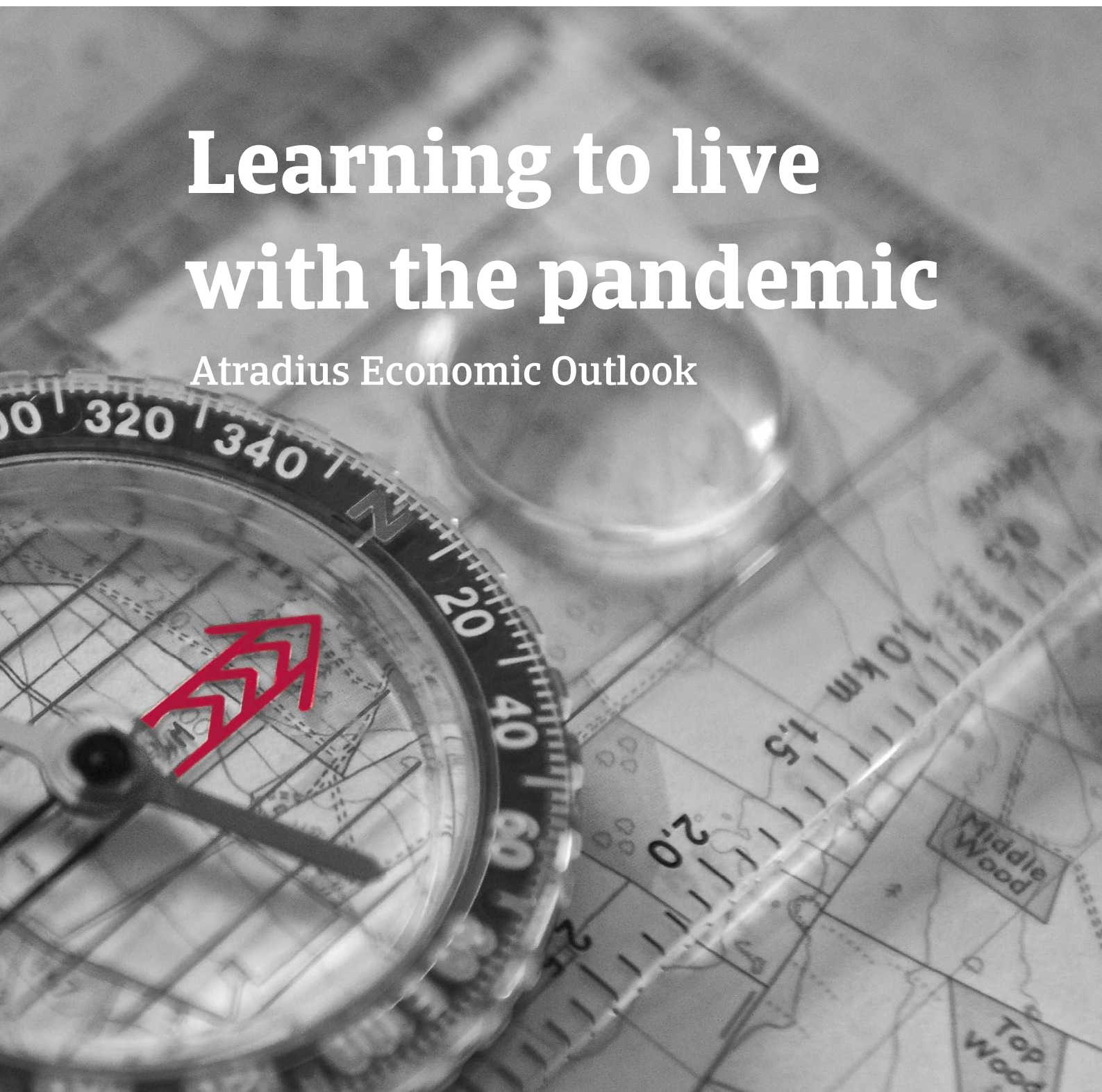


January 2022

Learning to live with the pandemic

Atradius Economic Outlook



Atradius Economic Research

John Lorie, chief economist	john.lorie@atradius.com +31 (0)20 553 3079
Dana Bodnar, economist	dana.bodnar@atradius.com +31 (0)20 553 2169
Theo Smid, senior economist	theo.smid@atradius.com +31 (0)20 553 3165

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Executive summary

The global economy entered its recovery phase in 2021, with economies gradually reopening and vaccination campaigns getting underway. However, the pandemic is not yet over. More transmissible coronavirus variants have triggered several new waves of infection, forcing many governments to impose new restrictions. At the same time, the global economy is challenged by supply bottlenecks and higher energy prices. This is leading to inflationary pressures. We think these will abate, helped by modest monetary policy tightening. We consider an intensification of the pandemic to be the main downside risk to our growth outlook. A faster spread of infections combined with more measures could push the global economy into a stagflation scenario, low growth and high inflation.

Key points

- The reopening of economies led to a reasonable 5.8% global GDP growth in 2021, which is likely to be followed by a somewhat lower 4.2% growth in 2022 and 3.6% in 2023. The pandemic will continue weigh on global economic activity but we expect a prolonged recovery as economies adapt.
- Inflation has been accelerating around the world, fuelled by higher energy and commodity prices, soaring transport costs and value chain bottlenecks. We still see this as a transitory process but it is forcing central banks to begin reversing monetary stimulus more quickly than expected. Tight labour markets and strong demand allow some room for this but it is a challenging balancing act in a fragile, unprecedented recovery.
- Global trade has by now recovered from its 2020 loss, though goods trade recovered much faster than services trade. Recently, the recovery of goods trade has been hampered by several disruptions, including transport difficulties and factory closures in Asia. We expect trade growth to return to 'normal' over the forecast period, moving in line with global GDP growth.
- The economic recovery across advanced markets is losing some steam. Supply chain disruptions and government restrictions are weighing on economic activity, leading to 3.8% GDP growth in advanced markets as a group in 2022, followed by 2.3% in 2023. Fiscal and monetary stimulus is being withdrawn but the advanced market economies have proven resilient and are expected to recover to pre-pandemic output levels over the forecast horizon.
- Emerging market economies (EMEs) as a group are forecast to grow by 4.6% in 2022 and 4.8% in 2023. Vaccinations will become more widely available this year, which could help output growth and improve consumer confidence. On the other hand, they will also enjoy significantly less monetary and fiscal support in 2022 compared to advanced markets. We expect Emerging Asia to remain the region with the highest growth rate among EMEs.
- An intensification of the pandemic is the key risk to our outlook, potentially leading to 1.6% lower world GDP growth by the end of 2023. The drag to GDP growth would be broad-based across all major regions, driven by government restrictions, worse supply chain bottlenecks, faster inflation and lower demand.

1. The global macroeconomic environment

Vaccination necessary, not sufficient

The title of our previous Economic Outlook, 'Getting to Grips with the Pandemic', arguably summarised the optimistic tone that prevailed at the time. As vaccinations were rolled out, even in the (major) emerging economies, it was thought the pandemic would develop into an endemic state, wherein pockets of local outbreaks are controlled. That would provide further impetus to the global economy, with the impact of Covid-19 already waning. As a consequence, the economic recovery could further gain traction, perhaps a bit bumpily, but powerful anyway. That was August 2021. Now, not even six months on, matters look rather different, perhaps even a lot different. There are broadly two factors at play that determine the current, undoubtedly less favourable, state of affairs. These concern the nature of the pandemic and its impact on the global economy. We are not out of the woods yet.

Take the pandemic first. It turns out that the virus is more difficult to get to grips with than envisaged or perhaps hoped for. True, the roll out of vaccination has been rather successful since the summer. In the major advanced economies, the percentage of the population that is vaccinated now lies in the range of 70% to 85%. Major emerging economies generally have much lower vaccination rates, sometimes even very low (such as only 30% in South Africa), but the median is nevertheless already hovering around 60% and still increasing. Early pandemic estimates of herd immunity would have suggested that these levels, at least those in the advanced economies, would be sufficient. That turned out differently. More infectious variants such as Delta and most recently Omicron have developed in parts of the world with low vaccination rates, such as Brazil at the time and – for Omicron – South Africa. Then, with the current state of globalisation, transmission to the rest of the world is inevitable. Transmission as such may not be a problem. But containment of a new wave of the pandemic based on any transmitted variant is. More specifically, the problem is twofold. First, current vaccination levels are already proving too low to avoid a new, more contagious variant spreading amongst the unvaccinated. Second, the protection from current vaccines is not strong enough; the virus variant simply breaks through its walls, affecting even the vaccinated part of the population. The result is that, in advanced economies, we broadly observe, against all odds, a positive relationship between vaccination levels and the number of Covid-19 cases (figure 1.2). The pressure on the healthcare system that comes with this has resulted in a higher level of restrictions since the summer (figure 1.1).

Figure 1.1 Stringency is up again

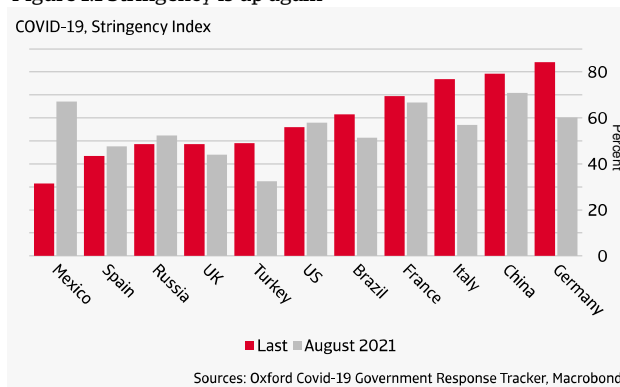
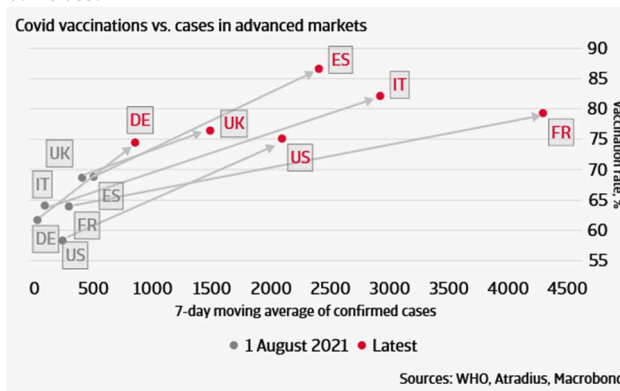
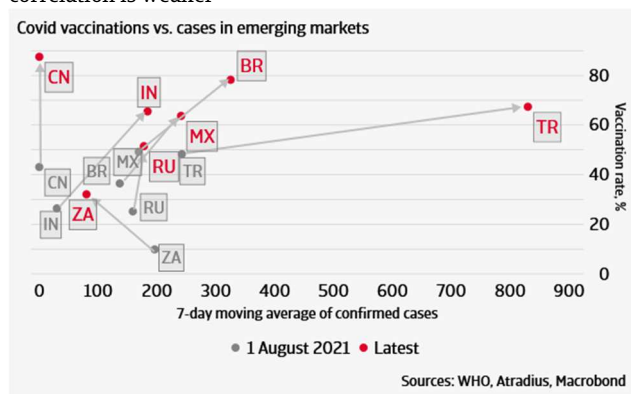


Figure 1.2 Advanced economies: vaccination and cases oddly correlated



Make no mistake; this is not to argue vaccination has proved ineffective. Indeed, at lower levels of vaccination the (positive) relationship between vaccination and the number of cases is weaker. The case of the larger emerging economies shows that (figure 1.3). We claim vaccination is necessary, but simply by no means sufficient. Therefore, in the advanced economies booster programmes are being rolled out to avoid severe damage by the highly infectious Omicron variant, to public health and the economy. The first results are indeed promising; we see, despite a mounting number of cases, fewer hospitalisations and intensive care admissions. Meanwhile, large parts of the world lag significantly with their vaccination roll out, with the African rate at only 5%. This means that the risk of yet another variant, spreading to the rest of the world, is firmly kept alive. This is not exactly the picture of a world progressing from pandemic to endemic.

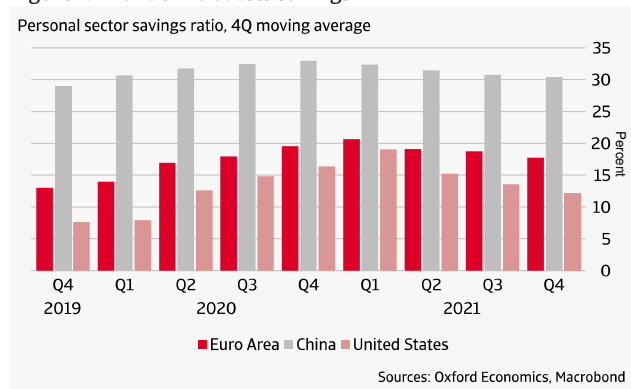
Figure 1.3 Major emerging economies: vaccination and cases correlation is weaker



Impact on supply chains underestimated

Then consider the impact of the pandemic on the global economy. It is obvious that closing down a part of the economy whether in a lockdown, or with less severe restrictions, has an impact. Services provided by sectors such as hospitality, travel and culture are simply not available for the duration. In response, governments and central banks have, through large-scale interventions, buttressed firms and households affected by the restrictions. That means purchasing power was maintained. This yields the picture of a demand surplus. It is reflected in higher savings ratios (figure 1.4) and greater demand for goods. It was also clear that the additional demand for goods such as electronics, outdoor equipment and cars would put some pressure on parts of the supply chains and transport. What has become increasingly clear during the autumn of 2021 is that the magnitude of these forces was underestimated, particularly regarding supply chains.

Figure 1.4 Pandemic boosts savings



This effect is most striking if we zoom in on three elements. First, consider that the order book in the major regions of the global economy has been buoyant, with PMIs in the range of 55-60, indicating strong growth. As opposed to this, industrial production in the regions was fairly flat, suggesting that demand could not be met (figure 1.5). That

was not the case, however, because inventories were being run down (figure 1.6). As soon as that was no longer feasible, delivery problems and price rises took centre stage (figure 1.7). This process was reinforced by temporary factory closures such as in China as part of healthcare measures to contain the spread of Covid. Second, transport provided another bottleneck, with the sudden additional demand for shipments, especially container shipment, running against short supply of these ships. The result is a multiplication of freight costs - some indicators even rose tenfold (figure 1.8). Third, energy demand soared on the back of the recovery. Again, demand met with short supply: In the oil market, because OPEC+ kept production increases to pre-agreed levels; in the gas market, suppliers struggled to ramp up production, or in the case of Russia, had other reasons to be reluctant to do so. The result was energy prices going through the roof (see below).

Figure 1.5 Industrial production hardly moves

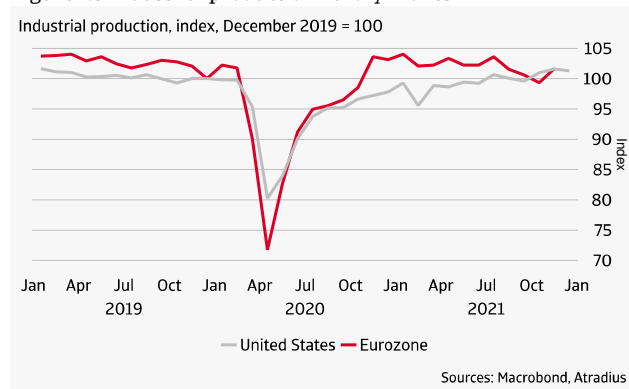


Figure 1.6 Running down inventories

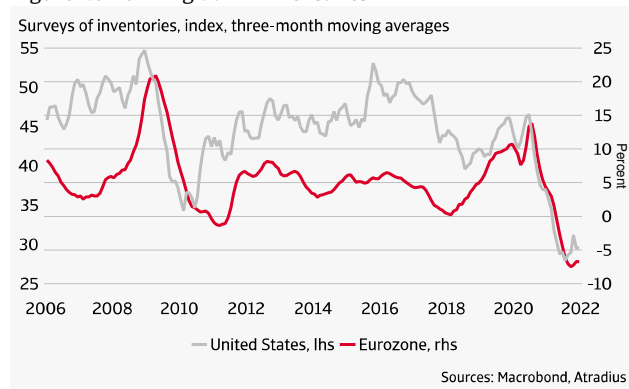


Figure 1.7 The picture of equipment shortages

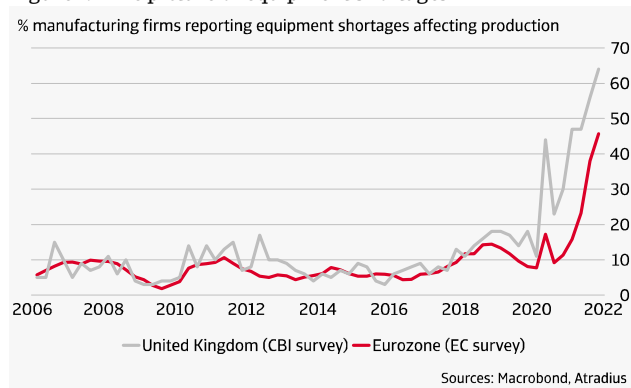


Figure 1.8 Soaring shipping costs

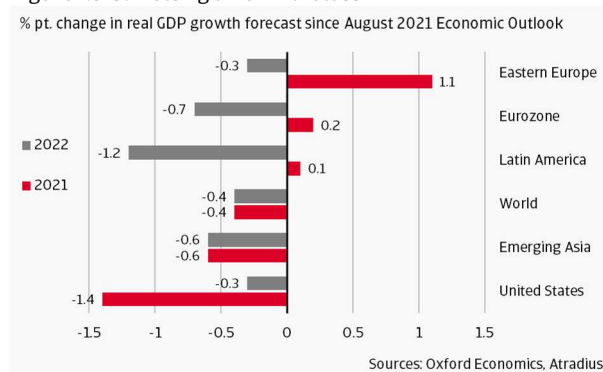


The result of these three factors representing surplus demand is that the recovery is held back. This occurs directly as goods can simply not be produced. Moreover, the price rises reduce purchasing power and thus demand. This combination of forces has a considerable impact on the global economy.

Strong, unbalanced and hobbled recovery in 2021

Despite the woes about the ongoing pandemic and the economic bottlenecks that lead to inflation, we have observed a strong recovery in 2021. Most recent estimates come out at 5.8% for global GDP, after a 3.5% shrinkage in 2020. This implies that the global economy has long recovered from the pandemic hit. That conclusion can be drawn for Eastern Europe, the US and, most prominently, Emerging Asia, including China. In the latter country only a growth reduction, rather than a contraction, occurred in 2020. The eurozone and Latin America lag the pack. In these regions, recovery from the pandemic will only occur during 2022. The recovery, therefore, is fairly unbalanced between the regions and, as we will see in the subsequent chapters of this outlook, unbalanced within the regions as well.

Figure 1.9 Correcting a 2021 forecast



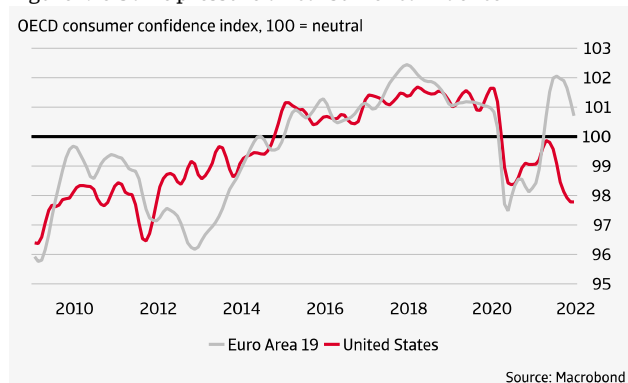
The recovery is also hobbled, as can best be seen by comparing the forecast changes between August and now (figure 1.9). In August, the mood was buoyant, led by the US for which growth of more than 3.5 percentage points was added compared to what was expected earlier in 2021. Too optimistic, as it turned out when the virus roared back and supply side woes manifested themselves more forcefully. Indeed, until now, downward revisions have been made to the tune of 0.4 ppt globally and 1.4 ppt for the US, with only Emerging Asia negating the trend. Hobbled as it may be, the 2021 adjustments are broadly net positive. In other words, GDP growth is likely to come out more favourably than initially expected, underscoring the strength of the recovery.

Underlying the recovery is the powerful government support, especially in the advanced economies, that has upheld purchasing power of consumers and saved firms from large-scale bankruptcies, and thus the supply side of the economy from a collapse. As the economies gradually reopened during 2021, the recovery was more or less a natural process. The surplus income, and part of the accumulated savings during periods of severe restrictions, were increasingly spent on services such as travel, hospitality and events, which were previously unavailable. That process was reflected in strong consumption growth, especially in the US and China, with the eurozone clearly trailing. It was backed up by fixed investment growth, predominantly in the US. Again, the eurozone showed a relatively poor run after the 2020 hit of 7%. Meanwhile, as the recovery started to swing into gear, government support was phased out.

Forecasting a prolonged recovery

The question is now: can consumers and businesses uphold this spending in 2022? Inflation erodes purchasing power. New Covid variants cause not only uncertainty for households and firms (limiting spending) but also a possible tightening of restrictions with the accompanying reduced availability of services. We remain positive they can, although no longer to the extent we thought consumers and businesses would be.

Figure 1.10 Some pressure on consumer confidence



The OECD Consumer Confidence Index shows downward trends for the eurozone and the US (figure 1.10). The eurozone index is still above 100 though, suggesting households will increase spending relative to saving in the forecast horizon. The US indicator has decreased since April and is even trailing below 100, indicating more reluctance to spend, especially on Covid affected services such as hospitality. For China, on the other hand, the indicator remains relatively high, indicating continued spending, although at a lower level than prior to the pandemic. Composite PMIs tell a similar story, with both the US and the eurozone on a downward track since the summer. These forward indicators do remain above 50, and therefore suggest growth. Again, China shows a more robust picture with its composite PMI ticking up to 53.

Looking underneath the composite PMI reveals even better what is going on in the economy. Manufacturing PMIs in the US and the eurozone have come off very high levels of close to 65 in the summer to the high 50s, suggesting slower but still considerable manufacturing growth. In China the indicator is almost neutral. Services PMIs reached even higher levels in the US and eurozone during the summer, at 70 and almost 60 respectively, as expectations ran high. That turned out to be unsustainable given the indicators both hovering in the low to mid 50s now. This suggests a lot less growth in the services sector. The picture for China is more nuanced. The leading indicators, therefore, suggest considerably lower growth than previously envisaged. This is in line with the downward forecast revisions discussed earlier.

Table 1.1 Real GDP growth (%) - global regions

	2020	2021	2022f	2023f
Eurozone	-6.5	5.1	3.9	2.7
United States	-3.4	5.6	4.0	2.5
Emerging Asia	-0.1	7.1	5.2	5.5
Latin America	-6.7	6.6	1.6	2.2
Eastern Europe	-2.2	5.9	3.6	3.5
World	-3.5	5.8	4.2	3.6

Sources: Oxford Economics, Atradius

This sets the scene for a prolonged recovery in 2022. We expect global GDP growth to come out somewhat above 4%, with, again, fairly large differences around this average,

even at the relatively highly aggregated regional level. The US and eurozone are both expected to expand just below the global average rate. Eastern Europe and Latin America lag further behind with 0.6 ppt and 2.6 ppt lower growth respectively. Significantly forecasted to be up from the global average is growth for Emerging Asia, on the back of an already very strong recovery in 2021. In 2022 we expect the recovery to be complete in terms of achieving the 2019 GDP level in all regions and more normal patterns can be expected. For 2023 this means a fall back of the US and eurozone GDP growth to significantly below the global average, which itself is forecasted slightly up from 2022. The emerging economies, especially Emerging Asia, are expected to press the growth button again. Latin American growth, on the other hand, is expected to hardly budge.

This forecast of a prolonged recovery is subject to a number of assumptions, some of which are surrounded by an unusually high level of uncertainty. First, and foremost, the current development of the pandemic: There is an exceptionally high level of uncertainty around Omicron, especially related to transmission and symptoms. In this context a relatively mild impact is expected in 2022. For now, we expect modest reimposition of restrictions, especially with respect to travel, more social distancing and an impact on supply chains. Given the current state of affairs, this is perhaps heroic, but arguably the best we can do. Second, the consumer leads the recovery. Despite current higher inflation, purchasing power has only been modestly affected. As mentioned, savings have accumulated during the recent period, and we expect some of these excess savings to be spent. With an average per annum unleashing of 5% of those excess savings the impact will be relatively mild, but noticeable. Third, we expect supply chain disruptions to abate, especially during the second half of 2022. This is based on the expectation that demand, as the pandemic fades, will switch back to services. That will provide relief to the manufacturing of goods, further helped by the fact that pandemic related factory closures will decrease. Investment in capacity, such as for semiconductors will also help, just like the spurring of production methods that require fewer components and less adjustment of supply chains. Bottlenecks in sea transport may persist well into 2023 though. Fourth, inflation is transitory in the sense that it will abate during 2022 from the current high levels. Apart from the relief that is expected in the supply chain during the year, we see no further increases in the cost of energy, the major determinant of the current rise. This, plus the remaining slack in the labour market as well as reduced money supply, will prevent a vicious wage-price spiral from developing. A fifth factor helping to reduce inflation is monetary policy, especially in the advanced economies. Although it is expected to remain supportive, the tightening as such will put a brake on inflationary tendencies. It is simply in the mandate of the Fed and ECB to keep inflation low, and where necessary, to act. Tightening, although it will come, is expected to be modest – precisely because inflation will not last. Sixth, most governments’ support measures expired by early autumn. This does not mean that we expect governments to retreat to spending levels seen before the

pandemic. Indeed, fiscal policy is set to remain rather loose, including targeted support for firms to buttress the recovery, such as in France and the UK. Seventh, the US-China trade relationship, remains predictable, or at least far more predictable than during the days of the Trump administration. Whilst tariffs remain in place, the feared decoupling of the two largest economies in the world is not expected to occur. In fact, US-China trade is expected to develop under the new trade rules. A trade war is off the cards. Eighth, the financial markets will remain relatively stable, although the effect of the modest monetary tightening will be felt in the equity markets. Large-scale losses for a prolonged period and the accompanying impact on consumption via a negative 'wealth effect' are not expected. Finally, we believe the so-called 'scarring' or impact of the pandemic on production capacity, meaning the ability to produce by workers and machines, will remain limited. This is important as a loss would imply an effect on productivity, and indeed on GDP growth.

Trade growth reverts to normal

The volume of global trade for 2021 is on track to meet the forecasted growth versus 2020 of 8% - 10%. This means the pre-pandemic level of global trade was reached by year's end. Trade momentum, as measured by quarter-on-quarter growth, has lost steam since the second quarter of 2021 (figure 1.11). But it should not worry us too much. It signals a return to a normal growth pattern, where global trade growth is more or less at par with GDP growth (as opposed to the swings of twice GDP seen in 2020 and 2021, figure 1.12). This implies that for 2022 we should see trade growth between 5% and 6%; in 2023, 3% - 4%.

These figures hide a fairly large difference between trade in goods and in services. Trade in goods has rebounded more quickly on the back of strong demand for cars, electronics and outdoor gear when services were in short supply due to lockdowns. Trade in services, especially tourism and travel, is now recovering, but slowly. The still considerable pandemic restrictions (figure 1.1) weigh heavily on that sector. Indeed, as supply chain bottlenecks have increasingly manifested themselves, we observe a global goods trade decline in Q3 by 1% q-o-q. But it remains firmly above pre pandemic level. Services and travel growth, which includes tourism, have continued to recover from the pandemic trough in Q2 of 2020. But they remained respectively 5% and 47% below their 2019 levels. Travel especially still has some way to go before it is back to normal, in any case beyond 2022.

Regional developments are to some extent a reflection of this schism between goods and service trade developments. Emerging Asia (excluding China) plays a prominent role in the manufacturing of goods. No wonder Emerging Asian trade has grown consistently above the global average in the first three quarters of the year. China trade growth has slowed, but that predominantly reflects the base effect of a high 2020 trade level. In the advanced economies trade grew strongly in the US, especially the import side, pushed above

the global average by massive government stimulus packages. The eurozone figure hovers around the global average. The loss of momentum in trade in Q2 and Q3 of 2021 is broad based and particularly visible in China, the US and Latin America, whereas Emerging Asia has been able to keep up, at least in Q2.

Figure 1.11 Trade growth losing steam

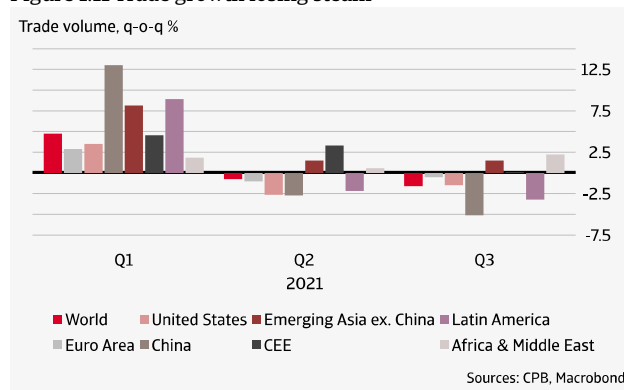
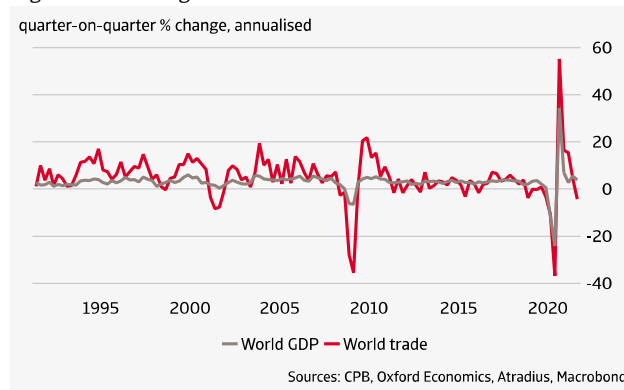


Figure 1.12 Trade growth back to normal



The slowdown in global trade in the course of 2021, notably trade in goods, reflects a natural process of the end of a recovery. But there is more to this. A number of specific bottlenecks hampered trade. First, China's exports boomed in 2020 and early 2021 as demand for key Chinese goods was elevated. These goods include pharma products, textiles and electronic equipment. Such abnormal, early pandemic-related demand has eased off, and with it Chinese export growth. Second, as the pandemic roared again in the course of 2021, Asian countries such as Malaysia, Indonesia, Vietnam and Thailand that were initially shielded from its threat had to act and imposed restrictions. This aggravated the pressure on the already stressed supply chain. Third, port closures and congestion hampered the throughput of goods. The ports of Shanghai and Ningbo in China were closed for a period due to outbreaks of Covid. Congestion in ports on the US west coast prompted workers' schedules to be ramped up to 24/7, as goods congestion in ports peaked. Transpacific trade was especially hampered; trends in India and Europe were more favourable. Fourth, severe bottlenecks appeared in transport, especially in container shipping transport. Capacity of sea transport is simply unable to cope with soaring demand, adding to logjams in ports and pushing up

prices as we discussed earlier. High shipping prices are spilling over to air transport. Fifth, capacity problems in the semiconductor sector persist. That has caused issues in the sale of cars and electronics. As motor vehicles and ICT represent 4% and 10% of global trade respectively, the damage to trade is significant, especially to trade involving countries such as Germany and Japan.

Under our baseline scenario these bottlenecks are not all resolved over the forecast horizon. Whereas demand is expected to shift to services as pandemic restrictions ease, pressure will be taken off supply bottlenecks. Ports congestion and logjams will ease as the impact of the pandemic abates, as will restrictions that cause supply chain bottlenecks in Asian countries. But time will be needed to extend capacity in the semiconductor and sea transport sectors, and the drag on global trade coming from that source will remain. Only in the course of 2023 is that expected to dissipate.

Meanwhile some bright spots can be discerned in the trade environment between large trading blocks. The first is that, despite all the rhetoric, we are not seeing a decoupling of the relationship between the US and China. True, China is miles away from living up to the commitments to purchase USD 200 billion of US goods and services that include agriculture, manufacturing and energy, under the so-called 'phase one agreement' of the Trump administration. Only 60% of these commitments have been met. The Biden administration has announced its intention to enforce the deal, and tariff elimination is not on the cards. Still, this 60% marks a growth of US exports to China. US imports from China are up as well in 2021, with the Biden administration seeing China as a strategic (economic) rival, rather than an enemy. The other positive comes from the trade relationship between the EU and US. In October the two sides agreed to remove the US steel and aluminium tariffs, EU duties that targeted US goods, such as Harley Davidson motorcycles, Kentucky bourbon and Levi's jeans, as well as to dispense with further retaliating tariffs scheduled for later in 2021. This was widely hailed as an end to the long and bitter period, in which the EU was also labelled 'enemy' by then president Trump. The deal is important, but means no free trade on steel and aluminium. This is because under this so-called 'Voluntary Export Restraint' the EU is only free to export a limited amount of these products, which will do little for export growth. It is managed trade. Both developments, between China and the US as well as the EU and the US, are unlikely to provide a boost to global trade, but nevertheless underscore that the threat of trade war(s) expansion is diminished. And that is a win.

Oil and gas prices are passing their peaks

Since the summer, the oil price has further climbed and peaked at almost USD 86 per barrel Brent in late October (figure 1.13). The news on the outbreaks of the Omicron variant caused a brief period of levels just above USD 70 after which prices rose again. In our view, current levels are somewhat on the high side. We expect the oil price to slide on average in 2022 and 2023 to levels around USD 70 per barrel. This view is surrounded with a very high level of uncertainty, even by oil price standards¹.

We see four factors that will determine the development of the oil price over the forecast horizon. First, the progression of the pandemic. Any tightening of restrictions will put a brake on the recovery of the demand for oil, especially related to transport and travel. Demand has climbed by 5 million to 97 million per day, still notably below the 100 million level of 2019. Under our baseline scenario, demand is expected to surpass its 2019 level in 2022. Second, the agreement of OPEC+ (meaning the traditional OPEC countries plus Russia and some other non-OPEC oil exporters) to restrain production growth by 400,000 barrels per day every month in July has held up so far. This is a remarkable development because members of the cartel are always tempted to ramp up production if demand is high. But this time around discipline is the buzzword, arguably because members such as Saudi Arabia favour riding out the high price. Or, and that is the official argument, because uncertainty related to the development of the pandemic is so high. Third, US production. A few years ago, a price level above USD 65 per barrel would have been a strong incentive for a production increase in the US, helping to alleviate the supply shortage. No more so. Financial markets have put a lid on production expansion, in particular larger firms are now showing more healthy leverage levels. Moreover, the Biden administration is taking climate change seriously, leading to more regulation and legislation (related to, for example, wastewater and methane emissions). Labour costs have risen and permission for land exploitation is no longer available. These factors have pushed up costs for US production, which is forecast to rise only gradually. Fourth, the US Energy Information Administration estimates that oil consumption has exceeded production since Q2 2020. This has drained oil stocks and helped to push up the oil price. This process is to end early this year as production increases and oil stocks are expected to rebuild gradually. As a result, some volatility will be removed from the oil price, and upward pressure should ease.

¹ Most recent futures prices indicate somewhat higher levels at prices for December 2022 and 2023 at USD 80 and USD 75 respectively

Figure 1.13 Oil price expected to peak

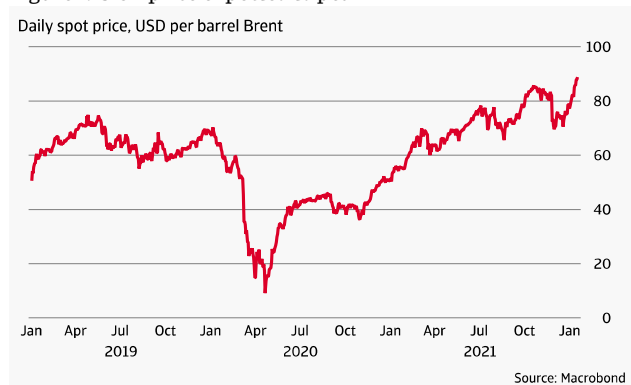
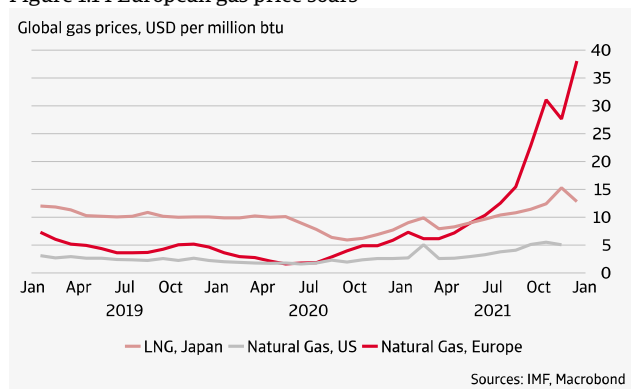


Figure 1.14 European gas price soars



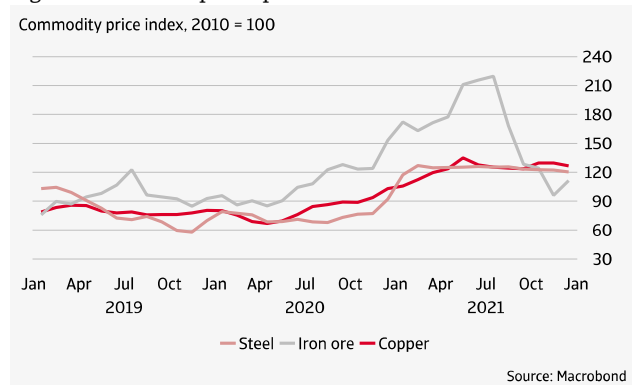
Natural gas prices spiked likewise during 2021, especially in Europe where the benchmark reached USD 31 per million btu (figure 1.14). We do not think these levels are sustainable, although they are expected to remain above pre pandemic levels during 2022 of about USD 5 - USD 8. Futures markets indicate that levels will only gradually move back to normal, to be reached mid 2023 for European gas and Japan liquefied natural gas (LNG). The futures curve of US Henry Hub is more or less flat, pointing to a balanced price risk.

Behind these high prices is an array of factors, a few of them exceptional, at least in their combination. Following rapid recovery and a search for energy security, Asian, especially Chinese, demand for LNG surged. That spilled over to European and US markets, pushing up prices globally. In these latter markets there was no supply surplus, with the recovery gaining traction. And no relief was to be expected from gas stocks either. These were at a low due to a relatively cold winter and a hot summer in the Northern Hemisphere. This was worsened by the relatively limited supply of renewable energies such as wind. Moreover, for Europe the Russian geopolitical angle came into play on top of these. Not so much that Russia did not live up to its commitment, it did. Rather, the extra demand was not met. Behind that is Russian pressure for approval of the Nordstream 2 pipeline that serves as an alternative for delivery via Ukraine. These factors are unlikely to prevail, and most likely not in tandem. Hence it is our view that natural gas prices have peaked. Still, gas is seen as a relatively clean fossil fuel relative to oil and coal. That will provide price support over the forecast horizon.

Record high commodity prices to slide mildly

The recovery has triggered a strong demand for metals, particularly steel, iron ore and copper. As supply was initially unable to meet demand and transport costs soared, prices rose to record high levels. That is the story of the first part of 2021. Then a sharp fall in demand for iron ore triggered a price plunge. Steel prices moved largely sideways, whereas copper prices, after their May peak of USD 135 per tonne fluctuated at just a slightly lower level (figure 1.15). Under our baseline scenario, we expect prices for these commodities to slide somewhat from current levels but remain high compared to the previous decade.

Figure 1.15 Iron ore prices plummet in H2 2021

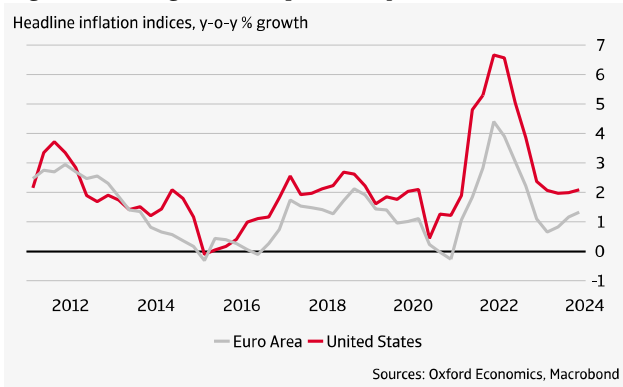


The role of China in the steel and iron ore market is large. About half of global steel production takes place in China. Iron ore is used as a raw material for steel production. Thus, after China announced aggressive steel production cuts to meet the country's decarbonisation targets together with curbs related to the Winter Olympics in the major hub of Tangshan, demand for iron ore sank as well. Reduced demand especially from the Chinese property sector helped support the steel price in largely moving sideways rather than sinking. But the iron price plummeted. In May, iron ore cost USD 233 per tonne; by November the price was halved. After indications that the Chinese authorities would be more supportive of the property sector than initially envisaged, iron ore prices started to rise somewhat, as did steel prices. But they are not expected to go up any further. As for copper, the price is supported by strong underlying demand from the energy transition, especially due to the growth of electric vehicles and renewables such as wind turbines and batteries. Production of copper is also growing, in 2021 above 6% y-o-y in volume terms and there is a wave of new projects coming on stream such as in China, India and Indonesia to meet growing demand. This puts some mild pressure on prices over the forecast horizon. Longer term, however, prices are expected to rise.

No inflation persistency

One of our key assumptions for this outlook is that the current levels of inflation are temporary and will not persist. Inflation pressures will largely fade over the forecast horizon. This implies we are adhering to our view of the previous outlook (figure 1.16).

Figure 1.16 No high inflation persistency



Admittedly, this could now be considered a somewhat brave assumption. Simply because the underlying drivers of inflation have imposed themselves more prominently during the past half year, prompting downward revisions of GDP forecast as we discussed above. We have seen energy prices go up further; commodity prices have remained high, transport costs have soared and value chain bottlenecks have increased or at least persisted. This has translated into inflation surprises to the upside. Indeed, the Q4 y-o-y inflation for the US is 6.9%, for the eurozone 4.3% and the UK 4.5%. In the emerging economies the picture is more diverse, with inflation in China at 2.5% and Brazil at 10% in Q4. The factors driving inflation have indeed weighed in.

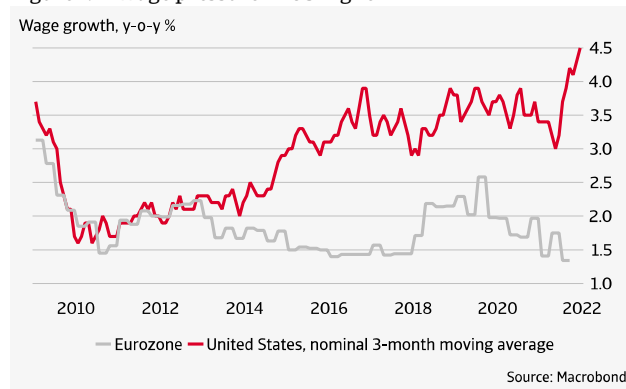
But, as we have argued, these factors are unlikely to persist and should gradually fade as the world learns to live with the pandemic. It may take somewhat more time than we had previously envisaged, but the process will unfold. This is because the current scenario reflects an abnormal situation and a return to normal is inevitable over time. Moreover, whereas consumption is expected to remain strong, especially because part of the excess pandemic savings will be spent, consumption will switch focus. It will switch towards services such as travel, events and hospitality, taking the heat off goods price rises. Again, this reflects a return to normal.

Our view is contested by high profile economists such as former IMF chief economist Olivier Blanchard and former US Treasury Laurence Summers. They point at the risk of what in jargon is called 'inflation anchoring' derailing. More simply put, households and firms lose faith in the policy of the central banks to keep inflation at or around the targeted level. This results in higher inflation expectations and a vicious spiral of wage and price rises.

We therefore put forward a number of points below to consider whether there are signs of inflation de-anchoring,

and more generally, the risk of a wage price spiral. Our conclusion is that this is not the case. First, the IMF has estimated the relationship between inflation and the so-called output gap. This 'Phillips Curve' relationship is a key element in central bank policymaking, signalling, for example, an interest rate hike when gaps are closing to avoid overheating of the economy. If this relationship were to become unstable, the foundation for policy measures would be blurred. With the result that central bank credibility would be jeopardised. The IMF research provides some good news in the sense that the relationship is found to be stable, even when taking into account the pandemic situation with its massive stimulus. No worries for central bank impotency, therefore. Second, to back up this point, inflation anchoring is directly considered by the IMF. Inflation expectations are considered anchored if they do not change with economic news and remain close to the central bank target. Such anchoring is positively related to institutional characteristics, such as the credibility of fiscal policy and central bank independence as well as its transparency. Research shows that if inflation expectations are well anchored, the room for the central bank to pursue an effective monetary policy influencing the business cycle is enhanced. The results of the IMF study show that inflation has remained well anchored during the pandemic, so far. Third, the latter result suggests that that wage growth should remain contained. If workers expect high inflation, significantly higher wages should result. This is not what we observe; wage growth, although higher in the US, is contained (graph 1.16). In this context, the US labour market situation with 3.9% unemployment is more challenging than that in the eurozone, where around 7.1% of the workforce is unemployed. The US figure seems somewhat overestimated though - there are still 3.6 million fewer people at work than prior to the pandemic. Therefore, the overall conclusion is that de-anchoring of inflation expectations is not on the cards.

Figure 1.17 Wage pressure in US higher



Central banks are walking a tightrope

This conclusion of inflation expectations remaining well anchored is very relevant when assessing current central bank policies. This is because we assume tightening of monetary policy will be modest and gradual. On the face of it, current inflation levels in the US as well as the eurozone, way above 2%, would give rise to policy action, perhaps even aggressive action. Yet that is not what is happening. And it is because the central banks in these economic zones have sufficient credibility to ride out temporary high inflation.

This is not to say that the Fed and the ECB have sat on their hands over the past couple of months. Because they have not. The Fed did move, though very carefully and arguably modestly. It was first announced that, as from November 15, the monthly asset purchases that run at a pace of USD 120 billion per month would be tapered by USD 15 billion per month. With that pace its quantitative easing program (QE) would end by the summer of 2022. The long-held Fed view that inflation is transitory was confirmed. Then, late November the reappointed Chair Powell reinforced this slightly more hawkish approach by signalling QE would end a few months earlier, probably in March. Also, inflation was no longer considered explicitly 'transitory'. These moves were confirmed after a Fed meeting mid-December: based on revised GDP growth and inflation forecasts the tapering would be doubled to USD 30 billion per month as from January 2022. Moreover, the Fed stated to expect - dependent on incoming economic data - three rate hikes in 2022, three in 2023 and two in 2024. The ECB has also adopted a somewhat more hawkish tone by announcing, in December last year, that would also reduce QE by March. Underlying this are more upbeat forecast revisions as well. See Chapter 2 for details. For emerging economies matters are slightly different. Quite a few of these are still building credibility. Hence, a number of policy rate hikes over the past couple of months in emerging economies, such as by central banks of Mexico and Poland, after Brazil, Russia and the Czech Republic started hiking earlier in the year. These can be read as pre-emptive strikes with a view to the financial markets, aiming at containment of inflation as well as threatening currency depreciations.

How do these moves sit with our view that inflation is transitory? With respect to the ECB, this is not much of an issue. Policy remains loose and rate hikes are not even mentioned. For the Fed matters are different, raising a question. Does the Fed fear an inflationary period with a vicious price wage spiral that would wreak havoc to the recovery? Not necessarily. There are a few points to make here. First, despite the view of a transitory, and contained, inflation, there is a risk of a more broad based development of inflation. Especially in the US with current rates above 6% this is not to be denied. In this context, the Fed moves can be interpreted as pre-emptive, just to suppress self-fulfilling inflationary tendencies from developing among firms and households based on inflation risk perceptions. Second, until

spring this year, policy will be less stimulatory, but not outright tight as asset purchases continue, and rate hikes will only follow after these. We expect these rate hikes will be modest, inflation expectation remaining well anchored. So what we are seeing is a path towards normalisation of monetary policy, no more. Third, such normalisation is justified if one considers the current state of the recovery in the US. It is well underway with pre pandemic GDP levels already surpassed in mid-2021. This justifies a different monetary policy, away from the extraordinarily loose one that we saw during the height of the pandemic. In other words, some tightening would have been on the cards anyway. Such policy normalisation is needed if the central bank wants to keep tools to act in the next recession. In other words, putting aside the inflation rise, monetary policy would have had to be normalised anyway. Fourth, the Fed has laid out a future path of tightening based on its view of economic development over the next two to three years. It is a direction not set in stone. Policy measures remain data driven. Along the way, incoming data will undoubtedly finetune the Fed view, and consequently the policy. In all, what the Fed, like other central banks, is doing is walking a tightrope: monetary policy normalisation without jeopardising the recovery (of which containing inflation is a part as well).

The recent developments in monetary policy therefore, do not give rise to a profound challenge of two key assumptions underpinning our outlook. These are that inflation is transitory and that monetary policy will be gradually, and modestly, tightened. In tightening, the Fed will take the lead, the ECB will lag. The latter, it should be mentioned, has one degree of freedom less. Unlike the Fed, the ECB has, with its prospective tightening actions, to take into account the impact on financial stability in the eurozone. With pandemic government support ample, countries like Spain, Italy and Greece have built government debt levels way beyond what is considered acceptable. Hiking interest rates, or the prospect thereof, may, at some point, cause volatility in the financial markets that may jeopardise government debt refinancing for these countries. The rope for the ECB, therefore, is even tighter.

The modest monetary tightening will not pass unnoticed. It will put some pressure on prices in the equity market, buoyant over the past period of monetary loosening. But that should not hamper consumption too much given the accumulated excess savings during the pandemic. Firms will face somewhat higher financing costs. Indeed, equity cost will be higher, and interest rates will increase as well. The latter should not be overestimated, either. In fact, financial markets are pricing in 0.25% higher rates during 2022, 0.5% during 2023 (graphs 1.18 and 1.19).

Figure 1.18 Financial markets: modest Fed tightening in 2022

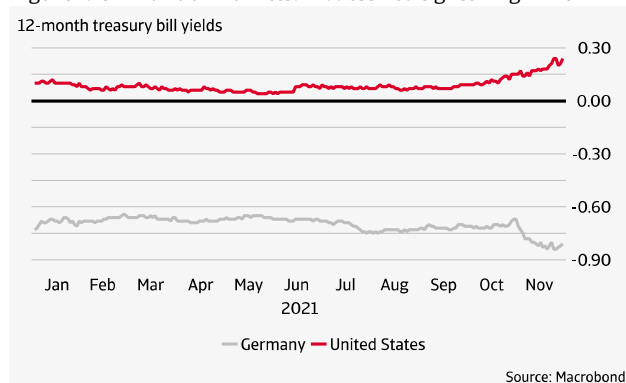
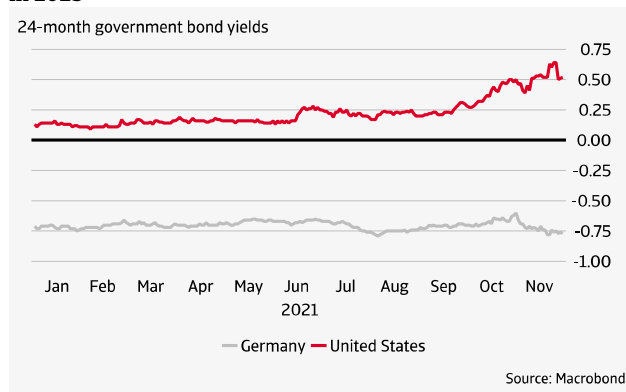


Figure 1.19 Financial markets: modest Fed tightening continues in 2023



Governments take foot off the pedal, to some extent

As to the other leg of the extraordinary support provided during the pandemic, via the government budget, that has expired by Q3 2021, although in some cases, including Spain, it was extended to year end. In The Netherlands, a new lockdown even triggered extension into Q12022. In that sense governments have largely taken their foot off the pedal.

That does not mean governments are going back to the pre pandemic years of fiscal austerity. First, the support was given in broadly two forms. One directly through subsidies, tax holidays and tax refunds and income support. The other via the banking sector (or in the case of the US, the Fed), for whose lending to firms governments often have issued guarantees. To the extent firms do not have to redeem these loans (or that the redemption is postponed), support continues. Second, it is the generic 'whatever it takes' support that has expired. A more targeted (and modest) support on a 'case by case' basis is laid out, preventing the recovery from being hampered by severe scarring on the supply side: That is to say, firms going bankrupt. France and the UK have recently launched such programs, where for example firms hit by the shortages of raw materials are supported in weathering the current value chain bottlenecks. Third, the US and the EU have taken the opportunity to

launch programs to help structurally transform their economies, addressing climate change, the energy transition, digitisation needs and inequality. These structural changes in the economy, which had to happen anyway, are accelerated now, with the positive side effect of a boost to the recovery.

Major measures launched in the US are mainly the USD 2 trillion American Families Plan (support for low income families) the USD 500 billion Infrastructure Investment and Jobs Act (infrastructure) and the USD 1.75 trillion Build Back Better Plan (climate change and research and development), of which the latter awaits Congress approval. These initiatives, if approved, add around 0.3 ppt of GDP of government spending net of taxes in both 2022 and 2023. In the EU it concerns EUR 750 billion of which EUR 390 billion in grants and the rest in loans, funded by the EU with a maturity of 5-30 years. The main beneficiaries are countries that suffered a large negative effect from the pandemic and that have limited space for government expenditure, such as Italy (receives 3.7% of their 2019 GDP), Spain (4%) and Greece (8%). It should help a sustainable recovery and reduce intra EU disparities. Climate change and digitisation investments are priorities. The EU funds, that come with reform strings attached to release of tranches, are built into the individual member states' budgets.

The current stance of fiscal stimulus can best be assessed by considering the development of the structural balance. That is the government balance corrected for the business cycle and interest payments on government debt. Figure 1.20 clearly shows the extent of government support for the economy during the pandemic. Owing to the GDP hit and spending bonanza it more than doubled for the US, for example, to almost 12% of GDP in 2020. For other advanced economies, such as Germany and the UK, even more pronounced increases can be observed, with levels ending up lower though. The increase, as well as the level, of the fiscal stance in China and India was more restrained in 2020. In 2021, when the majority of the generic support programs expired, the indicator remained high, with minor increases for France, Italy and India. The real decline of the deficit will only be visible in 2022 and 2023, although the levels of the deficit, and thus stimulus, remain far above those in the pre-pandemic period. This underlines the more pronounced role that governments see for themselves in a post pandemic economy. Foot off the pedal, yes, but only to a certain degree.

Figure 1.20 Governments assume a bigger role

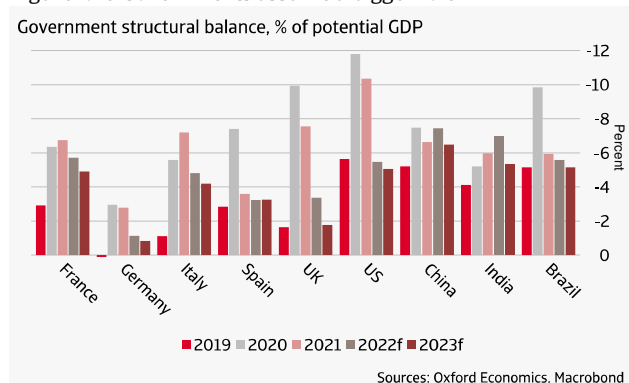
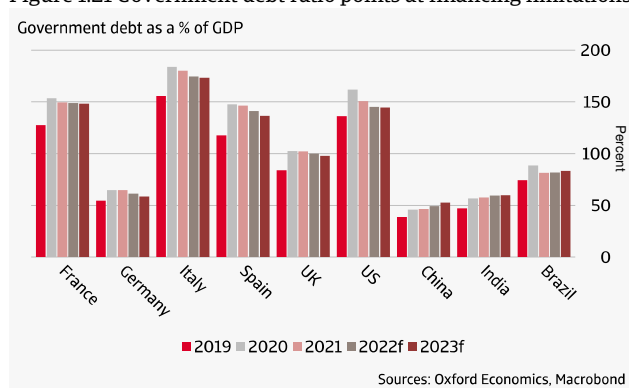


Figure 1.21 Government debt ratio points at financing limitations



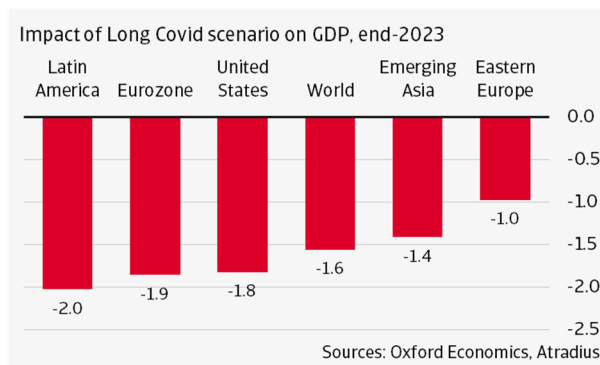
The inevitable question that comes up is to what extent this fiscal stance is affordable. Deficits need to be financed. Looking at the debt to GDP ratios the picture is somewhat worrying (figure 1.21). Our concern stems not only from the inevitable – increase during 2020. Rather, it is the level in a number of advanced economies, including France, Italy, Spain and the US, that is far above what is considered sound (90% of GDP). For the major emerging economies the picture seems less worrying, but the threshold is lower as well (70% of GDP). Adding to this picture, IMF research signals that gross financing needs in the advanced economies have shot up from 8.9% to 18.3% of GDP in 2020 and mildly lower in 2021. For the emerging economies, the level was higher to start with, at 11.1% and climbing to 15.2% in 2020, again only slightly lower in 2021. This picture can be expected to improve somewhat in 2022, but not to the more reassuring levels of 2019. Despite this worsening scenario, accessibility to financial markets for countries in the advanced economies as well as major emerging economies, is still ample and relatively cheap. In this context, the importance of a relatively loose monetary policy is not to be underestimated. The scaled up role of the government in the economy needs to be financed.

Downside is called stagflation

We have illustrated our baseline scenario above, which is in our view the one most likely to play out over the forecast horizon. But it remains a scenario, and is, particularly at this juncture of the pandemic, fraught with risks. Matters can easily get worse. In particular, we regard the largest risk to be the one that some may see currently rolling out, an intensification of the pandemic, triggered by severe havoc wreaked by a variant such as Omicron.

The damage that the variant may do is manifold. It will trigger new restrictions, with at the end of the scale what most governments now obviously want to avoid: lockdowns. The impact of these are familiar: services such as in hospitality, events and travel cannot be offered, or only on a limited scale. That means the switch away from goods such as electronics, cars and outdoor gear to services, that is at the core of our baseline scenario, will not occur, or only to a limited extent. As a result, the pressure on manufactured goods is not relieved, and certainly not to the extent we expect under our baseline scenario. Supply chain bottlenecks will thus take much longer to dissolve. Trade flows remain hampered by high transport cost and disruptions in ports. That also means this source of inflation is not removed and inflation is more persistent than assumed under the baseline. Central banks may no longer be able to hold off tightening, interest rates will go up, which will put a brake on the recovery. Many more firms will go bankrupt as higher financing costs cannot be absorbed now that the pandemic has pushed up debt levels. Governments will be inclined to step in again with support, but the extent to which this will happen is constrained by higher interest rates, and the fact that for some the room for taking on more debt is limited. In all, government support will be much more limited than before. Not only new restrictions related to supply will cause trouble. Health regulations, particularly quarantines for those infected, will cause supply disruptions, as workers will have to sit out their infection. The current scarcity of workers in some sector is amplified. Wage pressures will result, underpinning existing trends in inflation. With inflation high and a stagnating recovery, we are facing the feared stagflation scenario.

Figure 1.22 Downside scenario



2. Developments in major economies

Advanced economies

Ongoing uncertainty surrounding the course of the pandemic and mounting challenges, especially in the form of rising prices, are causing the economic recoveries across advanced markets to lose momentum in 2022 and 2023. After a 5.1% expansion in 2021, most advanced economies are expected to reach their pre-crisis output level in 2022. Consumer spending remains one of the most important growth drivers across advanced economies and there is upward potential from households as wage growth increases on top of excess savings. On the other hand, pressure on the economic recovery is also increasing as supply chain disruptions and government restrictions weigh on activity. While fiscal support will weaken this year compared to last, fiscal policy should remain supportive in most countries. We forecast an aggregate growth rate of 3.8% before easing further to 2.6% in 2023.

Table 2.1 Real GDP growth (%) - advanced markets

	2020	2021	2022f	2023f
Eurozone	-6.5	5.1	3.9	2.7
United States	-3.4	5.6	4.0	2.5
United Kingdom	-9.4	7.2	4.5	2.7
Japan	-4.7	1.8	3.2	1.7
Advanced economies	-4.6	5.1	3.8	2.6

Sources: Oxford Economics, Atradius

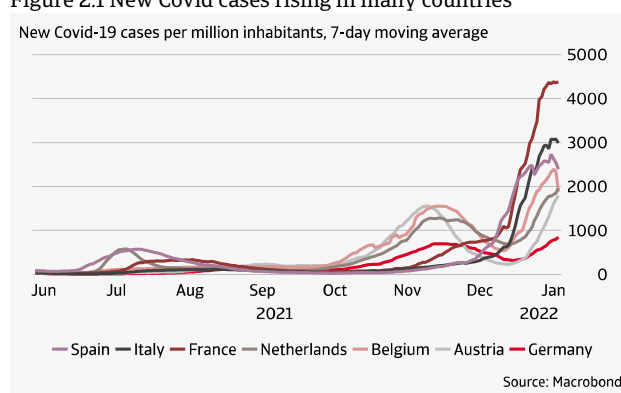
Partial recovery of eurozone economy

Covid-19 infections are rising rapidly in a number of eurozone countries, with the more transmissible Omicron variant expected to become dominant over the next months, forcing some governments into new lockdown measures. GDP growth is forecast to be 3.9% in 2022, following on a 5.1% growth in 2021.

Europe is currently experiencing a rise in infections in several countries. Cases are rising most rapidly in France and Italy (as measured per 1 million inhabitants). The good news is that vaccination campaigns have delivered tangible results in terms of lower hospitalisations. For 2022, we do not expect that lockdown measures will become as stringent as they were in 2020 and early 2021. The average stringency of government-mandated restrictions is still well below the level one year ago for most countries, with some exceptions,

such as Germany, Italy and France. In Germany the measures are currently more stringent than one year ago.

Figure 2.1 New Covid cases rising in many countries



Eurozone GDP showed a strong 2.2% rise in Q3 of 2021, reflecting a significant reopening of the economy, and ticking up from 2.1% in Q2. Sentiment indicators are pointing to a solid growth momentum. GDP is expected to have slowed down somewhat towards the end of 2021 and in Q1 of 2022, due to supply chain disruptions, rising inflation and new lockdown measures resulting from the Omicron variant. Sentiment indicators corroborate this expectation. The European Sentiment Indicator (ESI) declined slightly in December 2021, from 117.5 in November to 115.3, but remains well above the neutral level of 100. The composite Purchasing Managers Index (PMI) has moved down a bit in recent months, to 53.4 in December, although also this indicator continues to point to positive growth.

For all eurozone members, pre-pandemic output levels are within reach, though the recovery is set to remain uneven across countries and sectors. Several countries in northern Europe, such as Belgium, Netherlands and Austria, have already surpassed pre-pandemic levels in Q3 of 2021. Countries in southern Europe are lagging behind somewhat, as they have a stronger reliance on tourism, which continues to be affected by pandemic-related restrictions. For Portugal and Spain, it could take well into 2022 or even early 2023 to recover to pre-pandemic levels.

The more transmissible Omicron variant poses an important downside risk to our baseline forecast. Omicron is more infectious than Delta, but appears to have milder symptoms, which makes the net effect on society still very uncertain. Our baseline scenario assumes a relaxation of restrictions in 2022, but with speed and timing varying across countries.

However, in our downside scenario, governments take new measures due to Omicron (something we are witnessing already), which limits spending opportunities and raises inflation through supply-chain disruption. In this downside scenario, growth in the eurozone would be 1.4% in 2022 and 3.4% in 2023.

Table 2.2 Real GDP growth (%) - eurozone

	2020	2021	2022f	2023f
Austria	-6.8	4.6	3.2	3.3
Belgium	-5.7	6.2	2.9	1.4
France	-8.0	6.7	3.7	2.2
Germany	-4.9	2.5	3.9	2.9
Greece	-8.8	8.6	3.8	4.4
Ireland	5.8	15.1	3.8	2.0
Italy	-9.0	6.3	4.4	2.5
Netherlands	-3.8	4.6	3.5	2.1
Portugal	-8.4	4.4	4.6	2.4
Spain	-10.8	4.9	5.5	4.3
Eurozone	-6.5	5.1	3.9	2.7

Sources: Oxford Economics, Atradius

Exports slow due to supply chain disruptions

With the reopening of economies globally, eurozone export growth accelerated to 2.7% quarter-on-quarter in Q2 of 2021, from 1.1% in Q1. Export volumes rose on the back of a strengthening of both exports of goods and services, which benefitted from the loosening of restrictions. With global growth losing steam as new restrictions weigh on the services sector, and supply-side disruptions weighing on manufacturing supply chains, export growth eased in the second half of 2021. It is expected to increase somewhat at the start of 2022, but overall we envisage lower export growth in 2022 (5.8%) than in 2021 (9.7%).

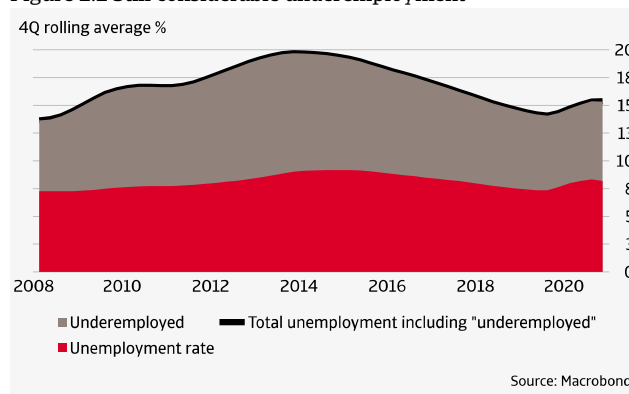
Consumption growth is rebounding

The release of pent-up demand along with an improving epidemiological situation drove private consumption growth to a very robust 3.4% in Q2 of 2021, from -2.3% in Q1 and -3.5% in Q4 of 2020. Along with the recovery in consumer spending, there was a rotation away from durable goods and into re-opened services. In 2021, consumption growth received support from a lower savings rate, as some of the uncertainty over the pandemic disappeared. Overall, consumption is estimated to have rebounded by 3.3% in 2021. For 2022, we forecast a more robust rebound (6.2%) due to ongoing labour market recovery, a further decline in the savings rate, and a positive spillover effect from consumption growth in 2021.

Labour market conditions also improved markedly in the first three quarters of 2021, with the creation of about 2.5 million jobs. However, total employment in the eurozone remained slightly below the pre-pandemic level, and the amount of labour market slack ('underemployed') had not yet been fully re-absorbed, as there are still many people who are available, but not actively seeking work, or who are part-timers who wish to work more hours. Unemployment

declined steadily in 2021, with the unemployment rate ending the year at 7.3% (October 2021). Despite the strong rise in inflation, growth of negotiated wages remains relatively low (1.4% in Q3 of 2021). This can be explained by the ongoing high number of underemployed and by the fact that it takes time for wage demands to adjust to higher inflation. For 2022, we expect a further employment growth and a further decline of unemployment.

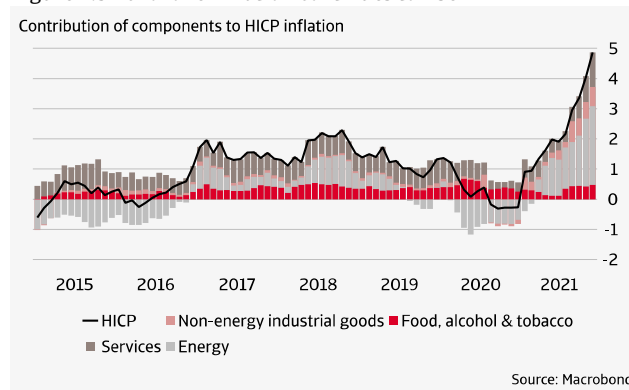
Figure 2.2 Still considerable underemployment



Strong rise in inflation

Following several years of low inflation, the strong resumption of economic activity in the eurozone has been accompanied by a swift pick-up in inflation. The headline inflation rose from 0.9% in January 2021 to 4.9% in November, the highest since the early nineties. Some eurozone member states have recorded very strong upticks, with November inflation rates reaching highs of 8.4% in Estonia, 8.2% in Lithuania, 7.4% in Latvia and 7.1% in Belgium.

Figure 2.3 Eurozone inflation continues to rise



Increases in energy prices are the most important driver behind rising inflation rates. They have been pushing inflation higher since Q2 of 2021. The strong increase in the energy component of inflation is largely linked to the rise in energy commodity prices, most notably of natural gas and electricity, but also of oil. Besides energy prices, price increases have become more broad-based in recent months, with non-energy industrial goods (2.0% year-on-year), food (1.9%) and services (2.1%) also adding significantly to the inflation rate. In the non-energy industrial goods component, we see the effect of supply chain disruptions. Industrial

producer price inflation increased steeply in 2021 reaching 21.9% in October 2021, a historical peak for this series (starting in 1996).

Inflation in the Eurozone is set to peak at 4.1% in Q4 of 2021. After this, we forecast inflation to decline but to remain elevated in the first half of 2022. In the second half of 2022, energy prices are set to gradually level out and the imbalances between supply and demand to resolve. We expect an average inflation rate of 2.0% in 2022, compared to 2.4% in 2021.

Fiscal deficits expected to decrease in 2022

In 2020, the sharp economic downturn and strong fiscal response led to an unprecedented increase in budget deficit and debt ratios in the eurozone. The government deficit for the eurozone increased from 0.6% of GDP in 2019 to 7.3% in 2020. As the economy expanded in 2021, the deficit declined marginally to 6.0% in 2021, but it remained high due to discretionary fiscal measures to shelter households, workers and firms from the impact of Covid-19. We expect the government deficit to decrease further in 2023, as the economic recovery continues and more emergency measures are unwound. Because of the stimulus measures, eurozone government debt rose from 83% of GDP in 2019 to 97% in 2020. We think it will remain close to this level in 2021 and decline gradually from 2022 onwards.

Several eurozone countries continue to struggle with high government debt ratios, including Greece (197% of GDP at the end of 2021), Italy (153%), Portugal (134%) and Spain (121%). While the interest expenditure is still manageable for these countries, much depends on benign financial market conditions. If monetary policy were to be tightened considerably in the coming years, these high debt ratios could become problematic.

Monetary policy slightly tightens

Because of the solid economic recovery and rising short-term inflation, the ECB has decided to cut back on its net asset purchases. The Pandemic Emergency Purchase Programme (PEPP), which was created in March 2020, will end in March 2022. The ECB has bought a total of EUR 1.6 trillion assets under this programme, which translates to around EUR 70 billion in monthly purchases. To smooth the transition, the ECB has also decided to increase asset purchases under the long-standing APP (Asset Purchase Programme) in Q2 and Q3 of 2022. After Q3, asset purchases will continue at a monthly pace of EUR 20 billion.

The ending of PEPP in March 2022 means that monetary policy will slightly tighten in 2022. With respect to interest rates, we forecast that the main ECB policy rate will be kept at zero percent until at least the end of 2023. This expectation is based on the ECB's own forward guidance (indications given by the ECB about its future interest rate policy) and its own inflation expectations. The ECB expects inflation in 2023 and 2024 to go down to 1.8%, below the 2% target. However, we cannot rule out that the policy rate will have to be raised sooner, as current high inflation rates put the ECB in an uncomfortable position. Even with the policy

rate at zero percent, financing conditions for firms may tighten somewhat, as expected interest rate increases in the United States will also pull up long-term interest rates in the eurozone.

United States: walking the tightrope

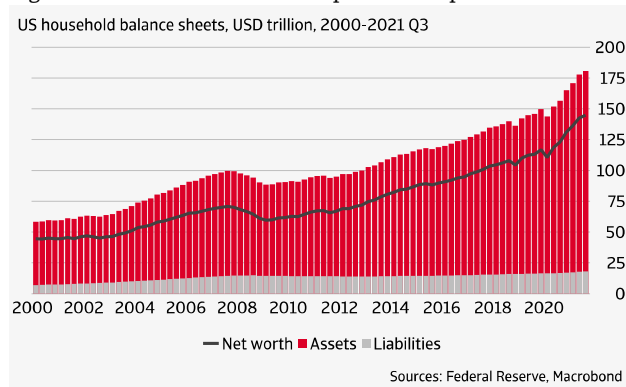
The US economy is facing a delicate balancing act of continuing to support domestic demand while taming inflation and supply bottlenecks. Rising consumer and business caution is taking some wind out of the sails of the US economic recovery but strong fundamentals ensure it should not be derailed. Improvements in the labour market are being overshadowed by high inflation, supply chain disruptions, record Covid infections and political impasses. The US outlook will be characterised by walking this tightrope between mismatched supply and demand trends. We forecast buoyant but moderating growth of 4.0% and 2.5% in 2022 and 2023 respectively.

Households on solid ground

Private consumption continues to fuel the US's economic recovery and households are in increasingly good shape to continue spending. The spread of Omicron dragged on momentum entering 2022 but activity is expected to rebound after the winter, underpinned by stronger household balance sheets and the tightening labour market.

Household net worth reached an all-time high of USD 144.7 trillion in Q3 2021, largely due to stock market gains and the real-estate boom (see figure 2.4). Households have amassed a staggering USD 34.1 trillion of wealth since the start of the pandemic – a 30% increase. This highlights the uniqueness of this downturn and recovery, owing to unprecedented fiscal and monetary support. All in all, Americans have accumulated USD 2.5 trillion in excess savings that should support robust spending over the coming year.

Figure 2.4 US household wealth up 30% since pandemic



While the bulk of this wealth is concentrated in high-income households, consumers across the income spectrum are in good shape. Unemployment benefits and direct fiscal outlays from the government stimulus programme, on top of stability of financial assets, support spending by lower-income Americans.

The tight labour market further supports the positive outlook for US consumption. Unemployment has dropped to 3.9% in December as labour force participation held steady at 61.9%, a high since the onset of the pandemic. In order to attract increasingly scarce labour, firms have had to increase employee compensation. This has fuelled rapid wage growth, especially in sectors that were most affected by the pandemic like hospitality and travel.

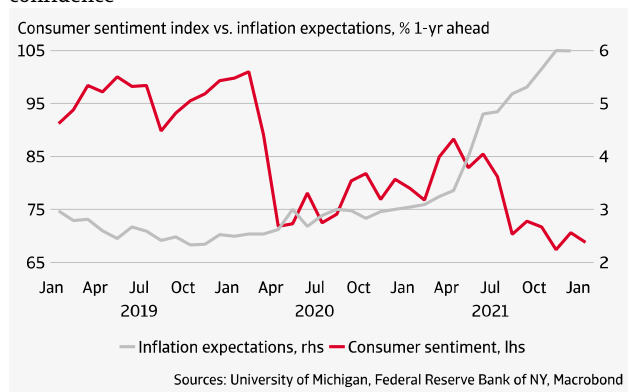
Inflation threatens recovery's footing

Inflation has accelerated to 30-year highs in the US, posing a risk to household purchasing power in 2022. Headline PCE (personal consumption expenditure) inflation rose to 5.7% y-o-y in November while core PCE inflation reached 4.7%. On top of labour shortages, firms have been grappling with supply disruptions. Material shortages have raised the costs of production as well. Strong demand for goods and services, though, have allowed firms to pass these higher costs on to customers.

The nature of the fiscal response to the pandemic has further contributed to inflation. In contrast to the eurozone, the US government offered significant unemployment benefits and direct transfers to individuals that actually increased demand as opposed to maintaining it. Supply was hit by factory closures and government restrictions at the same time, putting additional upward pressure on prices,

A major risk is that rising prices will cause a de-anchoring of inflation expectations. As discussed in chapter 1, inflation expectations can spark a self-fulfilling vicious cycle. Since the early summer, consumer inflation expectations have been increasing sharply. Consumer confidence mirrors this trend, turning downwards over the same period. This increases the likelihood that this 'transitory' inflation becomes entrenched, motivating the Federal Reserve to pivot its language and policy stance.

Figure 2.5 Rising inflation expectations knock consumer confidence



The Fed no longer refers to inflation in the US as transitory and has shifted to a more hawkish stance. As the labour market is evidently in good shape, nearing full employment, and inflation is staying well above the 2% target, the Fed has shifted to prioritise its inflation-targeting mandate. The Fed announced its intentions to taper off its asset purchasing programme by March, paving the way for a rate hike already

in May 2022. We expect two more rate hikes in 2022, bringing the policy target rate to 0.75% by year's end then three more in 2023. Overall, we project that inflation is passing its peak and it will average 4.4% in 2022 and 20% in 2023, after 4.7% in 2021.

Additional stimulus hangs in the balance

The US authorities responded to the pandemic decisively in terms of fiscal stimulus but will shift gear to a more contractionary fiscal stance in 2022. In November 2021, Congress passed the USD 1.2 trillion Bipartisan Infrastructure Bill that included parts of the American Jobs Plan and but not the social spending of the American Families Plan. The bill represents a significant and much-needed investment in physical infrastructure and will boost demand for workers and engineers in the construction sector over the forecast period. The fate of the social spending bill is uncertain though.

President Biden's USD 1.75 trillion Build Back Better Act, his administration's flagship package of social spending and environmental policies, is now in limbo. Party infighting has prevented its passing in the Senate, the upper house of Congress. Pressure is high to pass the plan while the Democrats still hold majority of the House, the lower house, ahead of the November midterm elections, but that's highly unlikely in its current form. We expect the spending bill to ultimately pass in Q1 but be downsized to around USD 1.5 trillion. Failure to pass this legislation poses a downside risk to US GDP growth, trimming growth by up to 0.4 percentage points.

United Kingdom: supply-demand mismatch weighs on recovery

The UK's recovery is underway but its economy is not as robust as headline figures suggest. GDP growth significantly surpassed that in the US and eurozone markets last year with 7.2% growth, but this also follows a much deeper recession in 2020. The UK's economic recovery over the forecast period will be led by private consumption and investment. After dragging on growth in 2021, net exports aren't expected to contribute to overall growth. In 2022 another 4.5% expansion is in the cards, but this is much lower than previously projected due to the loss of momentum triggered by the Omicron variant. We expect growth to moderate further to 2.5% in 2023.

UK inflation reached 5.4% in December, a 30-year high, for similar reasons as seen in other advanced economies and compounded by Brexit. The price rise is driven in part by supply chain issues including global shortages of products - like computer chips and building materials - as well as labour. The latter is in part attributable to Brexit as the UK has experienced a net outflow of EU citizens since 2020. The labour market is very tight with unemployment at 4.2% and sectors that employ high quotas of EU migrant workers, most visibly lorry drivers, have faced trouble filling vacancies.

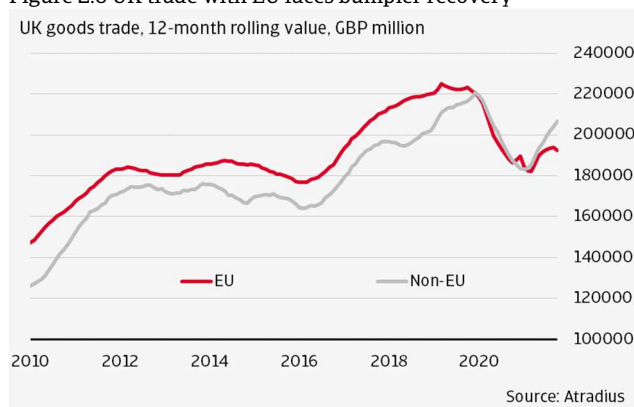
This has led to fuel shortages among other products and has contributed to the shortfall in aggregate demand.

The energy crisis is another major factor. The energy price cap, to protect consumers from volatile gas prices, was raised by more than 10% on October 1 to help ease the burden of soaring global prices on energy suppliers. Still, insolvencies in the sector continue and the situation will remain dire as the winter progresses and larger suppliers grapple with increasing their customer base. Inflation is expected to peak above 5% in early 2022 and moderate to 3.8% full-year and further to 1.7% in 2023.

Pressure on the BoE to tighten monetary policy to ensure inflation is kept in check while supporting fragile demand is growing. Jobs growth remains strong even through the end of the government's furlough scheme in October. Job shortages are putting upward pressure on wages, but inflation expectations remain relatively well-anchored and a price-wage spiral is not expected. This allowed the BoE to move forward with a first rate hike in December despite rising Covid-19 uncertainty. The BoE will likely need to tighten more quickly than other central banks to contain inflation amid significant supply-side constraints over the forecast period and we foresee two further rate hikes in 2022, bringing policy rates from the current 0.25% up to 0.75%.

While we don't expect trade to weigh on GDP growth again in 2022 and 2023, we don't expect it to contribute significantly to the recovery. Net exports will likely contribute neutrally to GDP growth. Brexit also continues to pose further challenges to the UK's trade picture, similar to the inflation dynamics. Overall UK trade is down 9.6% since the onset of the pandemic. Trade with the EU is the main drag, down 12.6%, versus a 6.5% drop in trade with the rest of the world. Moreover, since the deepest trough in trade in February 2021, UK trade with the EU has only recovered 5.5% while that with the rest of the world is up 12.4%. As such, trade outside the EU surpasses the value of trade with the EU.

Figure 2.6 UK trade with EU faces bumpier recovery



Japan: strong government stimulus supports economy in 2022

Japan experienced a rising number of Covid cases in August 2021, leading the government to impose a state of emergency in Tokyo and seven other prefectures. Japan successfully brought down the number of cases in recent months and has been ramping up vaccinations, with a current vaccination rate of around 80%. However, the government considers the Omicron variant a new threat, closing its borders to all foreign travellers at the end of November 2021. Nevertheless, we see cases rising in recent weeks. Overall, we expect GDP growth in 2021 to be 1.8%, followed by a somewhat higher 3.2% GDP growth in 2022.

Japan is well-integrated in Asian supply chains, importing raw materials and inputs from the region, and producing goods at the high-end of the value chain. Supply chain disruptions and the gradual slowing down of external demand growth had a dampening effect on export growth in Q3 of 2021. Exports are projected to recover in the coming quarters at a moderate pace, supported by the production recovery in the auto industry and robust capital goods demand.

On the domestic side, consumption spending has contributed only mildly to GDP growth in 2021. The high number of Covid cases and lengthening of containment measures dampened consumption growth in Q3 of 2021, as evidenced by weak retail sales and consumer surveys over the summer. The services PMI dipped at 42.9 in August (the neutral level is 50), but recovered in more recent months, reaching 52.1 in December. The Tokyo Olympic Games were held under a state of emergency and did little to boost consumption. Private consumption is set to remain robust at the beginning of 2022, as services' reopening progresses and the labour market situation improves. Thanks to generous fiscal support, the unemployment rate remains low (2.8% in November 2021). Overall, we expect higher consumption growth in 2022 compared to 2021, as pent-up consumer demand will be partly released. The new Omicron variant does pose a risk to the consumption outlook as it could encourage households to become more self-restrictive again.

Since the onset of the pandemic, the Japanese government has launched several supplementary budgets, with a wide range of measures to protect households and businesses. The fiscal relief packages were worth around 16% of GDP in 2020-2021, while indirect measures such as loan guarantees amount to another 24% of GDP. The new government led by PM Fumio Kishida is preparing to implement a sizable supplemental budget to help those most hurt by the pandemic. Therefore, the fiscal stance will remain broadly accommodative in the coming years (the fiscal deficit is forecast to decrease mildly from 8.5% in 2021 to 6.5% in 2022). Government support in response to the pandemic has pushed up the public debt to 241% of GDP in 2021.

Emerging economies

Emerging markets have relatively low vaccination rates and many of them will only get broad access to vaccines in 2022. We saw a rapid vaccination rollout in a number of major emerging markets last year, such as China, Turkey and Brazil, but many poorer EMEs still have very low vaccination rates. As vaccine access and sanitary measures continue to improve, hospitalisations and deaths due to Covid are expected to decline in 2022. Emerging markets are set to enjoy significantly less monetary and fiscal support in 2022. As a group, they already withdrew fiscal support last year and will further tighten in 2022. In a number of major markets (Brazil, Mexico, Russia) central banks hiked the policy rate in 2021 in response to higher inflation, which also constrains growth. GDP of emerging markets is forecast to expand by 4.6% in 2022, a bit lower than the 2021 growth rate (6.7%). Emerging Asia (5.2%) remains the region with the highest growth rate in 2022.

Table 2.3 Real GDP growth (%) - emerging market regions

	2020	2021	2022f	2023f
Emerging Asia	-0.1	7.1	5.2	5.5
Latin America	-6.7	6.6	1.6	2.2
Eastern Europe	-2.2	5.9	3.6	3.5
MENA	-4.2	4.6	4.2	3.5
Sub-Saharan Africa	-2.0	3.8	3.6	3.6
Emerging Markets	-1.6	6.7	4.6	4.8

Sources: Oxford Economics, Atradius

Asia: China and India

China's GDP returned to its pre-Covid-19 levels already last year, and GDP expanded by 8.0% in 2021. In 2022, we expect growth to cool to 5.0%. China's approach to tackling the coronavirus has been to impose stringent containment measures in areas where the virus surfaces. The vaccination campaign gained pace in the second half of 2021, with currently 88% of the population at least partly vaccinated. This is the highest vaccination rate among all major emerging economies.

The economic recovery tapered off somewhat in the second half of 2021, due to renewed Covid outbreaks, power shortages and the property sector slowdown. Investment growth slowed as real estate and infrastructure investment weakened. The stringent government regulations to rein in real estate investment created tighter financing conditions for real estate companies. This almost led to the default of the country's largest real estate developer, Evergrande. Due to the strong headwinds from the property sector, investment growth is projected to remain subdued in 2022. Covid outbreaks, although small by international standards, are working as a constraint on consumption, and the recovery of consumption is likely to remain gradual in 2022. Export growth is also likely to slow in 2022 due to transport and electricity supply bottlenecks. We expect these supply chain disruptions to gradually ease in the course of this year.

China is likely to continue its neutral monetary policy stance, with authorities injecting enough liquidity in the interbank market, but without backtracking from the stated objectives to contain credit growth. We expect no changes to the benchmark interest rate in 2022. Fiscal policy will provide less support in the coming years as the recovery is solid in most sectors. Some support measures will remain in place. For instance, debt moratoria are being extended on a case-by-case basis, and firms hit by the crisis can continue to carry over losses for eight years altogether. The Covid situation remains an important downside risk for the Chinese economy, as sporadic outbreaks continue even with the current high rate of vaccination. China's zero Covid approach and limited vaccine certificate recognition with other countries is likely to keep borders closed. The zero Covid approach is also not likely to be a successful long-term strategy as new variants keep emerging, and the shutdowns have heavy negative implications for supply chains.

In **India**, Covid infections spread rapidly in the spring of 2021, at its height bringing new cases to over 400,000 a day, but since then cases came down as confinement measures were re-introduced. The vaccination campaign is well underway, but with 66% of the population at least partly vaccinated, the rate of inoculation is still significantly below advanced markets. There are signs that lingering risks of renewed Covid outbreaks are weighing on sentiment, which slowed the recovery in 2021. We expect consumption growth to increase after Q1 2022, when around 70% of the population will be fully vaccinated. This brings consumption growth in 2022 to an expected 10.2% year-on-year. Overall, we expect robust GDP growth in 2022 (7.9%), following on 8.3% growth in 2021.

Investment has shown robust recovery in 2021, but with the manufacturing capacity utilization's rate still 20 percentage points below optimal level, there are concerns about the durability of the investment recovery. Stressed financial and corporate balance sheets could play a key role in dragging down the investment rate in the post-pandemic recovery. On the fiscal side, the government stepped up spending in 2021. In 2022 the government is likely to begin fiscal consolidation, but at a gradual pace. Monetary policy meanwhile remains accommodative. A pick-up in global energy prices and ongoing supply-side disruptions, however, push up input prices and probably will prompt the Reserve Bank of India (RBI) to shift to a neutral stance in the course of 2022. We forecast the rupee to slightly depreciate against the USD in 2022-2023, owing to India's relatively high inflation (5.6% year-on-year in December 2021). The gradual strengthening of the USD (in view of the Fed's tighter monetary policy) will also contribute to the depreciation. However, at the same time large foreign exchange reserves will support the currency against volatility. The likely inclusion of Indian bonds on several global bond indices also support the rupee via stronger capital inflows.

Latin America: Brazil and Mexico

Political risks and weak government finances are clouding **Brazil's** 2022-23 economic outlook. Economic growth is expected to stagnate with in 2022 as the economy is squeezed by aggressive monetary tightening. Inflation soared to 10.7% in December owing to currency depreciation, supply chain disruptions and rising food and energy prices following the worst drought in nearly a century. Price pressures spurred Brazil's central bank to already begin its tightening cycle in March 2021, the first in the region. The Selic rate currently stands at 9.25%, straining economic activity and translating to a higher effective interest rate on government debt. This raises concerns about the sustainability of public finances, after two years of wide government deficits in the face of the pandemic.

Decisive fiscal action is needed from the authorities to break this vicious cycle of rising inflation and interest rates, but it is not likely in 2022. The polarised political landscape and uncertainty ahead of the October 2022 elections ensure that. Prospects for fiscal reforms after the elections are stronger but we expect Brazil's economic growth to stay muted at 1.9% in 2023.

Mexico's economic recovery is cooling off to 2.2% this year and 2.7% next, following a 5.2% expansion in 2021. Growth will continue to be strained by the government's business-unfriendly policymaking. Mexico ended 2021 with 7.4% inflation, the highest rate in 20 years. The Mexican central bank is also tightening its monetary policy. In December, it raised rates 50 basis points to 5.5%, its fifth consecutive hike. Monetary tightening is increasingly aggressive to combat above-target inflation, higher wages and a weaker peso. The Omicron variant poses a further downside risk to Mexico's outlook, namely through new international restrictions and supply chain disruptions.

Eastern Europe: Russia and Turkey

Eastern Europe is likely to see a 3.6% expansion of GDP in 2022, following a 5.9% growth in 2021. **Russia** was recording high numbers of Covid cases towards the end of 2021 and the death toll briefly rose to above 1,000 a day (one of the highest excess mortality rates in the world). The vaccination campaign gained steam in the second half of 2021, but currently just over 50% of the population has received at least one dose of vaccin. The economy did quite well in 2021, with 4.1% GDP growth, supported by strong private consumption and relatively strong non-oil exports. Consumer demand benefitted from fiscal handouts ahead of the September 2021 Duma elections, but the effects waned afterwards. Growth is expected to moderate to 3.1% in 2022. High inflation and stretched household finances are weighing on consumption growth in 2022. The private investment outlook is also moderate as business sentiment continues to be negatively affected by the unfriendly investment environment including property rights issues. Public investments may enjoy some tailwinds from the

OPEC+ decision to permit Russia to increase its output, high commodity prices and rising fiscal revenues.

Fiscal support by the Russian government was largely rolled back in 2021 and the budget is expected to be roughly balanced in 2022. Oil and gas windfall profits are used to fill fiscal buffers outside the budget. In response to higher inflation, the central bank increased the interest rates by 425 basis points since March 2021. As high inflation is forecast to decline only gradually, monetary policy is likely to remain restrictive for much of 2022.

The vaccination rollout in **Turkey** has been fast in 2021, but the vaccination rate is levelling off in recent months (currently it is 67%, at least one dose). The number of fatalities have declined after peaking in May 2021, providing support to the domestic recovery in 2021. GDP growth in Turkey was a robust 10.3% in 2021. The high GDP growth in 2021 was driven by expansionary monetary, credit and fiscal policies introduced in response to the pandemic and a revival in export demand. Consumption growth is expected to fall back in 2022, as high inflation and higher rollover costs of subsidised pandemic loans stretch household budgets.

Aggressive and premature monetary policy loosening is causing a strong depreciation of the lira, with the currency declining by 45% since the start of 2021 and 38% since September vis-à-vis the USD. Since September, the central bank has cut the policy rate by 500 basis points to 14%, disregarding the continued rise in inflation to a record high of 36.1% in December 2021 and causing the real interest rate to become deeply negative. The central bank intervened in the FX market in December for the first time in seven years, in an effort to support the plunging lira.

The sharp exchange rate depreciation is leading to a worsening of government finances, as more than half of government debt is issued in foreign currency. The government is therefore forced to follow a tight fiscal policy in an effort to recover policy credibility and reassure investors. A further increase of indirect taxes, a restructuring scheme for tax payments and a rise in corporate income tax to 25% should benefit the budget in 2022. Still, the changing of guard at the central bank and the Ministry of Finance is not good for investor confidence. The reserves left to support the currency are limited, though currency swap agreements helped to improve the central bank's FX position.

Sub-Saharan Africa: South Africa

Infections in **South Africa** peaked towards the end of 2021 due to the new Omicron variant, but as restrictions were tightened, infections have dropped in recent weeks. The good news is that, though more transmissible, the Omicron variant leads to lower rates of hospitalisations compared to previous Covid waves. However, the low vaccination rate (only 32% at least partly vaccinated) could still jeopardize growth in 2022.

GDP growth was overall quite strong in 2021 (4.7%), driven by exports and household consumption, but it moderated

considerably in Q3 of 2021 on foot of the social protests in the KwaZulu-Natal and Gauteng provinces. Household consumption was supported by government social transfers and a drawdown of savings. Exports also contributed to growth owing to higher export of commodities, such as precious metals. The economy is likely to have started on a soft patch in 2022, as foreign tourist cancellations are hurting the tourism industry and commodity prices have declined somewhat. We expect yearly growth of 1.8% in 2022. The main driver of growth is forecast to transition from exports (global commodity demand and prices slowing down) to internal demand, driven by household consumption and investment.

The budget deficit is expected to remain very high in 2022 (8% of GDP). Despite limited fiscal space, the government has reinstated social transfers covering unemployed working-age individuals not receiving any social grants from August 2021 to March 2022. Some other relief measures were discontinued before the end of the year. Risk to government finances are the large contingent liabilities from SOEs, with Eskom particularly a drag on government finances and the economy. Government debt has risen to around 70% of GDP

(2021) and we expect it to rise further in the coming years, as the government balance remains in deficit.

The central bank has raised the policy rate by 25 basis points in November 2021, to 3.75%, in a reaction to higher inflation (5.5% in November) and the expected interest rate hike in the US. The inflation rate is currently at the higher end of the target range (3-6%), which could mean the central bank will raise the policy rate a bit more in 2022, but overall we expect monetary policy to be accommodating.

Table 2.4 Real GDP growth (%) - major emerging markets

	2020	2021	2022f	2023f
China	2.3	8.0	5.0	5.5
India	-7.0	8.3	7.9	6.7
Brazil	-4.2	4.6	0.0	1.9
Mexico	-8.4	5.2	2.2	2.7
Russia	-3.0	4.1	3.1	2.6
Turkey	1.8	10.3	2.5	2.8
South Africa	-6.4	4.7	1.8	2.0

Sources: Oxford Economics, Atradius

Appendix: forecast tables

Table A1: Macroeconomic headline figures - developed markets

	GDP growth (% change p.a.)			Inflation (% change p.a.)			Budget balance (% of GDP)			Gross government debt (% of GDP)			Current account (% of GDP)			Export growth (% change p.a.)			Private cons. (% change p.a.)			Fixed investment (% change p.a.)			Government consumption (% change p.a.)			Retail sales (% change p.a.)			Industrial prod. (% change p.a.)		
	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023
Australia	4.0	3.0	4.5	2.7	2.5	2.2	-2.5	-2.9	-2.4	62.9	65.7	66.2	4.5	0.5	-1.2	-1.6	5.8	8.7	3.8	4.1	6.4	9.8	5.3	4.0	4.7	0.6	0.2	3.1	2.3	1.0	1.1	4.2	3.3
Austria	4.6	3.2	3.3	2.7	2.6	1.5	-6.3	-3.8	-0.5	136.5	134.0	128.1	-0.4	0.9	2.2	9.0	2.8	5.1	2.3	6.0	5.8	5.1	2.1	2.6	5.9	0.1	0.8	3.2	2.5	2.4	8.7	1.9	2.0
Belgium	6.2	2.9	1.4	2.4	2.0	0.7	-5.5	-6.1	-4.3	138.2	140.2	141.3	2.5	-1.0	-1.0	9.4	4.3	2.0	6.3	4.5	1.4	10.0	1.6	1.1	3.5	0.8	1.1	5.4	1.9	3.7	17.7	-3.5	-2.7
Canada	4.6	4.1	3.3	3.3	4.0	2.3	-4.7	-2.1	-1.5	116.0	110.7	106.6	0.1	-0.8	-1.0	1.7	7.2	5.8	5.3	5.2	4.1	6.0	2.1	4.0	5.1	1.1	-1.5	8.7	3.5	4.1	5.0	4.8	4.3
Denmark	3.8	3.0	2.4	1.9	2.3	0.4	0.3	-0.1	0.0	55.0	52.5	51.0	7.7	6.9	7.6	5.1	6.2	5.2	4.2	3.8	1.6	5.5	2.4	1.7	3.7	1.6	2.0	4.6	1.7	1.0	7.5	3.3	3.6
Finland	3.6	2.3	1.5	2.2	2.0	1.7	-3.5	-2.8	-2.2	67.4	68.0	68.4	0.6	-1.5	-0.6	3.5	5.1	4.2	2.9	2.8	2.0	0.6	1.5	0.8	3.0	1.5	1.5	4.1	0.0	0.2	3.5	2.4	1.3
France	6.7	3.7	2.2	1.6	1.9	1.4	-7.6	-6.3	-5.0	149.5	148.7	148.3	-1.2	-1.9	-1.5	8.4	8.4	7.2	4.6	5.1	2.0	11.6	3.3	2.6	6.3	2.3	0.4	10.0	-1.4	0.0	6.0	4.4	3.1
Germany	2.5	3.9	2.9	3.1	2.4	1.3	-3.9	-1.7	-0.7	64.8	61.4	58.5	6.5	5.7	5.7	7.3	5.7	3.9	0.4	8.0	4.5	1.7	4.3	3.5	2.9	-0.9	0.7	1.1	1.9	1.4	4.3	5.2	5.8
Greece	8.6	3.8	4.4	1.2	1.9	1.2	-8.4	-3.9	-1.0	250.1	236.7	223.1	-5.6	-4.1	-4.4	18.2	6.5	5.1	5.6	5.8	5.4	16.3	12.2	8.4	4.3	-0.1	0.9	10.6	-0.1	0.1	9.1	3.0	2.2
Hong Kong	6.5	2.3	2.7	1.6	2.8	2.3	-2.6	-1.5	-0.8	15	2.5	3.4	9.4	5.6	5.5	16.5	3.4	7.0	6.0	4.3	3.1	10.7	4.4	6.3	4.5	0.1	-0.3	7.3	9.9	15.3	6.1	2.3	2.1
Ireland	15.1	3.8	2.0	2.1	3.3	1.5	-4.0	-2.5	-1.9	47.6	46.0	45.5	19.0	23.5	23.9	16.5	0.9	3.1	5.5	5.0	1.3	-47.4	8.9	2.1	4.0	0.2	1.2	4.4	5.2	3.9	17.9	-15.9	1.2
Italy	6.3	4.4	2.5	1.9	3.0	-0.1	-9.4	-5.6	-4.3	180.2	174.6	173.4	3.1	1.5	1.7	12.8	7.1	3.5	5.3	5.9	3.3	16.1	6.7	2.8	1.0	1.3	0.6	8.3	1.5	-0.2	10.9	3.5	3.1
Japan	1.8	3.2	1.7	-0.2	0.6	0.0	-8.5	-6.5	-4.7	243.4	241.6	241.5	2.7	2.8	3.6	10.9	7.7	4.6	1.2	2.9	1.3	-0.6	4.5	2.8	2.7	-0.1	-0.5	2.1	0.7	0.4	5.8	4.6	2.5
Luxembourg	6.0	3.0	3.9	2.4	1.5	1.7	-2.9	0.7	1.0	25.3	23.4	21.1	3.9	5.2	5.7	10.6	2.1	1.7	5.3	5.3	2.0	11.6	4.4	3.1	2.5	-2.1	0.0	9.4	11.9	4.7	10.1	1.7	1.2
Netherlands	4.6	3.5	2.1	2.6	3.3	1.0	-3.9	-3.0	-2.1	68.9	67.6	67.2	9.9	10.4	10.1	7.4	4.9	2.3	3.8	6.5	2.7	2.9	2.1	3.1	4.2	2.6	1.4	3.3	4.8	1.7	4.8	2.5	1.5
New Zealand	4.6	3.1	3.4	3.9	3.2	1.3	-3.5	-1.8	-1.1	44.0	45.2	43.9	-4.9	-3.6	-3.2	-1.4	11.0	8.0	5.9	1.7	2.7	8.4	6.5	3.2	9.0	2.5	0.5	7.6	2.7	2.7	5.7	2.4	1.4
Norway	4.1	3.1	1.5	3.5	2.1	1.5	5.5	1.7	1.4	39.2	38.2	40.2	13.8	12.5	6.7	5.0	4.6	2.4	4.5	6.0	1.4	-0.2	2.6	2.4	3.0	1.9	2.2	1.0	1.8	2.0	3.8	3.0	1.8
Portugal	4.4	4.6	2.4	1.3	1.9	1.3	-4.3	-3.2	-2.4	153.4	146.8	143.7	-2.1	-1.6	-0.8	9.4	11.4	4.6	5.1	4.4	1.7	4.6	4.5	7.5	4.6	1.8	0.4	4.3	4.4	0.7	2.7	2.8	3.2
Singapore	7.2	3.6	3.0	2.3	2.7	1.4	-2.0	-1.0	-0.4	143.9	141.1	138.1	19.9	17.9	17.3	5.8	8.5	7.3	5.3	9.4	8.3	13.7	6.6	4.3	4.1	-0.1	0.1	10.8	9.6	5.9	12.4	3.5	3.1
Spain	4.9	5.5	4.3	3.1	3.1	1.4	-7.2	-5.2	-4.0	146.5	141.1	136.6	1.0	1.5	1.6	12.3	7.5	4.5	5.4	5.8	4.4	3.2	7.9	7.2	3.2	2.0	0.9	4.1	4.3	2.6	6.7	2.2	3.6
South Korea	3.8	3.1	3.1	2.5	2.3	1.8	-0.8	-0.8	-0.4	53.2	52.3	52.0	4.6	4.1	4.5	8.9	5.9	4.5	3.3	3.5	2.9	2.8	3.8	4.4	5.3	3.0	1.7	5.2	4.7	3.0	6.0	2.9	3.5
Sweden	4.7	3.2	2.1	2.1	2.2	1.8	-1.3	-0.8	-0.4	50.2	48.3	46.7	5.4	4.5	4.7	6.8	3.5	2.7	5.4	4.1	2.4	6.5	3.6	1.8	3.1	1.2	1.6	6.6	1.7	0.8	7.5	3.2	2.0
Switzerland	3.6	3.1	1.7	0.6	0.9	0.5	-2.3	0.0	0.2	29.7	28.6	27.7	6.2	8.4	8.8	8.7	7.1	5.6	2.6	4.1	2.6	2.8	4.0	3.7	5.5	-1.2	-1.1	3.0	-1.9	0.6	9.9	3.9	3.4
United Kingdom	7.2	4.5	2.7	2.6	4.5	1.7	-9.1	-4.2	-2.2	102.2	99.8	97.6	-3.0	-3.3	-3.1	-0.4	7.3	4.1	5.6	5.4	2.6	6.1	7.3	3.9	14.9	0.9	1.4	4.9	1.5	2.3	4.7	3.0	1.7
United States	5.6	4.0	2.5	4.7	4.4	2.0	-12.1	-6.0	-5.4	150.7	145.3	144.5	-3.6	-3.3	-3.2	4.2	7.3	7.1	8.1	4.0	2.5	6.3	3.0	2.9	1.3	0.9	0.8	12.4	-0.6	1.6	5.6	3.6	2.3
Eurozone	5.1	3.9	2.7	2.5	2.5	1.0	-6.0	-3.8	-2.6	-	-	-	2.5	2.1	2.3	9.5	5.5	4.0	3.5	6.1	3.4	3.7	4.6	3.5	3.7	1.0	0.8	5.1	1.4	0.9	7.6	3.6	3.9

Sources: Oxford Economics, Atradius

Table A2: Macroeconomic headline figures - emerging markets

	GDP growth (% change p.a.)			Inflation (% change p.a.)			Budget balance (% of GDP)			Gross government debt (% of GDP)			Current account (% of GDP)			Export growth (% change p.a.)			Private cons. (% change p.a.)			Fixed investment (% change p.a.)			Government consumption (% change p.a.)			Retail sales (% change p.a.)			Industrial prod. (% change p.a.)		
	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023
China	8.0	5.0	5.5	1.0	2.5	2.5	-6.9	-7.7	-6.7	46.5	49.4	52.8	1.8	1.8	1.3	17.7	5.6	4.3	12.7	5.6	7.7	1.1	3.7	4.8	2.1	7.8	2.1	13.2	5.8	7.9	8.3	5.5	5.8
India	8.3	7.9	6.7	5.2	5.1	4.8	-6.5	-7.3	-5.7	57.5	59.4	59.9	-1.1	-2.5	-1.8	21.0	6.4	6.6	8.2	10.1	6.9	16.7	8.3	5.9	7.7	5.8	13.3	10.1	11.8	8.4	12.4	5.5	6.8
Indonesia	3.7	5.8	6.4	1.6	3.2	3.1	-4.6	-3.7	-3.3	46.7	47.2	45.6	0.4	-0.9	-1.8	24.0	2.2	1.6	2.0	5.0	7.2	4.1	9.1	9.1	4.9	3.6	6.0	-0.4	20.2	11.9	8.2	6.8	6.1
Malaysia	3.3	6.6	6.6	2.5	2.3	2.7	-6.6	-6.0	-4.5	64.5	61.3	60.4	3.7	5.1	2.8	16.1	7.4	4.1	2.1	9.1	6.9	-1.6	13.9	11.2	8.3	2.3	-0.6	2.9	9.7	7.5	7.1	7.1	6.4
Thailand	1.4	5.1	7.2	1.2	2.1	1.1	-3.8	-3.5	-3.1	53.8	50.9	46.7	-2.2	1.3	6.9	10.9	14.6	14.1	-0.1	4.8	5.3	4.4	3.8	5.3	2.0	0.8	1.4	5.4	4.8	5.3	5.7	5.0	6.0
Argentina	9.8	2.9	1.5	48.4	49.1	35.5	-3.5	-3.1	-1.2	87.3	88.6	83.2	1.7	0.8	0.4	9.3	2.9	2.3	10.4	7.7	1.7	27.4	-14.1	1.7	6.9	0.1	0.6	-	-	-	13.5	-2.0	1.6
Brazil	4.6	0.0	1.9	8.3	8.6	3.7	-4.5	-6.5	-6.0	81.5	81.6	83.2	-0.6	-2.1	-2.3	7.5	1.5	4.6	3.7	2.2	2.6	16.6	-5.0	2.4	1.7	2.7	0.5	2.6	2.3	2.6	4.0	0.0	6.0
Chile	12.0	2.2	0.8	4.5	6.7	3.4	-8.0	-2.9	-2.1	34.9	35.4	36.5	-5.2	-4.5	-3.3	-0.7	4.3	4.0	21.3	-0.4	-2.1	15.7	2.6	2.4	10.4	3.5	4.2	28.4	0.7	-2.2	2.6	3.4	2.3
Colombia	9.6	2.9	3.1	3.5	5.5	3.3	-8.6	-7.0	-5.2	67.8	70.6	70.1	-5.6	-4.5	-4.0	12.3	13.3	7.9	12.8	-0.3	1.6	10.8	11.0	5.0	10.7	-6.4	-1.7	-	-	-	15.7	1.1	1.7
Mexico	5.2	2.2	2.7	5.7	5.3	3.7	-3.2	-3.0	-2.4	53.1	51.7	50.7	-0.8	-0.3	-0.2	6.4	8.7	5.5	7.3	2.4	3.0	10.6	3.2	2.5	1.4	2.1	2.3	7.7	2.5	3.0	6.6	3.0	3.4
Peru	12.9	3.3	3.2	4.0	5.4	2.6	-5.1	-3.0	-1.5	35.4	36.5	36.0	-0.4	-1.4	-1.6	18.0	11.6	3.8	11.6	0.6	3.0	40.8	-11.8	5.6	10.2	-5.0	3.5	-	-	-	12.7	3.6	3.4
Venezuela	7.3	16.4	9.7	509.2	117.1	83.0	-13.7	-9.9	-6.3	248.3	195.3	170.3	6.0	9.9	3.9	-5.0	30.7	14.5	6.0	25.8	8.8	7.0	29.7	29.7	2.1	0.3	-1.1	11.5	31.4	12.8	6.4	-1.9	10.6
Bulgaria	1.6	3.6	7.7	3.2	2.0	1.2	-1.1	-1.0	-0.2	22.8	22.8	22.5	-3.8	-4.6	-0.7	8.8	2.0	6.6	6.8	1.2	2.5	-2.3	11.7	16.1	2.9	2.1	1.2	11.3	1.1	5.7	8.1	2.7	1.0
Czech Republic	2.7	3.4	4.6	3.5	4.4	1.6	-6.9	-5.5	-3.6	41.0	42.9	43.8	0.6	0.8	1.2	4.6	3.6	7.1	4.2	4.5	2.1	0.4	6.9	8.7	3.4	1.9	0.3	4.9	6.9	3.3	5.5	3.3	5.1
Hungary	6.2	4.4	4.1	5.2	4.8	3.2	-6.3	-5.8	-4.2	84.4	86.9	83.2	-4.1	-4.0	-1.7	7.9	5.5	6.8	2.9	4.3	4.7	7.1	6.9	7.1	3.4	0.9	1.3	2.8	3.1	3.5	8.9	2.6	6.4
Poland	5.5	4.5	3.7	5.0	7.7	4.5	-1.7	-1.5	-1.0	48.1	43.4	40.6	-0.9	-2.2	-0.7	11.5	5.6	5.3	6.9	6.5	2.9	6.1	6.3	9.4	2.5	3.9	3.8	9.4	5.7	2.8	14.7	7.6	3.0
Romania	6.3	3.9	3.6	5.0	4.9	2.6	-6.6	-5.5	-5.4	51.6	53.8	55.9	-6.9	-6.6	-5.5	11.8	6.5	5.0	6.4	5.4	4.0	5.6	5.8	5.2	0.4	4.9	3.8	9.3	3.0	2.7	7.0	3.7	3.5
Russia	4.1	3.1	2.6	6.7	6.6	3.5	0.2	-2.8	-2.2	19.2	22.7	26.3	5.3	4.0	1.3	1.8	2.0	1.7	11.1	4.5	2.3	8.9	7.5	3.2	0.7	2.4	1.2	7.7	1.2	8.8	4.6	2.1	1.7
Turkey	10.3	2.5	2.8	19.6	37.1	15.7	-1.1	-1.7	-1.5	37.5	34.1	32.2	-2.5	-2.7	-2.4	22.4	9.4	3.4	11.7	2.9	2.4	6.4	-2.5	3.3	5.2	4.5	2.0	15.3	3.1	2.4	15.0	2.5	2.7
Ukraine	3.1	2.8	2.7	9.4	7.3	6.7	-2.7	-3.1	-2.0	49.2	45.3	49.4	-1.0	-4.3	-4.7	-2.1	10.0	5.3	3.4	-0.8	6.7	7.1	12.7	6.2	2.1	0.2	0.3	-	-	-	2.3	4.3	3.1
Egypt	5.6	3.7	3.6	5.3	7.6	8.0	-7.7	-7.4	-7.3	95.4	97.0	98.0	-4.5	-4.3	-4.4	28.1	2.2	3.3	3.5	3.1	2.3	25.4	11.2	11.4	4.2	3.8	4.9	3.5	3.1	2.3	8.4	3.6	2.6
Morocco	6.2	3.5	4.0	1.2	1.7	1.7	-7.2	-6.1	-5.5	97.0	99.2	99.9	-3.8	-3.5	-3.6	10.3	8.0	3.5	5.3	3.2	4.0	10.7	2.3	4.8	7.0	0.5	2.4	5.3	3.2	4.0	5.1	4.4	4.0
Qatar	2.2	3.6	3.5	2.3	3.2	1.8	2.5	8.1	3.4	63.4	52.8	57.4	7.0	13.0	4.5	6.2	2.3	2.4	5.3	4.0	4.1	2.6	1.9	2.7	2.6	3.4	3.2	5.8	4.6	4.6	1.0	2.2	2.0
Saudi Arabia	3.3	5.0	2.6	3.6	2.9	1.7	-2.8	3.1	2.0	30.1	29.3	30.2	6.1	9.9	6.9	-0.8	14.4	4.6	7.5	1.8	3.5	15.7	9.6	4.2	-5.3	-0.8	1.0	-	-	-	3.5	6.8	3.5
Tunisia	2.8	3.4	4.1	5.7	6.6	7.0	-7.7	-7.0	-6.5	82.5	84.8	86.0	-7.7	-7.0	-6.1	10.5	5.0	3.4	1.3	1.5	2.3	12.9	9.8	6.5	2.2	2.0	2.2	-	-	-	9.2	2.0	2.2
United Arab Emirates	1.8	6.2	6.7	0.0	2.0	1.8	3.6	3.9	5.0	35.2	33.4	31.8	11.1	11.0	13.0	5.4	6.6	8.1	3.7	4.0	4.2	6.7	3.8	3.6	1.5	2.4	2.0	3.7	4.0	4.2	-1.5	9.0	11.4
Ghana	4.0	5.3	5.2	9.7	9.0	8.9	-9.9	-8.3	-7.2	83.9	87.0	87.5	-3.6	-4.0	-3.8	-9.3	9.1	10.4	5.5	6.5	5.2	6.3	6.2	5.3	7.6	4.2	5.4	-	-	-	4.4	4.4	4.9
Kenya	6.1	4.4	4.4	6.2	7.7	4.8	-8.4	-7.0	-6.2	69.8	71.4	73.1	-5.3	-5.4	-4.6	1.8	7.2	7.4	5.6	5.1	4.4	4.8	5.7	4.8	3.9	2.9	3.3	-	-	-	5.6	3.7	4.9
Nigeria	2.9	3.7	3.3	16.9	13.5	12.6	-7.1	-5.8	-6.0	22.8	24.4	28.0	-0.3	1.5	0.9	-28.6	36.6	9.4	20.9	-8.6	0.7	-2.8	8.6	7.4	-22.2	26.6	3.3	20.9	-8.6	0.7	1.1	5.0	3.9
South Africa	4.7	1.8	2.0	4.5	5.1	4.8	-7.1	-8.0	-6.3	70.2	75.9	79.6	5.2	1.9	0.4	9.2	3.4	3.9	5.5	1.6	1.7	1.8	9.3	4.9	0.1	1.3	0.4	5.5	1.6	1.7	7.0	4.0	1.8

Sources: Oxford Economics, Atradius

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Atradius N.V.

David Ricardostraat 1 - 1066 JS Amsterdam
Postbus 8982 - 1006 JD Amsterdam
The Netherlands
Phone: +31 20 553 9111

info@atradius.com
www.atradius.com