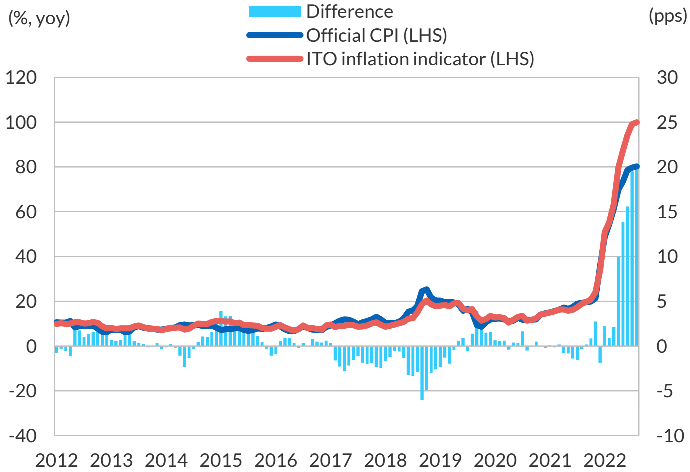
Despite annual inflation at 80%, the economy grew strongly in 2Q22 driven by strong consumption and an equally large export boost. The 2.1% qoq gain beat the 0.5% qoq increase we had expected in June's GEO and this alone accounts for our growth revision in 2022 even as Turkiye's rising macroeconomic imbalances remain a concern. Policies to shield consumers, including increases in the minimum wage and pensions, strong credit growth and some front-loading of purchases due to high inflation have sustained household spending. At the same time, lira weakness has helped exports. We now expect the economy to expand 5.2% this year (June GEO 4.5%) and growth to fall to 2.9% in 2023.

In spite of strong export and tourism revenues, the current account deficit has widened significantly due to rising energy import costs. Moreover, tourism revenues are expected to slow as the eurozone enters recession.

The central bank has cut policy rates by 600bp in the past year under its unorthodox monetary policy approach, even as inflation quadrupled and global financing conditions tightened. This has led to rapid lira weakening, a trend which we expect to continue over the next two years. With producer price inflation in triple digits, unanchored inflation expectations and continued weakening of the lira, we expect inflation to rise further in the coming months before dropping to 75% yoy by end-2022.

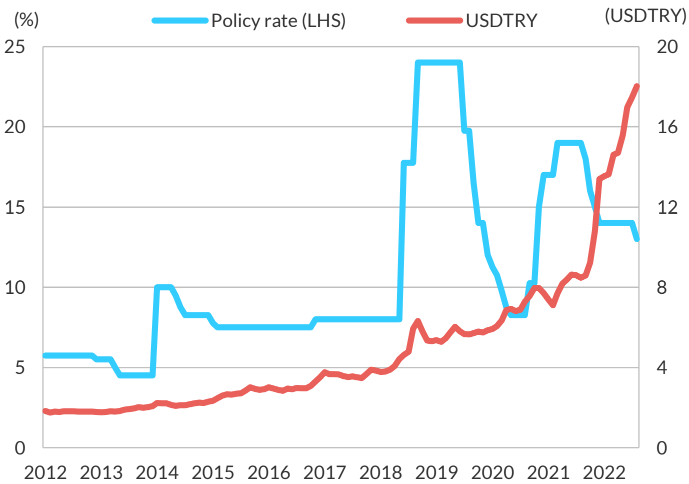
President Recep Tayyip Erdogan's well-known preference for low interest rates limits the central bank's ability to tighten monetary policy. The monetary authority has instead opted for a more interventionist and less predictable approach through macroprudential measures. Low interest rates and a weak currency form a key part of the government's new economic model, which aims to boost competitiveness and reduce the country's current account deficit. Previous comments from President Erdogan made last June had raised the possibility of further policy rate cuts, which were subsequently realised in a 100bp cut to 13% in August. We continue to expect the central bank to eventually have to tighten monetary policy in 2023 but this forecast remains at risk from further monetary policy pronouncements by the President.

Turkiye - Official CPI and ITO Inflation Indicator



Source: Fitch Ratings, Istanbul Chamber of Commerce, Turkstat, Haver Analytics

Turkiye - Policy Rate and USDTRY



Source: Fitch Ratings, Wall Street Journal, CBRT, Haver Analytics

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	14.1	2.7	2.0
Fixed investment	2.1	7.4	3.0	2.7	2.3
Net trade (contribution pp)	1.1	4.8	2.2	0.2	0.7
CPI inflation (end-year)	14.9	36.1	75.0	55.0	48.0
Policy interest rate (end-year)	14.37	14.00	13.00	19.00	19.00
Exchange rate, USDTRY (end-year)	6.00	12.99	20.00	24.90	27.70

Source: Fitch Ratings

South Africa

The economy shrank more than expected in 2Q22, declining 0.7% qoq (June GEO -0.4% qoq) as strong import growth and a fall in government spending weighed on the economy. Data also showed a 0.2pp downward revision in 1Q22 to 1.7% qoq. Almost all sectors of the economy reported a decline in activity including manufacturing, mining and retail. This partly reflected severe flooding, power cuts and labour strikes. High-frequency indicators suggest activity stabilised in August, as seen in the ABSA PMI index rising back to 52.1, but power cuts threaten to prolong recent economic weakness.

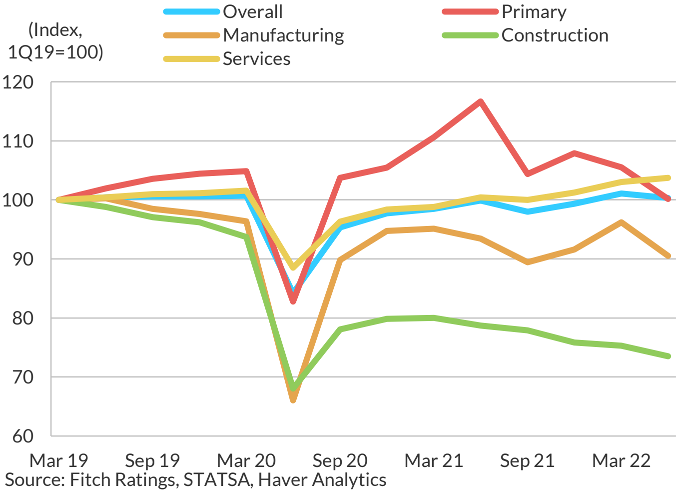
The presidential electricity package is expected to add some short-term capacity to the grid, but the electricity supply situation is likely to remain fragile until at least the end of next year before new independent power producer programmes and self-generation capacity start to come on stream. As a result, electricity availability will remain a constraint on growth.

External factors will also affect growth this year as commodity prices wane and the global economy slows, while rising inflation will weigh on domestic demand. These challenges have led us to revise down our growth projection for this year, to 1.9% from 2.3%, and to 1.6% in 2023 from 2% previously.

Even as growth slows, annual headline inflation continues to increase with CPI inflation recently rising to its highest rate in 13 years at 7.8%. Headline inflation may be close to peaking as the price of oil drifts lower. However, food inflation continues to increase -– despite global grain prices falling – and hence we expect headline inflation to remain above the South African Reserve Bank's (SARB) target range of 3%-6% until late 2023. Weakness in the rand and still-high shipping rates are keeping local prices for imported commodities elevated. Core inflation has also continued to increase, though it remains within the SARB's target range.

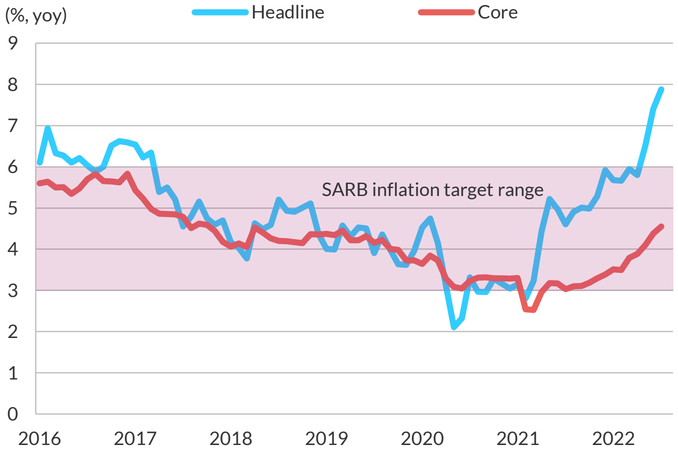
The central bank is concerned that rising inflation expectations may feed into high wage settlements, which currently exceed the headline inflation rate. As such, the central bank is less focused on recent economic weakness. We have revised up our year-end forecast for policy rates to 6.5%, from 5.75% in the June GEO. We expect further monetary tightening in 2023 with rates reaching 7%.

South Africa - GDP by Sector



Source: Fitch Ratings, STATSA, Haver Analytics

South Africa - Inflation



Source: Fitch Ratings, STATSA, SARB, Haver Analytics

South Africa - Forecast Summary

(%)	Annual Avg. 2017-2021	2021	2022F	2023F	2024F
GDP	0.3	4.9	1.9	1.6	1.7
Consumer spending	1.1	5.6	3.1	1.8	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	6.50	7.00	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	0.6	1.7	-0.4	-0.1	0.4	0.3	0.3	-0.1	-0.2	0.3
Eurozone	2.2	0.5	0.7	0.8	-0.2	-0.8	-0.4	0.6	0.6	0.5
China	0.4	1.4	1.4	-2.6	2.1	3.0	0.9	0.7	0.5	0.5
Japan	-0.4	1.0	0.1	0.9	0.7	0.3	0.2	0.1	0.2	0.3
UK	0.9	1.3	0.8	-0.1	0.0	-0.3	-0.3	0.0	0.3	0.5
Germany	0.8	0.0	0.8	0.1	-0.1	-1.1	-0.4	0.3	0.6	0.6
France	3.4	0.5	-0.2	0.5	0.1	-0.1	0.3	0.4	0.6	0.5
Italy	2.7	0.7	0.1	1.1	-0.3	-1.3	-0.9	0.6	0.9	0.7
Spain	2.6	2.2	0.2	1.1	-0.1	-0.6	0.6	0.7	1.2	0.9
Switzerland	1.7	0.3	0.5	0.3	0.4	0.1	0.2	0.4	0.5	0.4
Australia	-1.8	3.9	0.7	0.9	0.5	0.5	0.4	0.3	0.5	0.4
Canada	1.3	1.6	0.8	0.8	0.2	0.0	0.2	0.1	0.2	0.4
Brazil	0.1	0.8	1.1	1.2	0.0	-0.3	0.2	0.3	0.3	0.3
Russia	-0.9	0.5	-0.3	-1.9	-3.7	-2.0	-0.1	0.4	1.7	0.6
India	13.2	3.3	0.5	-3.3	5.2	2.3	1.2	1.0	1.4	1.4
Korea	0.2	1.3	0.6	0.7	0.1	0.3	0.5	0.6	0.6	0.6
Mexico	-0.5	0.3	1.1	0.9	0.9	0.0	0.3	0.3	0.3	0.3
Indonesia	0.2	2.5	1.8	1.0	0.5	1.4	1.5	1.5	1.3	1.4
Turkiye	2.7	1.6	0.7	2.1	-0.5	0.7	1.0	0.9	0.4	0.6
Poland	2.6	1.8	2.5	-2.1	-0.4	0.0	0.9	0.9	0.9	0.8
South Africa	-1.8	1.4	1.7	-0.7	0.2	0.4	0.5	0.6	0.6	0.5
Developed[a]	0.8	1.4	0.0	0.2	0.3	0.0	0.1	0.1	0.2	0.4
Emerging[b]	1.7	1.5	1.1	-1.8	1.5	1.9	0.8	0.7	0.7	0.6
Emerging ex China	3.3	1.6	0.8	-0.7	0.8	0.5	0.7	0.7	0.9	0.8
World[c]	1.1	1.4	0.4	-0.5	0.8	0.7	0.4	0.3	0.4	0.5

[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	4.9	5.5	3.5	1.7	1.5	0.1	0.8	0.8	0.3	0.3
Eurozone	3.7	4.6	5.4	4.1	1.7	0.4	-0.7	-0.9	-0.1	1.3
China	4.9	4.0	4.8	0.4	2.2	3.8	3.4	6.8	5.2	2.6
Japan	1.2	0.5	0.9	1.4	2.6	1.9	2.1	1.3	0.9	0.9
UK	6.9	6.6	8.7	2.9	2.0	0.4	-0.6	-0.5	-0.2	0.5
Germany	1.9	1.2	3.5	1.7	0.8	-0.3	-1.5	-1.3	-0.5	1.2
France	3.6	5.0	4.7	4.2	0.9	0.2	0.7	0.6	1.1	1.8
Italy	4.0	6.4	6.3	4.7	1.6	-0.4	-1.4	-1.9	-0.7	1.3
Spain	3.5	5.5	6.3	6.3	3.4	0.6	1.0	0.6	1.9	3.4
Switzerland	3.9	3.7	4.7	2.8	1.5	1.3	1.1	1.2	1.3	1.6
Australia	4.1	4.5	3.3	3.6	6.1	2.6	2.3	1.8	1.7	1.6
Canada	3.8	3.2	2.9	4.6	3.5	1.8	1.2	0.5	0.5	0.9
Brazil	4.0	1.6	1.7	3.2	3.1	2.1	1.2	0.2	0.5	1.1
Russia	4.0	5.0	3.5	-4.1	-5.4	-7.7	-7.5	-5.3	0.0	2.7
India	8.4	5.4	4.1	13.5	5.5	4.5	5.3	10.1	6.1	5.2
Korea	4.0	4.2	3.0	2.9	2.8	1.8	1.7	1.5	2.0	2.3
Mexico	4.5	1.1	1.8	2.0	3.3	3.0	2.1	1.5	0.9	1.1
Indonesia	3.5	5.0	5.0	5.4	5.8	4.7	4.4	4.9	5.7	5.8
Turkiye	7.9	9.6	7.5	7.6	3.8	3.0	3.3	2.1	3.1	2.9
Poland	5.5	7.6	8.5	5.5	1.8	0.0	-1.6	1.4	2.6	3.5
South Africa	3.0	1.7	2.7	0.2	2.6	1.6	0.4	1.7	2.1	2.3
Developed[a]	4.1	4.5	3.8	2.4	1.9	0.5	0.6	0.5	0.4	0.8
Emerging[b]	5.1	4.2	4.4	2.3	2.4	2.8	2.5	5.1	4.2	2.8
Emerging ex China	5.4	4.4	3.7	5.0	2.6	1.4	1.3	2.8	2.8	3.1
World[c]	4.5	4.4	4.0	2.4	2.1	1.4	1.4	2.3	1.8	1.6

[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

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