JUSAN ANALYTICS

WORLD MACROECONOMIC OUTLOOK

August 2022

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Main conclusions

The world economy is dangerously close to stagnation or recession. The GDP growth rates are declining in both developed and developing countries

In most developed and developing countries inflation is taking on dangerous proportions and leads to harsh measures to reduce the price growth

The growth of key rates of the US Federal Reserve, the ECB and the Bank of England reduces the purchasing power of national currencies in developing countries

The geopolitical tensions around Ukraine and the mutual exchange of sanctions worsen the current state and prospects of the world economy

Central banks of developed countries and developing countries are raising key rates to combat inflation, which reduces the growth rate of the world GDP

The growth of coronavirus cases in the world, severe government measures in China and several other countries to combat the virus are slowing down business activity worldwide

Abnormal weather conditions in key centres of the world economy pose threats to the world GDP growth and world food security

The GDP growth rates are declining in the largest economies (the USA and China), which slows down the world GDP growth

Due to geopolitical tensions and international sanctions commodity markets have strong volatility

The world economy is facing an un of global challenges precedented series

Global GDP growth forecasts

The world economy has entered an obstacle course. The **ongoing coronavirus pandemic (1)** has been topped up by the **military conflict in Ukraine (2), the mutual exchange of sanctions** between the largest countries **(3), the rapid growth of inflation (4)** and **the tightening of monetary policy** of the central banks of developed countries **(5).**

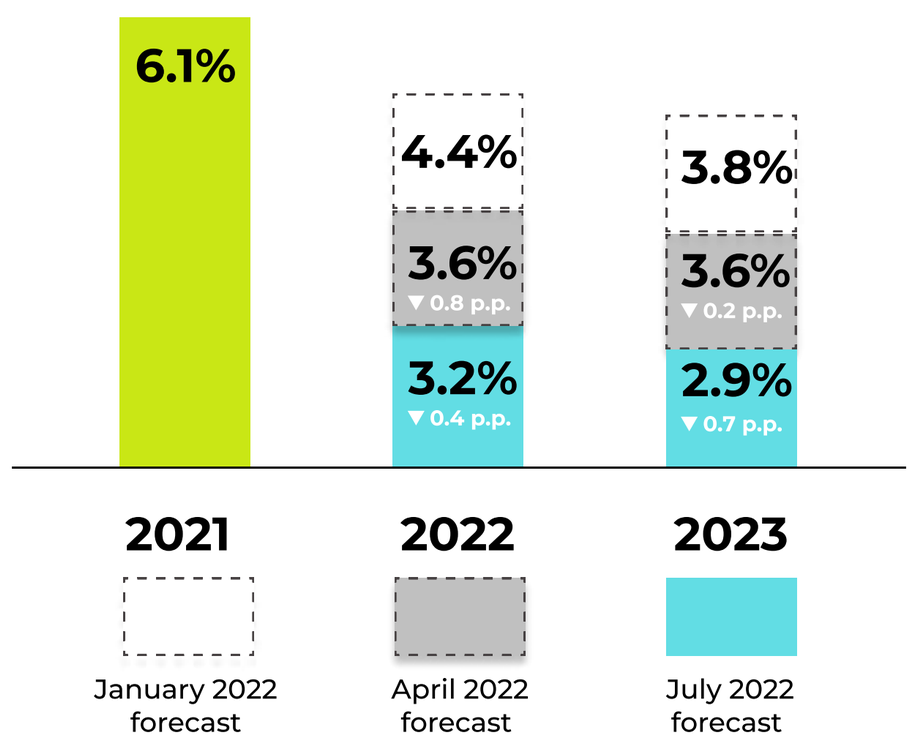
Extreme weather (6) may be supplemented by the mentioned shocks in the second half of this year, which affected many economically important regions of the planet.

An unbroken chain of global challenges is hampering the world GDP growth and pushing the world economy towards possible stagflation or recession.

International institutions are more pessimistic about the scenarios of global economic development against this background.

Thus, it is not the first time that the World Bank, the International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD) **have revised the global GDP growth forecasts.**

IMF forecast for the world economic growth



International organizations reduce the projected growth rates of global GDP

The World Bank in its latest survey (June 2022) forecasts that the growth rate of the global economy will fall from 5.7% in 2021 to 2.9% in 2022. This is much lower than the January forecast – 4.1%. In 2023, according to the World Bank forecasts, the growth rate of the global economy will be at the level of 3.0%.

The International Monetary Fund (IMF) also sees a significant deterioration in the prospects for the global economy and increased risks of a world recession already in 2023. In July of this year, the Fund predicted that the growth rate of global GDP would slow down from 6.1% in 2021 to 3.2% by the end of 2022. The Fund's latest estimate is 0.4 p.p. lower than expected in April 2022.

Next year, the projected growth rate of the global economy will be 2.9%, which is 0.7 p.p. lower compared to the April forecast.

The Organization for Economic Cooperation and Development (OECD) is also pessimistic about the possibility of the global economy entering a growth trajectory. Thus, the forecast of global GDP growth for 2022 has been reduced to 3.0% compared to 4.5% in December last year (-1.5 p.p.). For comparison, according to OECD experts, the world economy increased by 5.8% in 2021 but will continue to decline next year. According to the OECD's expectations, the growth rate of the global economy in 2023 will be 2.8%.

Global economic growth forecasts, %

	2021	2022	2023
The World Bank	5.7	2.9 ▼	3.0 ▲
IMF	6.1	3.2 ▼	2.9 ▼
OECD	5.8	3.0 ▼	2.8 ▼
UN	5.8	3.1 ▼	3.1
Fitch Ratings	5.7	2.9 ▼	2.7 ▼
S&P	6.0	3.6 ▼	3.5 ▼

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Global risks cause a significant cooling of the global economy

Global challenges

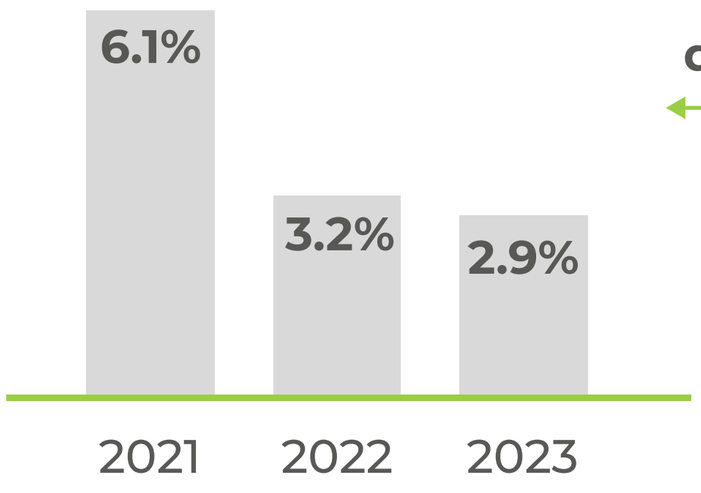
- COVID-19 incidence
- The conflict in Ukraine
- International sanctions
- The global inflation growth
- The Fed's hawkish policy
- Abnormal climate

Effects

- Sovereign ratings downgrades and country defaults
- Food and commodity shortages on world markets
- Increasing savings and deferring household expenditures
- Rising unemployment in developed and developing countries
- Decline in investment and investment attractiveness of emerging markets
- Drop in business and investment activity of the corporate sector
- Drop in business and investment activity of the corporate sector

Forecasts

The IMF predicts a sharp decline in the global economy



The world economy is at crossroads: stagnation or recession

The combination of these factors hinders the progressive development and recovery of the world economy from the ongoing protracted crisis.

Thus, according to most consensus forecasts, **a stagflationary and recessionary scenario of global GDP development** is soon most likely. Moreover, recessionary signs are already showing up in the United States, Great Britain and Germany.

With **stagflation** (stagnation + inflation), the world economy will be described by zero growth, a slowdown in business and investment activity, excessive price growth and an rise in unemployment.

And in a **recession**, the world economy will experience a decline in GDP caused by a freeze in business and investment activity, a steady acceleration of inflation and a mass unemployment increase.

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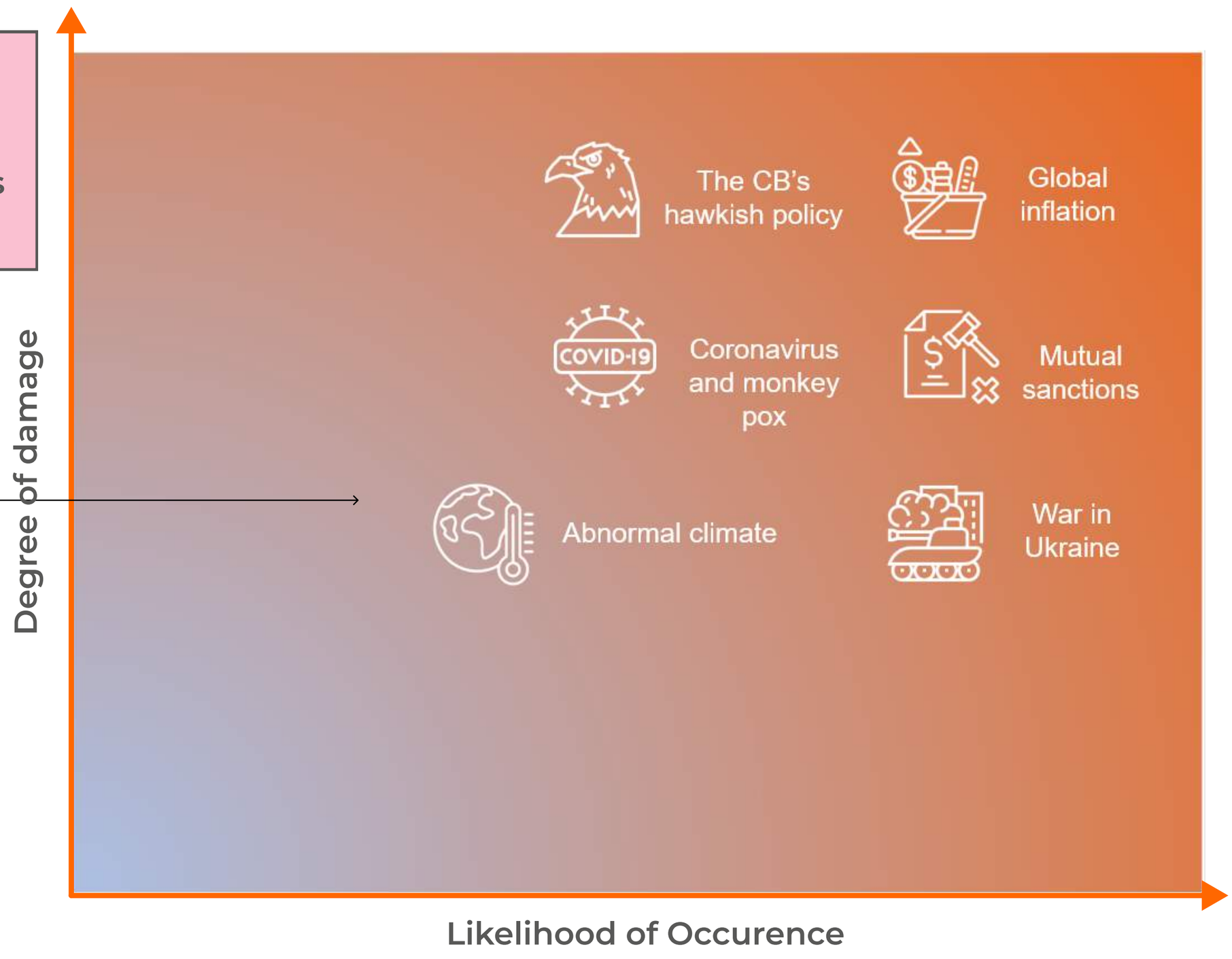
Most of the risks are in the red zone in terms of damage and likelihood of its occurence

Basic risks of the global economy

Map of the basic risks of the global economy

The global economy is facing unprecedented risks and threats in various spheres



- **Inflation** in the OECD will reach 9% per annum with a target of 2.0% in 2022.
- **The key rate of the US Federal Reserve** may rise to 3.25-3.50 by the end of the year. In July, the rate had already increased by 0.75 p.p. to 2.25-2.5%.
- **Due to the mutual sanctions** the gas price in Europe has reached $ 2,200 per thousand м³.
- **The war in Ukraine** will lead to lost revenues for the world economy in the amount of $1 trillion in 2022.
- **The incidence of COVID-19** is growing again. A new pandemic wave may arise by the autumn of this year.
- **The heat wave** will cost the world economy $2.4 trillion by 2030.

New strains of coronavirus and the conflict in Ukraine caused economic shocks

1. Coronavirus pandemic

The WHO continues to record an increase in coronavirus cases in the world. A new wave of COVID-19 morbidity in Europe, America and other regions is primarily associated with the spread of highly contagious BA.4 and BA.5 subvariants of Omicron coronavirus.

According to experts' forecasts, if such a trend remains in the fall of this year, a new epidemic wave may arise in the world. The negative consequences for the global economy are caused by the pandemic and tough anti-epidemic measures, which, for example, are being introduced in China.

In 2020, JP Morgan employees estimated that the coronavirus pandemic would cost the world economy 5.5 trillion dollars, which is equivalent to the loss of an entire country from the global economic system. For example, Japan.

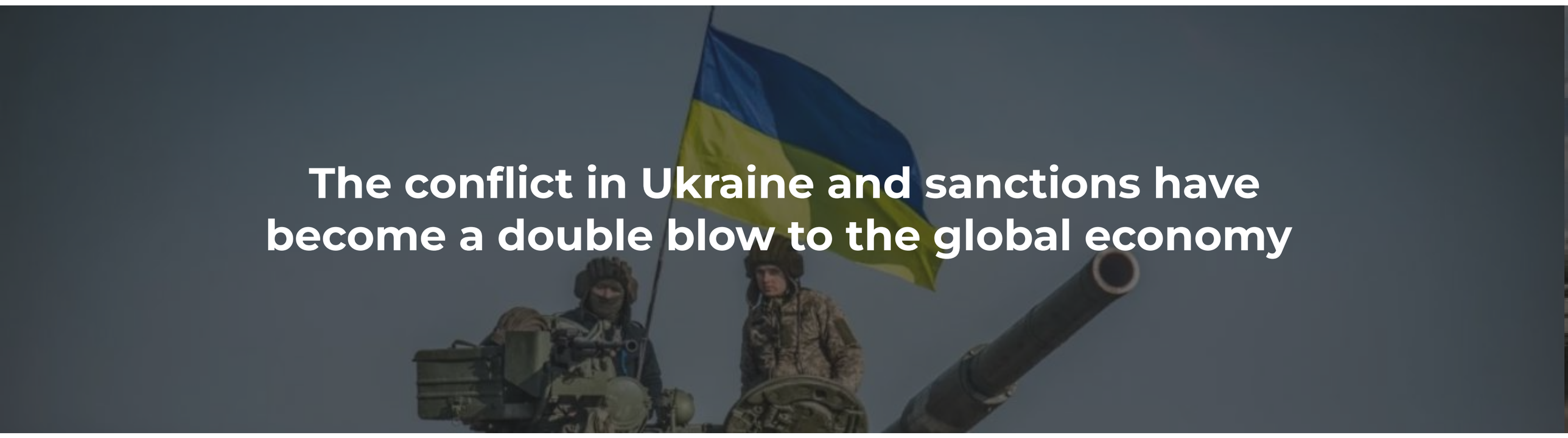
2. The conflict in Ukraine

The countries involved in the military conflict in Ukraine ensure the supply of many key resources to world markets. The theatre of hostilities is unfolding in the centre of Europe, which after the acute phase of the coronavirus pandemic, has frozen the global economic recovery for an indefinite period.

In addition, the world economy suffers significant material losses every day.

The confrontation can turn into an acute protracted form. As a result, the return of global GDP to sustainable growth will be delayed for a longer period.

The World Bank and the OECD estimate the missed opportunities of the world economy due to the Russian-Ukrainian conflict at $1 trillion in 2022 alone.



3. Mutual exchange of sanctions

The sanctions have disrupted the most important production and transport chains that have been built and functioning for many years. starting from the food industry to the global energy sector, almost all industries and sectors of the world economy have suffered.

For example, Russia is hastily reorienting exports of energy and raw materials from European markets towards Asia. At the same time, European countries are diversifying the base of suppliers of raw materials, reducing dependence on Moscow in key areas and sectors of world trade.

According to World Bank President David Malpass, international sanctions against Russia will have more negative consequences for the global economy than the conflict in Ukraine.

4. Acceleration of world prices

The Consumer Price Index has been setting new records over the past few years in most developed and developing countries. Global commodity prices show increased volatility and unpredictability.

Thus, the cost of commodities periodically reaches historical highs, rolling back again on concerns about a decline in global demand and a slowdown in the global economy. Raw material prices and the general volatility of commodity markets inevitably rearrange final goods and services for businesses and consumers.

The target inflation rate in the OECD countries this year is 2% per annum. The projected actual inflation rate in the OECD countries in 2022 is 9% per annum.

New Central Bank policy and abnormal weather slow down global GDP growth

5. Tightening monetary policy

The world economy is entering a new phase of monetary policy of Central Banks of developed countries. In the context of global inflationary acceleration, Central Banks are forced to implement a tougher monetary policy, even at the cost of provoking a recession.

Instead of an ultra-soft monetary exchange rate favourable for global growth, the era of monetary conservatism begins. The US Federal Reserve, the Bank of England and the European Central Bank (ECB) will raise interest rates to rein in the inflation, which is reaching alarming proportions.

The decline of the era of cheap money will cool inflation, but it can also push the global economy into stagflation or recession.

6. Abnormal weather

Climate anomalies, which have covered many developed and developing countries, can also radically change the scenarios for global GDP development. Abnormally hot weather is observed almost across the globe (Europe, Asia, America).

The ongoing unbearable heat and drought that have engulfed economically active regions of the world can lead to food shortages, which will accelerate the persistent food inflation and may cause civil unrest.

According to the International Labor Organization, an abnormal heat wave could cost the world economy $2.4 trillion by 2030.

GDP growth rates are decreasing and inflation is rising in one breath in developed countries

Developed countries

1. A decline in real GDP growth

International organizations are reviewing the economic status and development prospects of high-income countries in the direction of deterioration. Thus, according to most consensus forecasts, acute external shocks will lead to a sharp slowdown in GDP growth rates of key developed centres of the world economy.

An economic downturn is forecast in the United States, the Eurozone, the United Kingdom, Germany and Japan soon. For example, the Business Confidence Index in Germany - Europe's largest economy, indicates that the country's economy is on the verge of recession. In this regard, the governments of developed countries are trying to soften the economic blow and prevent the economy from sliding toward recession.

2. Acceleration of inflation.

Geopolitical shocks, Russia's military aggression against Ukraine, the introduction of mutual sanctions and turbulence in commodity markets have caused an unprecedented acceleration of inflation in developed countries over the past few years. Thus, the actual and estimated level of consumer prices in the OECD and the Eurozone is several times higher than the average annual CPI target of 2.0%.

Initially, the trigger for the growth of world prices was the trade war between the two largest economies in the world (the United States and China) under the administration of American President Donald Trump. The subsequent acceleration of prices in the developed economies of the world mainly occurred as a result of the coronavirus pandemic and the Russian military aggression against Ukraine.

Tightening of the Central Bank's monetary policy may cause rising unemployment rate

3. Rise in unemployment.

The unemployment rate in developed economies is at historic lows in recent decades.

High-income states could avoid a sharp spike in the unemployment rate, which was possible thanks to the high rates of vaccination, large-scale state support measures and the predominance of the service sector in the economy, and that allowed the majority of labour market participants to work remotely during the peak of quarantine periods.

According to the results for 6 months of 2022, the labour market indicators of developed countries are still at minimum values. At the same time, the decisive actions of Central banks to combat persistently high inflation are hampering the growth of the economies of developed countries, which will inevitably shuffle off the labour market.

4. A new monetray policy.

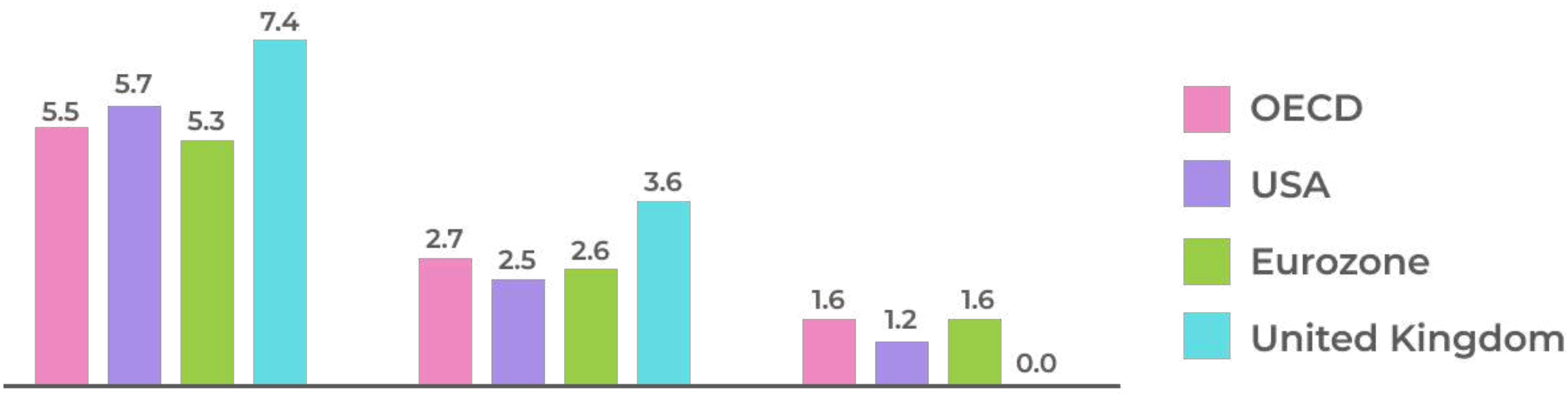
The monetary policy of the leading developed countries' Central banks is becoming more "hawkish" to curb inflationary surges.

So, the US Federal Reserve has raised the key interest rate three times since the beginning of this year. Following the US Federal Reserve, the Bank of England is also winding down its quantitative easing program.For the European continent, the ECB raised the key rate by 50 b.p. to 0.5% per annum for the first time in 11 years.

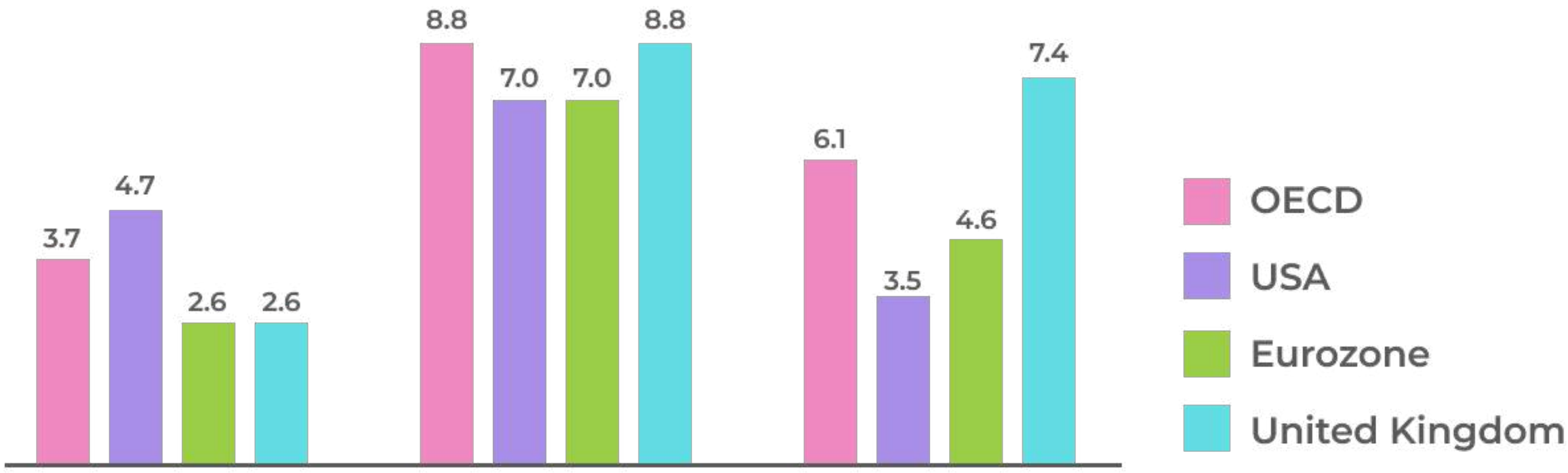
Monetary policy tightening in high-income countries will continue to minimize inflationary risks in the economy. The “hawkish" monetary policy will remain in the developed centres of the world economy for a long time.

The key economic indicators of developed countries

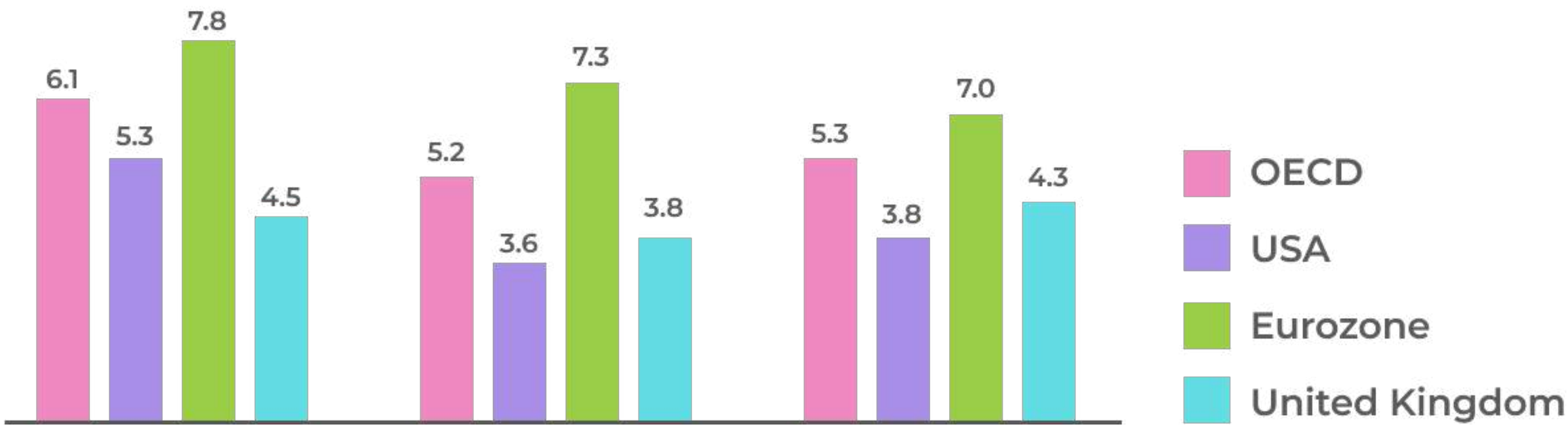
Real GDP growth in developed countries, %



Inflation rate in developed countries, %



Unemployment rate in developed countries, %



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Key indicators of the US economy

The US GDP is over $25 trillion.

The country's economy may be perilously close to stagnation and recession.

GDP	Inflation	Unemployment	Fed
-0.9% YoY	9.1% YoY	3.6% YoY	2.25-2.50%

The US economy presents the dynamics of decline

GDP

In the second quarter of this year, **after falling by 1.6% in the first three months, the US economy shrank by 0.9%.**

The decline in GDP rates for two quarters in a row is traditionally considered the beginning of a recession in the economy, but the US Department of Commerce puts a broader meaning in this concept.

Thus, a recession is a significant and widespread drop in business activity in most sectors of the economy for several months, which is accompanied by negative changes in the unemployment rate, output and household income.

Leading economists surveyed by The *Wall Street Journal* expected the US economy to slight, but still 0.4% growth in the 2nd quarter.

For comparison, in the last quarter of 2021, the growth rate reached 6.9% in annualized terms, which was a record for the last forty years, and meant the recovery of the world's largest economy from the pandemic.

The slowdown in US GDP growth in the 2nd quarter is explained by a decrease in private investment in inventories due to a drop in retail trade, a reduction in government expenditure and investment in real estate.

According to the traditional definition, the American economy entered a recession in the second quarter of this year.

International organizations have lowered forecasts for the growth of the US economy several times

GDP

International organizations are reviewing the prospects for the growth of the American economy downwards. Thus, according to the latest OECD estimates in June, **the growth rate of the American economy will slow down to 2.3-2.5% in 2022,** compared with 5.7% a year earlier. In 2023, the GDP of the world's largest economy will increase by 1.2%.

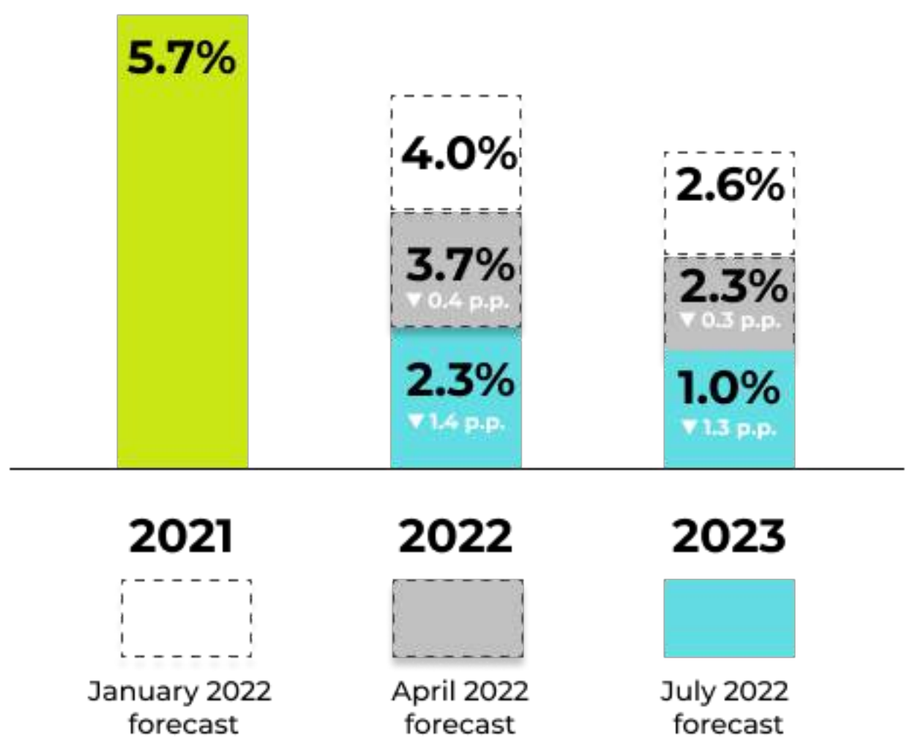
The International Monetary Fund, in its updated July report, predicts that the growth rate of US GDP will drop sharply to 2.3% this year and to 1.0% next year.

70% of leading economists surveyed by the Financial Times believe that the American economy will enter a recession next year.

Negative scenarios for the development of the American economy are caused by the followig:

- heighten international geopolitical tensions,
- record rise in the price of commodities,
- reduction of anti-crisis incentives,
- a decline in consumption,
- an investment slump due to growing inflationary pressure and tightening monetary policy of the US Federal Reserve.

IMF forecast for the US GDP growth



A record low unemployment rate pushes up the inflation

Unemployment

The unemployment rate in the United States in June was 3.6%, unchanged from March of this year. Since the beginning of the year, unemployment in the country has decreased by 0.4 p.p. from 4.0%. **The employment rate** in the American economy is **at historically record levels over the past 50 years.**

According to the US Federal Reserve June forecasts, by the end of 2022, unemployment in the country will average 3.7%, increasing to 4.1% in 2024. For comparison, according to the results of last year, the average share of unemployed in the American economy was 5.3%.

Inflation

Inflation in the US is setting new records. Thus, the **Consumer Price Index (CPI)** increased by **9.1% YoY** in June, which was the greatest acceleration in the **last 40 years.**

Energy sources and products have made the greatest contribution to the acceleration of prices by components. For example, the fuel cost jumped by 60% in annualized terms and by 11.2% compared to last month.

Food has become more expensive by 10.4% than a year earlier. According to the latest forecast in June of this year, the US Federal Reserve expects the country's inflation rate to average 5.2% in 2022 and 2.6% in 2023, with an average annual target of 2.0%.

In general, as noted by the Organization for Economic Cooperation and Development (OECD), America is ahead of other G7 countries in terms of inflationary pressure on the economy.

The US Federal Reserve is pursuing a "hawkish" monetary policy

Key rate

The tapering of soft monetary policy is taking place against the background of an unprecedented acceleration of inflation in the American economy. Following the meeting on July 27, the US Federal Reserve raised the interest rate by 0.75 p.p. to 2.25-2.50%. This is the second similar increase in the key rate. The US regulator raised the rate earlier in June of this year.

According to the US Federal Reserve's Open Market Committee forecasts, the key rate in 2022 may reach 3.25-3.50%.

Next year, the US regulator forecast to increase the key rate to 3.50-3.75%.

In general, the tightening of monetary policy began in March of this year, when the US Central Bank raised the rate by 25 basis points to 0.25-0.50%.

Additionally, the American Central Bank has begun to reduce the volume of assets on its balance sheet since June 1.

This year, three more meetings of the US Federal Reserve's Open Market Committee will be held, where will be determined the direction of monetary policy of the world's largest economy.

Eurozone economy regains growth

Key indicators of the Eurozone economy

The Eurozone economy is recovering its growth, which distinguishes the Euroblock from the United States.

However, some Euro area member states also show signs of stagnation and recession.

GDP	Inflation	Unemployment	ECB
4.0% YoY	8.9% YoY	6.6% YoY	0.50%

The EU economy is showing recovery despite external shocks

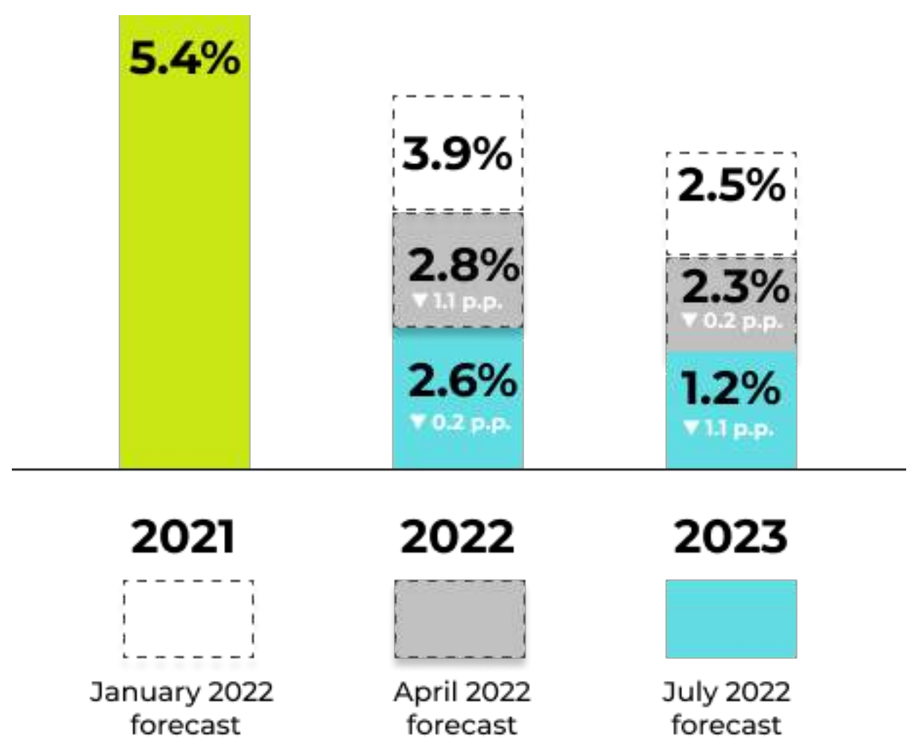
GDP

According to Eurostat, the **Eurozone GDP growth rate** in the second quarter of this year amounted to 0.7%. Three months earlier, the figures were equal to **4.0% in annualized terms.** The GDP growth exceeded market expectations over the period. So, on average, industry analysts predicted an increase in the Eurozone economy by 0.2% in the second quarter and in quarterly terms – by 3.4% YoY.

By the states of the Eurozone (19 countries), the greatest growth was recorded in Spain (+1.1% QoQ), Italy (+1.0% QoQ), and France (+0.5% QoQ). After an increase of 0.8% in the first three months of this year, showing zero growth in the second quarter **Germany,** Europe's largest economy, **entered stagnation.** The country may be facing a recession.

At the same time, emanating from the military conflict in Ukraine economic, geopolitical and energy shocks lead to a contraction of the economies of the Eurozone member states. Thus, according to the latest IMF forecasts in July, after an impressive acceleration of 5.4% a year earlier, **GDP growth rate will drop to 2.6%** of the euro block in 2022. In 2023, the **Eurozone economy will continue to slow down,** declining by 1.2% in annualized terms. Geopolitical tensions around Ukraine, mutual exchange of sanctions with Russia, and a drop in economic growth in China - the largest trading partner of the EU, slow down the growth rate of Eurozone GDP.

IMF forecast for the Eurozone GDP growth



Unemployment and inflation in the Eurozone are at high levels

Unemployment

The unemployment rate in the Eurozone shows a downward trend. Thus, according to the latest data, falling by 0.2 p.p. compared to April of this year, the unemployment rate was 6.6% in May 2022. And compared to September 2020, when this figure was a record 8.6%, the unemployment rate dropped by 2.0 p.p. straight.

According to the OECD forecasts, the Eurozone unemployment rate will further decrease to 7.1% this year against 7.7% a year earlier. And it is expected to be 7.4% next year.

However, the social well-being of Europeans and the unemployment rate are affected by external trade, economic and geopolitical factors, the volatility of world commodity prices, the monetary policy of the ECB and the dynamics of GDP.

Inflation

Inflation in the Eurozone member states has reached a new **historical high** since 1997. Thus, the CPI there rose to 8.9% in annualized terms from 8.6% in the previous month at an average annual target of 2.0%. In the key centres of the European economy, the July CPI (YoY) was: 7.5% in Germany, 6.8% in France, and 7.9% in Italy.

Energy sources, food and services make the greatest contribution to the **acceleration of prices** in the eurozone. Thus, fuel raw materials have risen in price by an average of 40% since the beginning of the military conflict in Ukraine. Gas prices on European commodity exchanges are at historically high values. Thus, the cost of Brent crude oil has risen to $ 110 per barrel, and amid a decline in supplies from Russia, gas price is still above $ 2,100 per thousand m3. In addition, a ban on the Russian coal supply to the European Union came into force on August 1 of this year.

The ECB is pursuing a more cautious monetary policy

Key rate

The European Central Bank (ECB) is following in the wake of the "hawkish" monetary policy of the US Federal Reserve, the Bank of England and financial regulators of several other developed countries.

It is called for by geopolitical, energy and economic volatility on the world stage, which increases inflationary risks in the euro area.

In the face of record high inflation, the ECB has begun to taper the super-soft monetary exchange rate. So, in July this year, the European central bank raised the key rate by 50 b.p. to 0.5% per annum for the first time in 11 years, thereby interrupting the zero and negative rates period.

The Head of the ECB emphasizes that the tightening of monetary policy can be prolonged while maintaining persistently high prices.

At the same time, the adjustment of monetary policy in the euro block, which consists of 19 disparate member states, seems to be more complex and delicate work than in other leading centres of the world economy. Along with Germany and France - the economic vanguards of the eurozone, the Monetary Union also includes Greece, Italy and Spain, whose public debt already accounts for 100% of GDP. Along with the key interest rates increase of the ECB, the public debt management of these countries will also grow. According to consensus forecasts, the ECB's key rate is expected to reach 1.5% this year, increasing to 1.8% in 2023.

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The UK economy shows stagflationary and recessionary signs

Key indicators of the British economy

The UK economy is on a stagflationary or recessionary trajectory.

The country's economy is negatively affected by the exit from the EU and geopolitical uncertainty.

-0.6% YoY

9.1% YoY

3.8% YoY

1.25%

Leaving the EU and geopolitical tensions negatively affect the British economy

GDP

The military conflict in Ukraine extends not only to continental Europe but also to other developed centres of the world economy, such as the United Kingdom. According to the estimates of the British Chamber of Commerce, the **quarterly GDP growth** of the United Kingdom in the second and third quarters of this year in quarterly terms **is expected to be zero.**

The British economic growth rate will go downwards to the negative zone shrinking by 0.2% by the end of the year.

According to the latest IMF July forecast, the economy of the United Kingdom will shrink more than twice: from 7.4% by the end of 2021 to 3.2% this year.

According to conservative forecasts of the IMF, the growth rate of the British economy will drop to 0.5% in 2023. And following the OECD's more pessimistic June forecast, the UK's GDP growth rate will be zero next year.

The United Kingdom may enter stagnation or recession earlier than industry experts and analysts predict.

The UK is one of the largest countries in Europe with a declining GDP

The trajectory of the British economy is under the negative influence of external and internal factors.

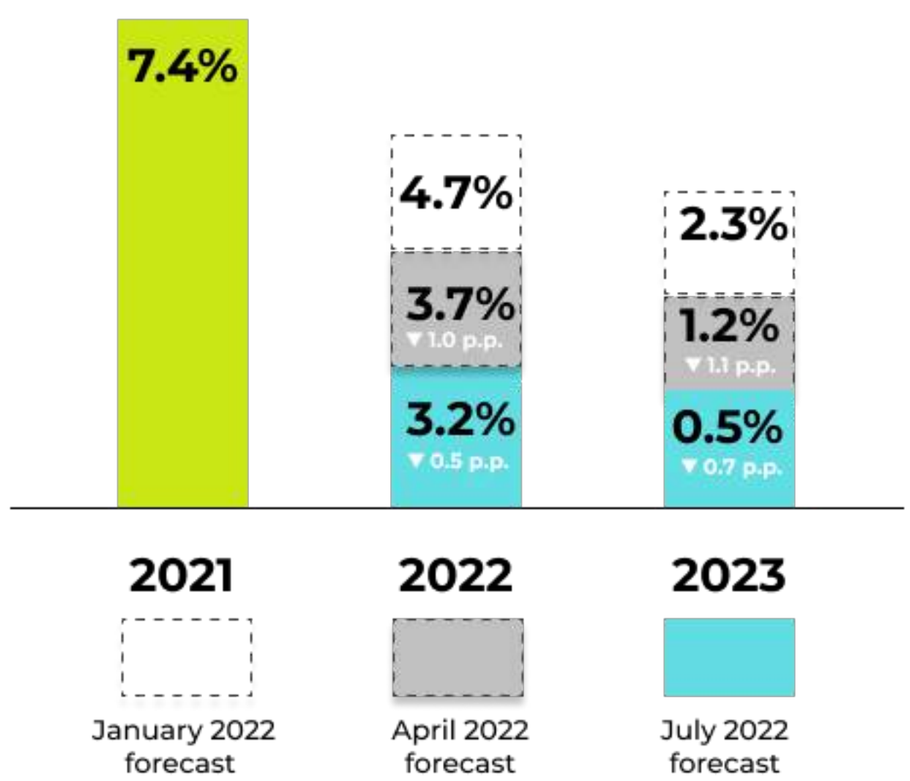
The United Kingdom officially left the European Union on January 1, 2021. New stricter rules for economic and trade relations between London and Brussels have officially come into force.

A large share of energy imports in the consumption structure increases the economic costs for the “Foggy Albion".

The UK government plans to completely abandon the import of Russian fuel by the end of 2022. Moscow supplies 27% of coal, 11% of oil and 4% of gas used in the country.

Consumer confidence and expenditure are falling in the Kingdom amid a rapid rise in inflation, which cools economic activity. Thus, the Consumer Confidence Index fell to 93.2 in June, which is the lowest value since 2014.

IMF forecast for the UK GDP growth



Unemployment is at an all-time low level, but inflation is breaking records

Unemployment

Large-scale government support during the coronavirus pandemic has helped to protect the British **labour market from spurts of unemployment.** Moreover, despite the ongoing pandemic, Britain is experiencing an acute manpower shortage. In March-May of this year, unemployment in the country remained at the level of February-April at 3.8%.

Unemployment is at its **lowest level** in the last 50 years. It is expected that unemployment in the United Kingdom will be 3.8% by the end of 2022. And will increase by 0.5 p.p. to 4.3% in 2023.

However, the hawkish" monetary policy of the Bank of England and the British economy's slide into stagnation or recession may lead to a sharp reduction in jobs in various sectors of the economy and spurts of unemployment.

Inflation

Record low unemployment and a high share of imports, the structure of which about 36% is energy consumption, push inflation in the UK to new historical highs. Compared to 9.0% in April this year, the **CPI grew by 9.1%** in 12 months in May.

The Bank of England expects the CPI to exceed 11% in October 2022. According to the OECD's more conservative forecasts, inflation in the United Kingdom will rise to 8.8% this year and decrease to 7.4% in 2023. The unprecedented rise in consumer prices in the Kingdom is precipitated mainly by **skyrocketing price of energy resources on world markets,** which is shifted to domestic prices. For example, the cost of motor fuel in May of this year increased by 33% in annualized terms, which was the maximum annual spike since the beginning of statistics (1989).

Bank of England raises the key rate to rein in high inflation

Key rate

The Bank of England is consistently and systematically moving away from ultra-soft monetary policy to prevent inflationary overheating in the economy. Thus, following the results of the June meeting, the Financial Conduct Authority r**aised the interest rate** by **25 basis points to 1.25%,** which is the fifth increase since December last year.

Additionally, within the phasing out of quantitative easing, the Bank of England stopped reinvesting proceeds from securities repayment in new purchases of securities on the market. According to the latest Reuters poll in July, the rate of the Central Bank of England will reach or exceed 2.5% in 2022, which is 0.75 percentage points higher than the previous forecast.

China and India are the two main dominants in emerging markets

Developing countries

1. Followed by recovery GDP decline.
Most of the economies of developing countries and emerging markets are waiting for a period of economic recession in 2022, followed by a recovery in the next year.

This distinguishes the trajectory of the economies of developing countries, where an economic reversal and after a recession recovery is still expected from developed countries, where, according to consensus forecasts, slowdown, stagnation and recession will prevail. In the forecasts, Russia is an exception in terms of economic growth. The IMF and other international organizations predict a trough in Russian GDP in 2022.

2. Global prices hike have also affected emerging markets.
The inflationary wave has also hit developing countries and emerging market states.

The **price hike** in the second quarter amounted to **9.8%** in these centres of the world economy. As in developed countries, by components of inflation, the greatest contribution to the rapid price appreciation was made by the rise in prices of food and energy resources.

However, unlike in developed countries, wage growth failed to keep pace with the rate of acceleration of inflation, which led to a decrease in the purchasing power of households.

China and India are increasing their influence on the global economy

3. Official unemployment is low, but in reality, it is probably higher. The coronavirus pandemic has dealt a significant blow to the labour market and employment in developing countries and emerging markets. Low rates of vaccination and strict and prolonged quarantine measures without the proper financial support of employees and employers from the state led to a large amount of labour freed-up in the labour market during the pandemic.

In addition, the emergence of new COVID-19 strains and sub-strains forces the authorities of some developing countries (for example, China) to impose strict quarantine, which also negatively affects employment and the labour market in the country.

4. Economic growth is the prerogative of Central Banks in developing countries. The monetary policy of developing countries and emerging market countries is aimed at stimulating economic growth and maintaining maximum employment in the labour market, even if the side effects of such a monetary strategy are to accelerate inflation.

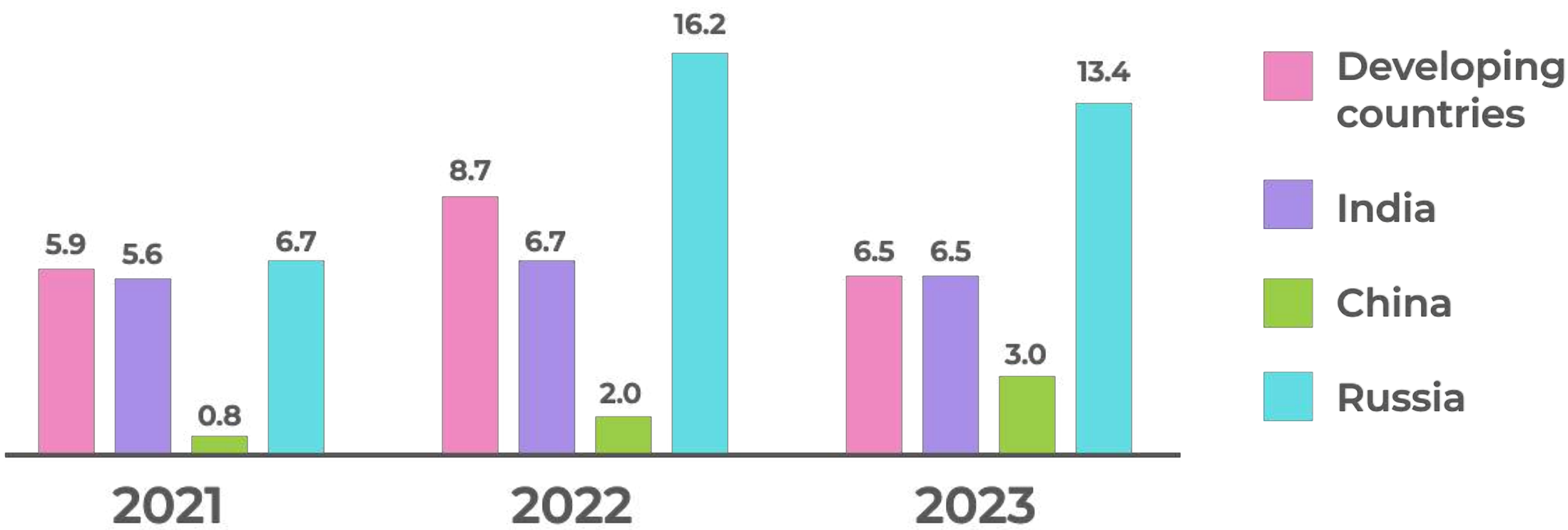
Despite the ongoing hyperinflation in these countries, Turkey and Argentina are among the strongest examples of an ultra-soft monetary policy.

Thus, according to the OECD's June forecasts, hyperinflation will reach 72% in Turkey and 60% in Argentina by the end of this year.

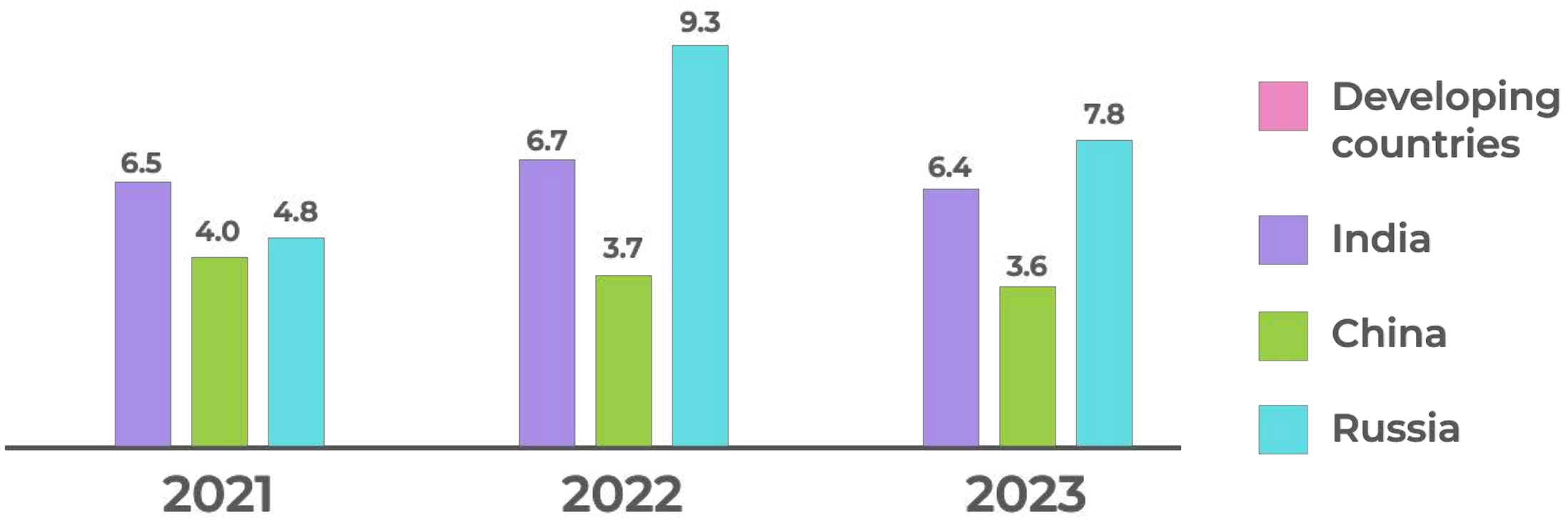
The key economic indicators of developing countries

Real GDP growth in developing countries, %

Inflation rate in developing countries, %



Unemployment rate in developing countries, %



JUSAN ANALYTICS

China is the second largest economy in the world, which may overtake the United States by 2030

The key indicators of the Chinese economy

China's contribution to global GDP is $20 trillion.

The country's GDP growth rates are at the lowest values over the past few years.

GDP

0.4% YoY

Inflation

2.5% YoY

Unemployment

5.5% YoY

Bank of China

3.7%

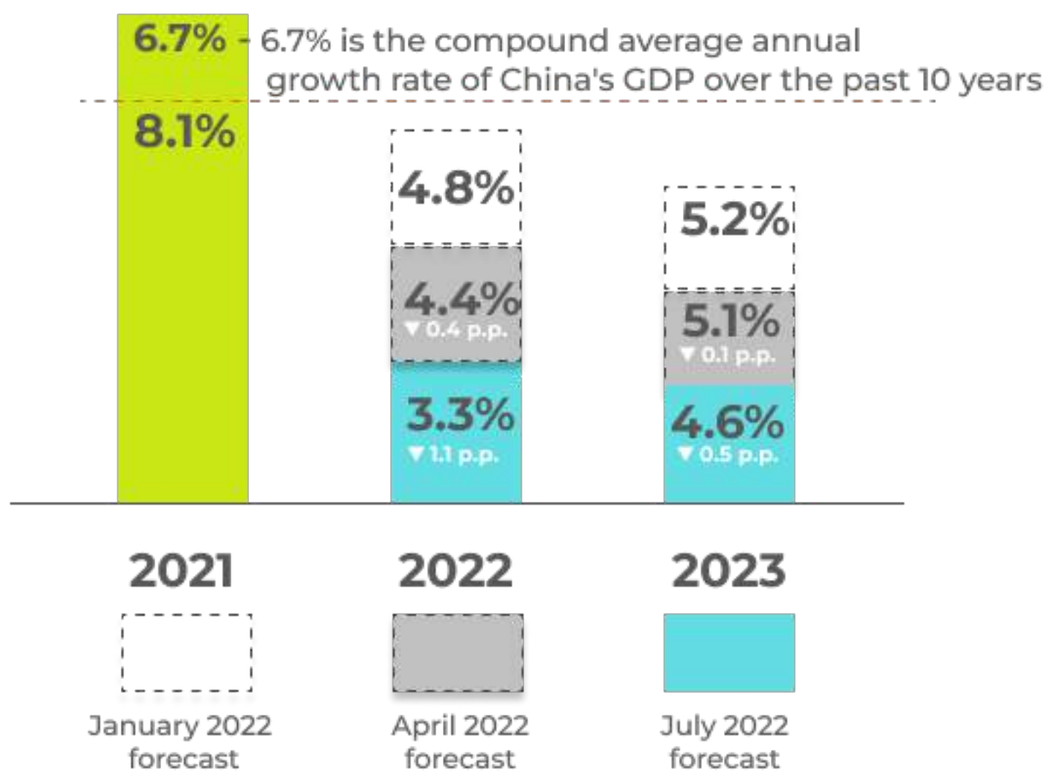
China is one of the two main engines of the global economy

GDP

International organizations publish disappointing forecasts of the prospects of the Chinese economy. The ongoing outbreaks of different strains and sub-strains of coronavirus in separate parts of the country, combined with strict quarantine measures and a “zero tolerance” policy in the fight against the pandemic, are hampering the economic growth of China. In addition, the projected GDP growth rates of the country will decrease due to the cooling of import demand in developed countries, which remain the key sales markets of the People's Republic of China. The driving up costs of raw materials, particularly energy resources, also slows down the growth rate of the Chinese GDP.

In this regard, amid negative changes in the internal and external environment, the IMF revised the July forecast of the world's second-largest economy significantly downwards. This year, the Chinese economy will grow by 3.3%, which is lower than the April forecast by 1.1 p.p. The pace of China's economic growth in 2022 will be at a record low over the past 40 years, excluding the coronavirus period in 2020, when Chinese GDP growth was 2.2%. The July forecast for 2023 was lowered from 5.1% in April to 4.6%. For comparison, the growth of the Chinese economy was 8.1% in 2021.

IMF forecast for the China’s GDP growth



Official unemployment and inflation rates in the People's Republic of China are at managable levels

Unemployment

According to official data, the unemployment rate in Chinese cities in June was 5.5%, compared to 5.9% in May this year. In general, for 6 months of 2022, unemployment in the country's cities amounted to 5.7%. During this period, about 6.5 million new jobs were created.

Despite the ongoing outbreaks of coronavirus and the strict restrictions imposed, the government of the country is taking active measures to stimulate entrepreneurship and create new jobs, organize online and offline events to help in job hunting, as well as strengthen support for job searching key groups.

Inflation

Due to uncertainty and volatility in international commodity markets, global price growth also affected China. Thus, the Consumer Price Index (CPI) in China in June of this year increased by 2.5% in annualized terms, which is higher than forecasted.

The price increase in June was the highest since July 2021. The rise in the food price has made a significant contribution to the growth of inflation. Thus, food products in June increased by 2.9% YoY, non–food products - by 2.5%, and consumer goods – by 3.5%. The cost of services increased by 1.7% in annualized terms.

The Bank of China continues to adhere to a stimulating monetary policy

Key rate

In the face of international volatility and increasing global challenges, the People's Bank of China continues to maintain a soft monetary policy. Thus, in July of this year, the country's financial regulator kept the one-year loan prime rate (LPR) at a 3.7% per annum level. In December last year, the indicator was reduced by 0.5 p.p., and in January this year – by another 0.10 p.p., and by the end of July this year remained unchanged.

With more room for manoeuvring against the background of the moderate inflation in the country, the Chinese regulator has focused its regulatory tools on supporting the country's pandemic-affected economy. The growth rate of the Chinese GDP shows disappointing dynamics.

At the same time, China's monetary policy may change as Chinese GDP growth recovers.

Russia is going through one of the heaviest declines in GDP due to the international sanctions

The key indicators of the Russian economy

The share of the Russian economy in global GDP is $1.8 trillion. The country has a strong position in key commodity markets.

International sanctions are hindering Russia's long-term socio-economic development. The country is adapting to the new economic reality.

-4.0% YoY

16.7% YoY

3.9% YoY

8.5%

Internal and external shocks have significantly slowed down Russia's economic development

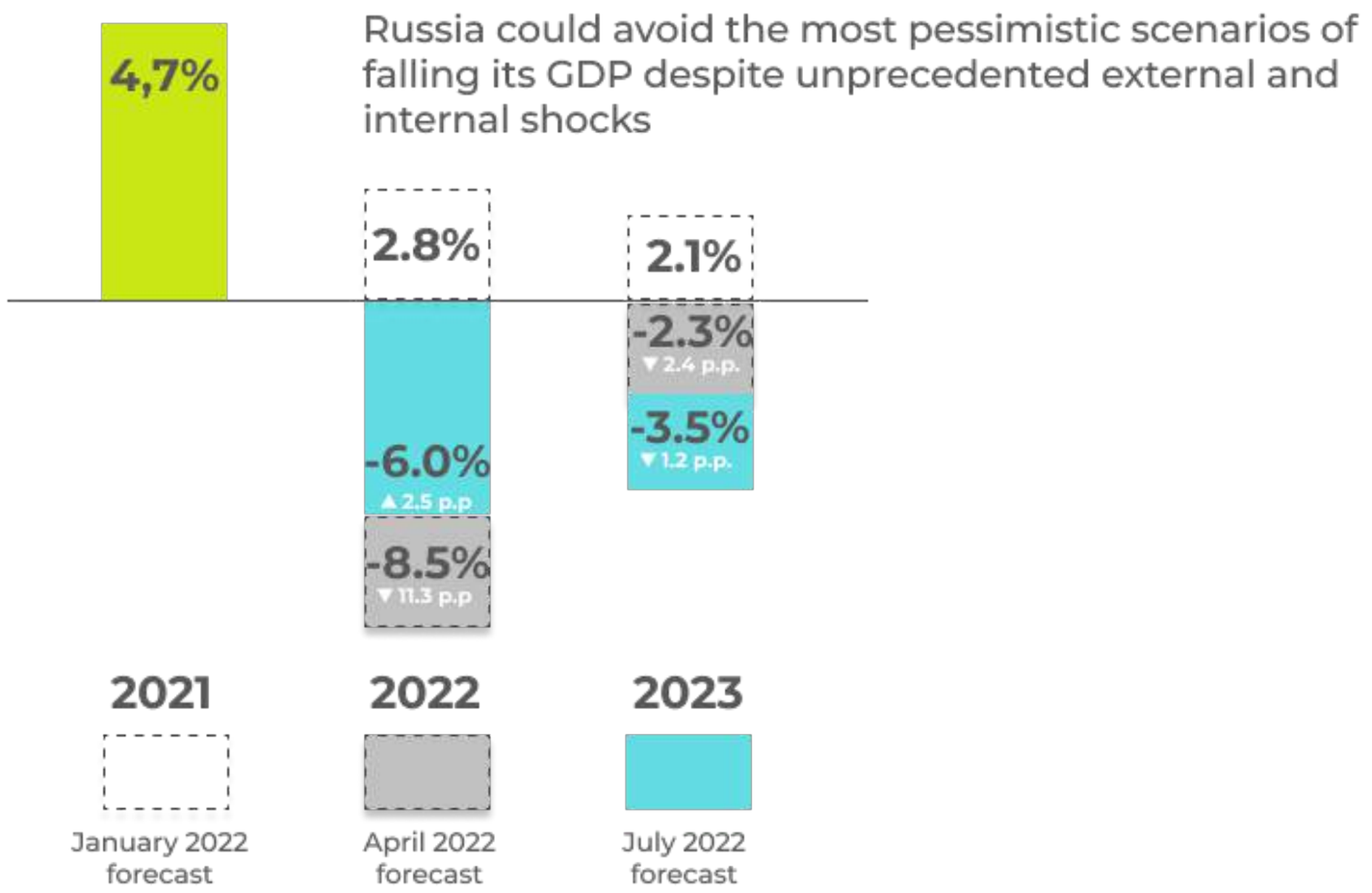
GDP

The Russian economy is under numerous external and internal shocks. International sanctions pressure from most governments and the corporate sector led to the decline of Russian GDP. This is the sharpest decline that the Russian economy has experienced since 2009. Thus, according to the latest forecasts, the Russian economy is expected to decline this year to 10% (OECD) and 6% (IMF).

And the Bank of Russia predicts that by the end of 2022 the decline of the economy will be approximately in the range of 4-6% in annualized terms.

Industry experts note that Russia's strong position in key commodity markets helps the Russian government to offset the impact of the most pessimistic socio-economic scenarios.

IMF forecast of Russia's GDP growth



Inflation in the Russian Federation is due to international sanctions

Unemployment

International sanctions have triggered one of the biggest-ever corporate boycotts. More than 1,000 international corporations left the Russian market, and according to various estimates, up to 350 thousand Russian citizens worked there.

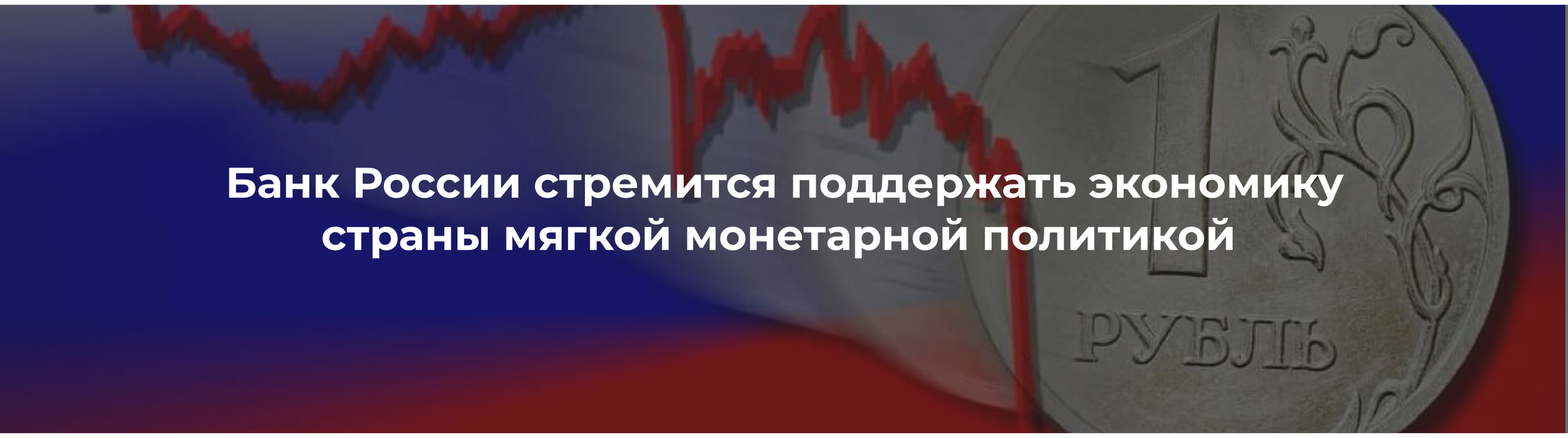
At the same time, thanks to government and corporate support measures (acquisition of foreign assets and continuation of operations under other brands), the Russian labour market has preserved stability, predictability and a high level of employment. Thus, according to official data, by the end of June this year, unemployment in Russia has not changed, remaining at 3.9%, which is the lowest value since 1991.

Inflation

Despite several unprecedented external and internal challenges, since the beginning of the year, prices in Russia have increased by 11.7% by the end of June. According to the latest data from the Ministry of Economic Development of the Russian Federation, as of July 1 of this year, annual inflation was 16.2%.

However, under current conditions of a significant drop in consumer demand, some recessionary phenomena, which have a deflationary effect on prices, are beginning to be traced.

Seasonal food factors have a restraining effect on inflation. In addition, the Russian government banned the export of some food and other goods, which made it possible to provide for the domestic market and avoid shortages of key products. The target average annual inflation rate in Russia before the invasion of Ukraine was at the level of 4%.

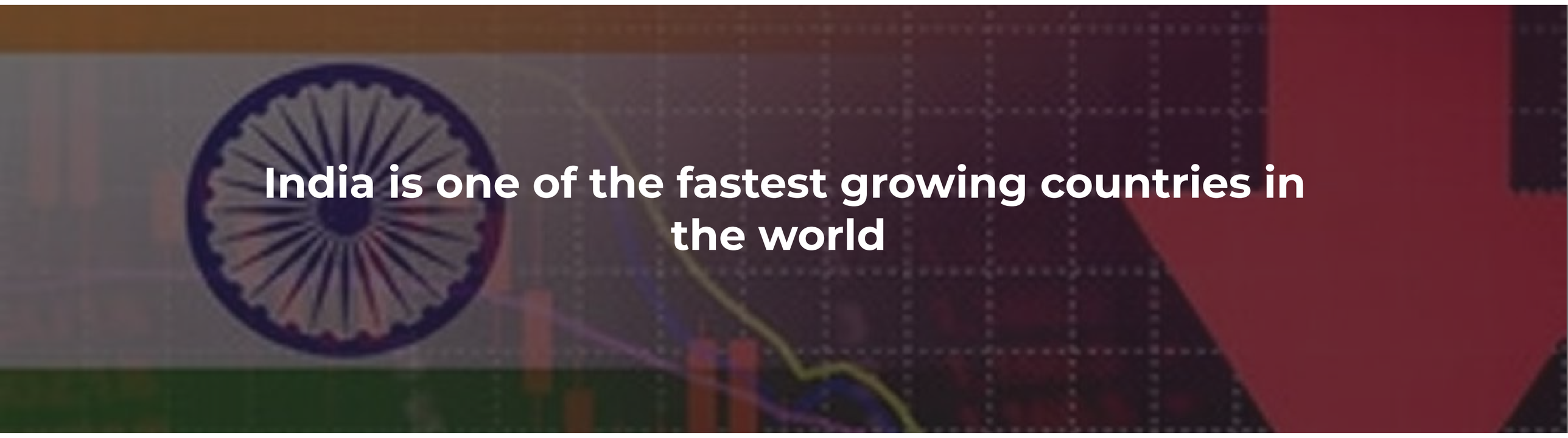


Банк России стремится поддержать экономику страны мягкой монетарной политикой

Key rate

In February of this year, amid the escalation of the Russian-Ukrainian conflict, the Bank of Russia sharply raised its key rate to 20%. And the interest rate of the Russian central bank has dropped five times since that period. So, in June of this year, the Central Bank of the Russian Federation announced a decision to reduce the base rate immediately from 9.5% to 8.5%.

Under conditions of international isolation and the reorientation of the Russian economy to new markets in friendly countries, the Central Bank of Russia seeks to support the recovery rates of Russian GDP growth. The relative stabilization of prices in the domestic market unties the Russian regulator's hands to conduct a stimulating monetary policy.



Key indicators of the Indian economy

India's share of global GDP is $3.3 trillion. The country is an active member of BRIC (Brazil, Russia, India, China, and South Africa).

The country could use its competitive advantages and find its niche in the global economy during the pandemic.

4.1% YoY

7.0% YoY

6.8% YoY

4.9%

India maintains high GDP growth rates despite the pandemic

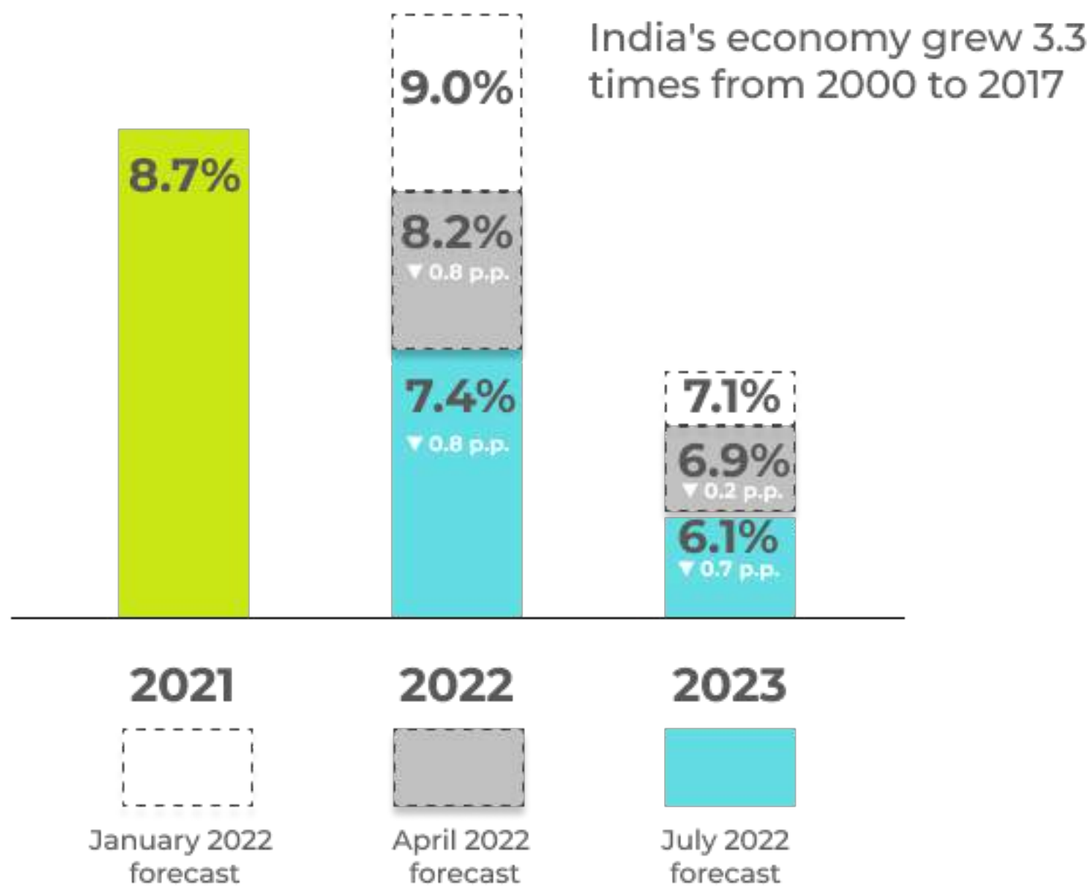
GDP

In terms of GDP growth in the coming years, India's economy is predicted to be beforehand with most developing and emerging market economies. India will become the fastest growing country in the world, with projected GDP growth rates for 2022 and 2023 at 7.4% and 6.1%, respectively. Under rapidly changing conditions of the global economy and geopolitics, India has occupied a niche as one of the world market leaders in pharmaceuticals, information technology, financial services and production outsourcing.

The path of the country's economic development may be negatively affected by the increase in coronavirus infection, new abnormal temperature records, the acceleration of world energy sources prices and disruptions in global logistics chains.

Thus, the growth rate of Indian GDP in the first quarter of this year amounted to 4.1%. In comparison, the Indian economy grew by 5.4% year-on-year in the previous quarter.

IMF forecast of India's GDP growth



India managed to maintain lower levels of unemployment and inflation

Unemployment

In July of this year, the unemployment rate in the country fell to 6.8, which was the lowest value in the last 6 months. A month earlier, the overall unemployment rate in urban and rural areas was equal to 7.8%.

Following the latest forecasts by S&P Capital IQ, unemployment in India is expected to reach 6.7% in 2022 and 6.4% next year.

For comparison, the unemployment rate in the country was fixed at 6.5%, according to the results of last year. Despite the predicted stability and predictability, the country's employment market is still highly vulnerable to arising time-to-time outbreaks of the coronavirus pandemic.

Inflation

Under ongoing macroeconomic instability, the Government of India has managed to stabilize and maintain the inflation rate so far in a relatively acceptable range compared with other developing countries. Thus, consumer prices in July of this year increased by 7.0% in annualized terms.

The Reserve Bank of England's annual inflation target is in the range of 2-6%. The current level of consumer prices has exceeded the targeted inflation range for 6 months straight. For comparison, according to official data of the Indian authorities, the inflation rate in the country at the end of last year within the target orientation at an average annual level was 5.1%.

Bank of India balances between stimulating GDP and reducing inflation

Key rate

Against the background of increasing inflationary pressure, the Reserve Bank of India, following the results of the last meeting in June this year, raised the rate to 4.9% per annum. This is the second rate increase by 0.5 p.p. in a row.

A month earlier, the Central Bank of India also decided to increase the key rate by 40 basis points to 4.4%, which was the first increase in the interest rate since 2018.

The tightening of the country's foreign exchange rate is caused by geopolitical instability in the world, the growth of world quotations of energy sources and other commodities on international markets, as well as disruptions in global supply chains.

Altogether these external factors put pressure on inflation within the country, which has been at the level of 7% for 6 months and exceeds the annual target inflation corridors in the range of 2-6%.

High volatility will still take place in the commodity markets

Commodity markets

Global commodity markets will be in a strong volatility state and uncertainty in the next 2 years.

Commodity prices spiked in the first half of this year amid the escalation of the military conflict in Ukraine and the restructuring of global transport corridors.

For most of the first half of this year, raw materials remained in the upper price ranges.

Caused by seasonal factors, an increase in key central bank rates and recessionary expectations in most developed and developing countries, some cooling is expected in commodity markets in the second half of this year.

However, the price acceleration of raw materials may resume with the deterioration of the geopolitical situation.

FORECASTS, USD

	2022	2023
Energy sources		
Brent crude oil	100	92
Food		
Seed	149	133,6
Corn	310	280
Industrial metals		
Aluminum	3400	3100
Copper	10100	9700
Lead	2300	2100
Nickel	28000	22000
Zinc	3700	3200
Precious metals		
Gold	1880	1700
Silver	24,2	22,5
Platinum	1110	1180

Source: The World Bank (April 2022)

The tightening of monetary policy leads to the strengthening of the currencies of developed countries

Foreign exchange markets

The increase in key rates of Central Banks of developed countries to fight inflation leads to the strengthening of the national currencies of the United States, the Eurozone and the UK.

The appreciation of reserve currencies of developed countries is shifted to the inflation and the loss of purchasing power of the national currencies of developing countries since these countries have a large share of imports from developed economies.

Under the unprecedented growth in world prices, we can expect that the main international reserve currencies will strengthen due to the continued increase in interest rates of key central banks of the world.

As a result, the national currencies of developing countries will be under moved-down exchange rate pressure and lose purchasing power.

Expert forecasts of the tenge exchange rate against foreign currencies

	IV Q 2022	2023	2024	2025	2026
US dollars	501	563	638	730	821
British pound	615	694	791	907	1025
Euro	522	601	696	807	919

Source: Bloomberg (April 2022)

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