FitchRatings

Global Economic Outlook - December 2023

Interest Rates Are Close to Peak, but Descent Will Be Shallow

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"Policy interest rates are close to reaching peaks but the pace of decline will be much slower and shallower than the ascent since early 2022. Rates are not going back to pre-pandemic levels, even in the medium term."

Brian Coulton, Chief Economist, Fitch Ratings

World growth has held up in 2023, driven by a normalisation of consumption in China and a pick-up in US growth, which have outweighed a sharp slowdown in Europe following the regional energy shock in 2022. However, with the full impact of recent monetary tightening still to be felt, China's property slump continuing, and the eurozone stagnating, Fitch Ratings expects world growth in 2024 to fall sharply to 2.1%. For 2023, Fitch has raised its world growth forecast by 0.4pp compared to September's *Global Economic Outlook (GEO)*, with the US up by 0.4pp to 2.4% and China by 0.5pp to 5.3%. Our 2024 world growth forecast is 0.2pp higher, with a 0.9pp increase in the US to 1.2% (with recession now avoided) outweighing a 0.4pp cut to eurozone growth to 0.7%.

Sharp US Slowdown Ahead but No Recession

US growth resilience reflects renewed fiscal easing, consumers' willingness to continue drawing on excess savings and robust private-sector finances. The impact of monetary tightening through the 'cash flow' channel of rising debt-service costs has been limited so far. Growth will slow sharply next year as household income and profits decelerate, credit and investment weaken and real interest rates rise, but we now expect it to remain positive through 2024.

Europe Stagnates as Credit and Exports Fall

Europe's economy has hardly grown this year and mild technical recessions are currently unfolding in the eurozone and UK. The terms-of-trade shock has eased, but falling world trade is now hitting eurozone exports while credit tightening is weighing on investment, as bank lending to companies falls. Rising real wages should boost consumption next year but recovery will be shallow.

China Struggling to Stabilise Property Sector

This year's re-opening boost in China will not be repeated and growth is forecast to slow to 4.6% in 2024. Policy support has been stepped up since August but this has gained little traction in stemming the collapse in housing sales and construction. Doubts about the efficacy of policy easing impart downside risks to growth.

Progress in Reducing Core Inflation

Core inflation has fallen slightly faster than anticipated, particularly in the eurozone. Core goods prices have stabilised globally as supply-chain pressures have eased. Services inflation and nominal wage growth have also fallen significantly in the eurozone but less so in the US and UK, where they remain high.

Central Banks Are in No Rush to Cut Rates

Central banks are nervous about declaring victory prematurely and will keep rates 'restrictive' for some time. The Fed is expected to raise rates one more time in January 2024 before keeping rates on hold until July and then cutting by 100bp by year-end. The ECB is expected to start easing in April, reducing rates by 75bp by year-end. By contrast, the Bank of Japan (BOJ) is expected to raise its policy rate next year. This would be the first tightening since 2007.

Related Research

Global Economic Outlook (September 2023)

Economics Dashboard: U.S. Households Will See Modest Increase in Debt Service by 2025 (November 2023)

Emerging-Market Growth Potential Weakens as China Slows (October 2023)

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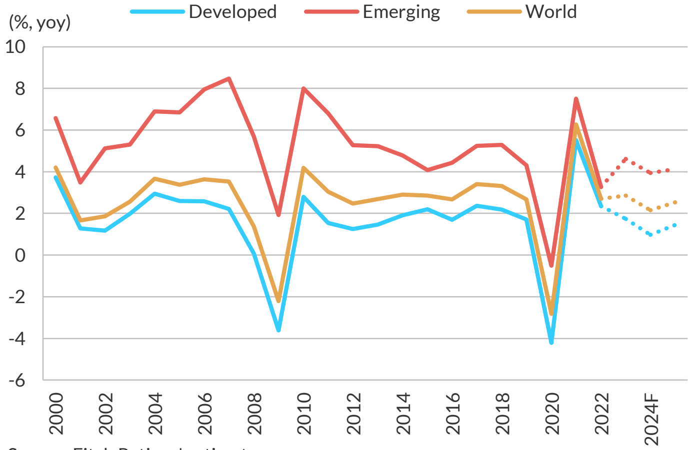
Global Forecast Summary

(%)	Annual Average 2018-2022	2022	2023F	2024F	2025F
GDP Growth					
US	2.2	1.9	2.4	1.2	1.4
Eurozone	1.3	3.4	0.5	0.7	1.7
China	5.3	3.0	5.3	4.6	4.6
Japan	-0.1	0.9	2.0	0.8	0.7
UK	1.1	4.3	0.5	0.3	1.8
Developed [a]	1.5	2.4	1.7	1.0	1.5
Emerging [b]	4.0	3.3	4.6	3.9	4.1
Emerging ex China	2.5	3.6	3.6	3.1	3.6
World [c]	2.4	2.7	2.9	2.1	2.5
Inflation (end of period)					
US	3.6	6.5	3.3	2.6	2.4
Eurozone	2.8	9.2	2.9	2.5	2.0
China	2.1	1.8	0.0	0.7	1.5
Japan	0.7	4.0	3.5	2.5	2.0
UK	3.4	10.5	4.7	3.0	2.5
Interest Rates (end of period)					
US	1.40	4.50	5.50	4.75	3.50
Eurozone	0.15	2.50	4.50	3.75	3.00
China [d]	3.07	2.75	2.50	2.35	2.35
Japan	-0.10	-0.10	-0.10	0.10	0.25
UK	0.64	3.50	5.25	4.50	3.50
US 10 Year Yield	2.05	3.88	4.60	4.30	4.00
Exchange Rates and Oil					
Oil (USD/barrel)	69.6	98.6	82.0	80.0	70.0
USDJPY (end-period)	113.5	132.7	150.0	145.0	135.0
USDEUR (end-period)	0.88	0.94	0.93	0.93	0.93
GBPUSD (end-period)	1.30	1.21	1.25	1.25	1.20
USDCNY (end-period)	6.72	6.99	7.15	7.30	7.30

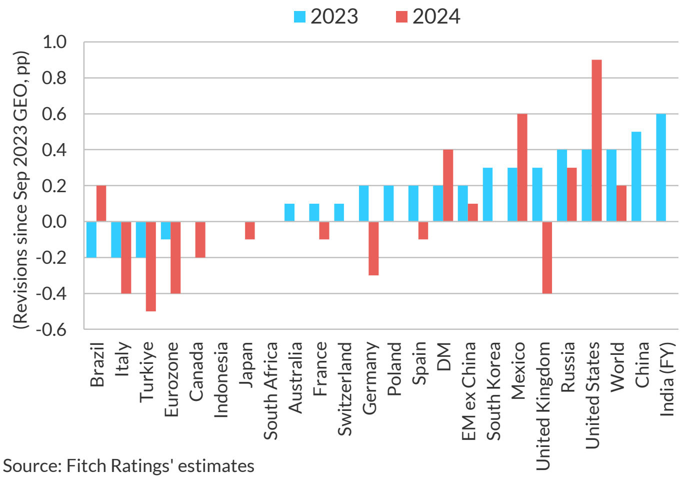
[a] US, Japan, France, Germany, Italy, Spain, UK, Canada, Australia and Switzerland
[b] Brazil, Russia, India, China, South Africa, Korea, Mexico, Indonesia, Poland and Turkiye
[c] 'Fitch 20' countries weighted by nominal GDP in US dollars at market exchange rates (three-year average)
[d] One-year Medium-Term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

World GDP Growth



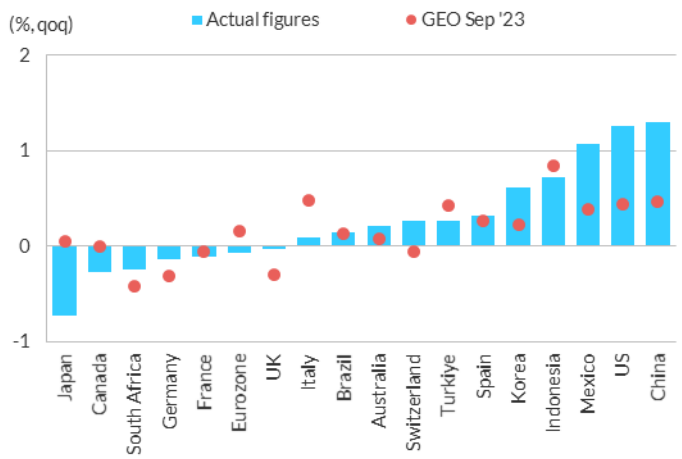
Source: Fitch Ratings' estimates

Revisions to Annual GDP Growth Forecasts



Source: Fitch Ratings' estimates

GDP 3Q23 Outturns vs Forecasts



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

Forecast Highlights

World growth has held up well in 2023. Chinese consumer spending patterns have normalised after the removal of Covid-19 pandemic restrictions at the start of the year and US growth has picked up on renewed fiscal easing and surprisingly resilient household spending. This has outweighed a sharp slowdown in Europe – in the aftermath of the severe regional energy shock in 2022 - and has helped global growth to move up to 2.9% from 2.7% last year. But Fitch expects world growth to slow sharply in 2024 to 2.1% as the full impact of recent monetary tightening feeds through to private spending, consumption growth in China fades - with investment and export prospects there remaining weak- and the eurozone recovers only marginally. Global growth is likely to recover in 2025 on interest rate cuts starting in 2024, but will remain below trend on a relatively weak US recovery.

Fitch has raised its 2023 world growth forecast by 0.4pp relative to the September GEO. This reflects a 0.5pp revision to China – as recent data showed consumer spending and labour market conditions improving after the summer – and a 0.4pp increase in the US. We have also raised growth in emerging markets excluding China by 0.2pp. This reflects stronger-than-expected 3Q23 GDP outturns in India, Russia and Mexico and upgrades to annual forecasts of 0.6pp, 0.4pp and 0.3pp, respectively. Also, we revised up UK growth by 0.3pp after the economy avoided a downturn in 3Q23, though a mild recession is still anticipated to commence in 4Q23. The eurozone forecast is little changed but activity continues to stagnate, with GDP declining by 0.1pp in 3Q23 and a similar decline expected in 4Q23. This would place the block in technical recession with growth at just 0.1% yoy in 4Q23.

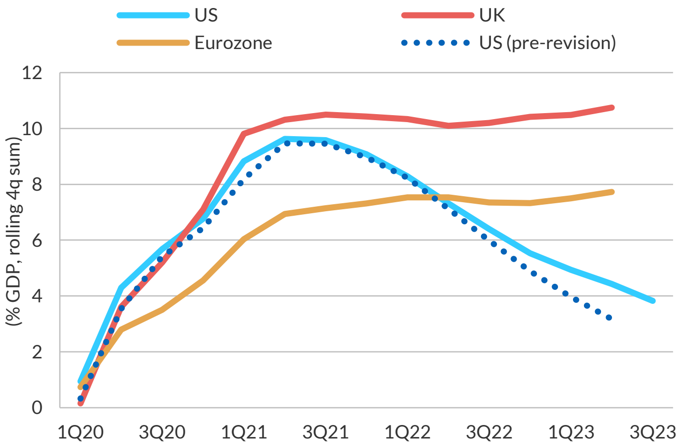
We have raised our forecast for global growth in 2024 by 0.2pp as a large 0.9pp upward revision to the US is partly offset by a 0.4pp cut to the eurozone growth outlook. We still expect US growth to slow sharply to 0.4% yoy in 4Q24 (from 3.0% in 3Q23) but we no longer anticipate declines in GDP on a quarterly basis. We expect eurozone growth to pick up mildly in 2H24 as declining inflation boosts real wages and consumption. But the downturn in world trade and tightening in credit conditions is taking a bigger toll on exports and investment than we anticipated in the September GEO, and Italy and Germany have seen sizeable cuts in growth prospects. We have lowered UK growth to 0.3% from 0.7% as credit to companies shrinks and household debt service is expected to rise much more sharply than in the US or eurozone. By contrast, we have raised Mexico's forecast by 0.6pp on booming domestic investment and improved US prospects.

For 2025, we have lowered world growth to 2.5% from 2.8% mainly reflecting a cut to US growth to 1.4% from 2.1% in the September GEO. A more protracted impact of monetary tightening points to a milder slowdown in 2024 but also a weaker subsequent recovery. We now forecast two consecutive years of below-trend US growth as current inflationary imbalances unwind. We also have trimmed China's 2025 forecast by 0.2pp following revisions to our estimates of potential growth and are more pessimistic about Germany.

Understanding US Growth Resilience

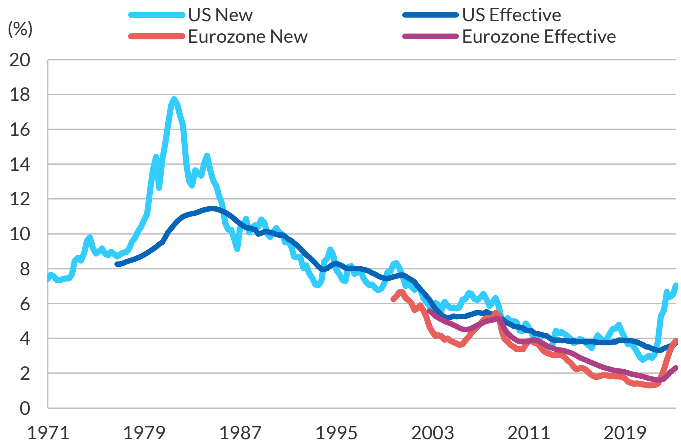
The surprising resilience of the US economy in the face of higher interest rates partly reflects renewed fiscal policy easing. Congressional Budget Office estimates show the federal deficit

Cumulative Household Excess Savings



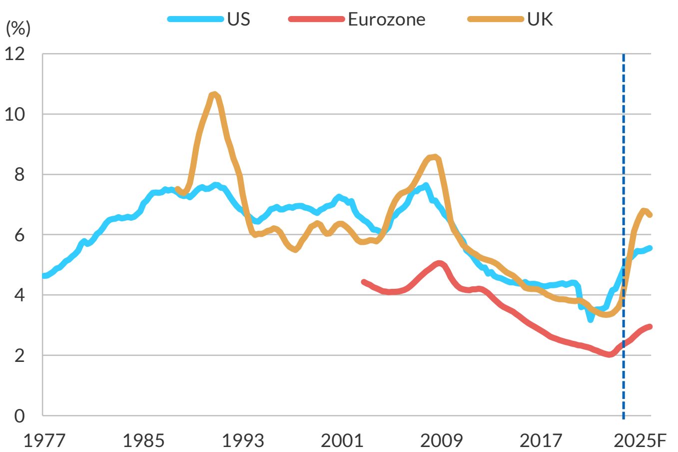
Source: Fitch Ratings, ONS, BEA, Eurostat, Haver Analytics

Mortgage Interest Rates - New and Effective



Source: Fitch Ratings, ECB, Freddie Mac, St Louis Fed, Haver Analytics

Household Interest Payments as % of Disposable Income



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

widened to 6.3% of GDP in the fiscal year ending 30 September 2023, up from 5.4% in 2022. The IMF's October 2023 Fiscal Monitor projects the US general government cyclically adjusted primary deficit to widen to 6.0% of GDP in 2023, from 4.1% in 2022, imparting a fiscal impulse to growth of just under 2% of GDP. Government consumption and investment grew by 4.7% in real terms in the year to 3Q23, contributing 0.8pp to GDP growth, a swift turnaround compared to 2021 and 2022 when public spending was a drag on growth. Meanwhile a sharp fall in household tax payments relative to 2022 has added around 2pp to household disposable income growth year to date.

The ongoing willingness of households to draw down buffers of excess saving has also been an important factor. The flow of household savings surged in 2020 and 2021 as pandemic restrictions supressed consumption and fiscal measures supported household incomes. This was echoed in the eurozone and the UK where cumulative excess savings reached 7% and 10% of GDP, respectively, by mid-2021. But the US has been unique in seeing the household savings ratio subsequently fell well below pre-pandemic norms as buffers were drawn down to support robust spending growth. Our previous analysis suggested diminished scope for further drawdowns but recent national accounts revisions have pushed up our estimates of the remaining stock of excess savings by about USD450 billion. With household sector liquid assets still high by historical standards, the savings cushion could continue to support consumer spending well into 2024.

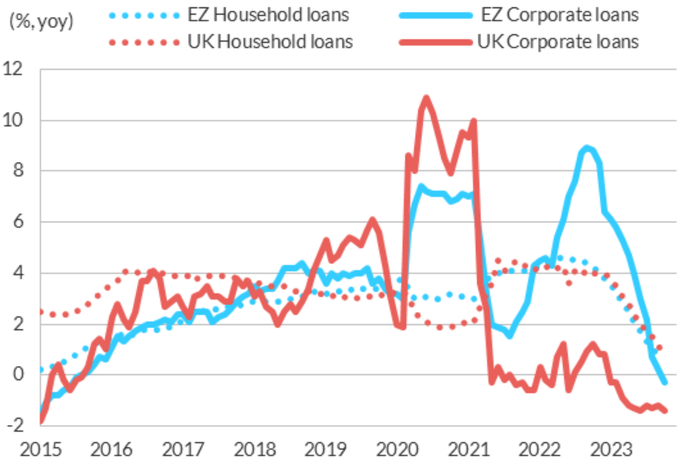
Private-sector finances were generally in good shape as Fed tightening began. Nearly a decade's worth of deleveraging after the global financial crisis was followed by massive fiscal support during the pandemic that supported household incomes and corporate profits, and saw the private sector's financial balance (the surplus of savings over investment) surge to a historic high of 15% of GDP. These surpluses have facilitated an expansion in net financial assets including liquid assets (deposits and money market funds), which are at historic highs relative to GDP. This has reduced vulnerability to interest rate shocks. Higher market rates have also been feeding through only slowly to household debt-servicing costs.

Monetary Transmission Working, but Slowly

Monetary tightening can affect aggregate demand through changing incentives to save and invest, squeezing borrower cash flow by raising debt-service costs, reducing banks' willingness to lend as funding costs rise, and by reducing asset prices. A prerequisite is that rising policy rates feed through to market interest rates faced by new borrowers. This is in little doubt, but evidence of the other channels at work is mixed.

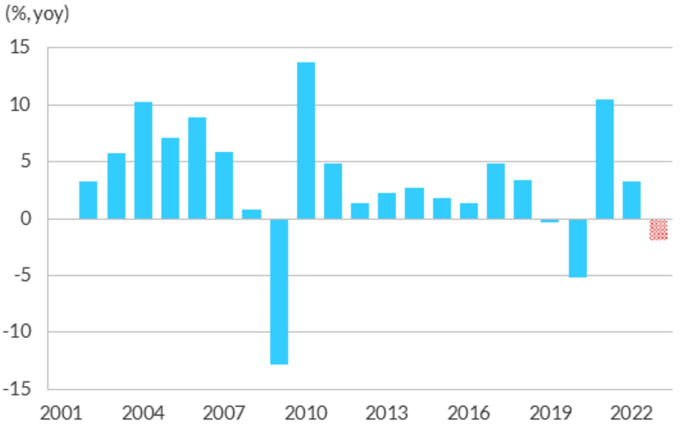
The clearest impact can be observed in the sharp slowdown in credit flows. A broad-based measure of US credit to the private sector – including loans and bonds – slowed to 3.7% yoy in 2Q23 from 8.4% in 1Q22, with a further slowdown in bank credit in 3Q23. Likewise, credit growth in the eurozone and UK has also slowed sharply over the past year, as outlined in our recent Macro-Financial Chart Pack. Senior Loan Officer (SLO) surveys suggest that weakening credit demand has played a big part in the slowdown, consistent with higher interest rates reducing incentives to invest. This is also reflected in the sharp downturn in residential investment and housing starts in the US, UK and eurozone since early 2022. SLO surveys also suggest that banks' willingness to supply credit has

Eurozone and UK Bank Lending



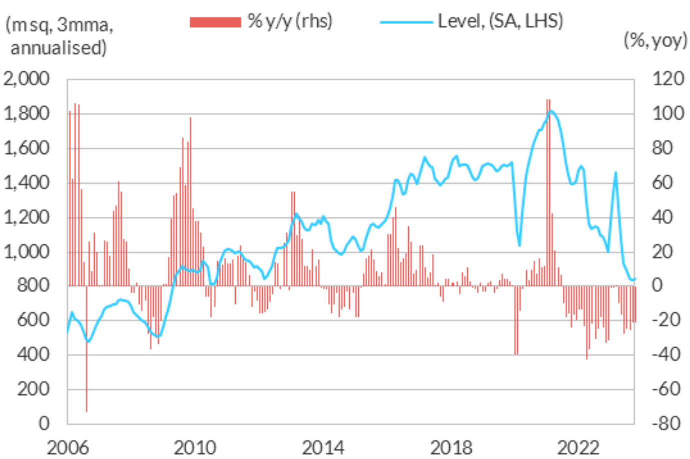
Source: Fitch Ratings, ECB, BoE, Haver Analytics

World Merchandise Trade Volume



Note: 2023 forecast based on the assumption of flat volumes in 4Q23 from Sep '23.
Source: Fitch Ratings, CPB

China New Housing Sales Volume



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

tightened, particularly in the US, where they have tightened credit standards on commercial and industrial loans for six consecutive quarters similar to 2001-2002 and 2008-2009.

However, evidence of monetary tightening affecting demand through the cash flow channel looks less convincing at this stage. The jump in interest rates on new mortgage loans is feeding through only slowly to higher debt-servicing costs for existing mortgage borrowers in the US and eurozone. This reflects the dominance of long-term fixed-rate mortgages in the US and in France and Germany. The effective rate on existing US mortgages (interest payments as a share of the outstanding debt stock) has only risen by 0.4pp since 4Q21 compared to a 4pp increase in the new 30-year mortgage rate. In the eurozone, the existing mortgage rate has risen by 0.7pp versus a 2.6pp increase in new borrowing rates. In the UK, by contrast, the effective rate has risen by 1.2pp compared to a 3.4pp rise in new rates due to the higher share of shorter-term fixed-rate contracts that have needed refinancing at new rates. The share of income absorbed by interest service has risen only modestly to date in the US and the eurozone. We expect interest service to remain well below previous peaks in the US and to only edge up in the eurozone, but to rise more sharply in the UK.

The unusually high level of liquid assets held by households and corporates is another factor dampening the cash flow channel. This has amplified the impact of rising rates on private-sector interest income. Net interest payments by the US corporate sector have actually declined as policy rates have risen. This follows a surge in fixed-rate corporate borrowing in 2020 at very low interest rates and an accompanying rise in deposit and money market holdings, which are now yielding a high rate of return.

Nevertheless, the negative credit impulse will feed into lower spending over time. And rising deposit rates – which have prompted a sizeable shift into interest-bearing time deposits – have increased the incentives to save. Slower nominal household income growth – as employment and wages slow – will put upward pressure on debt-service ratios. This speaks to the likelihood that real interest rates will rise in 2024 as inflation falls but central banks will cut rates only slowly. The asset price channel is already evident in widespread falls in real house prices since policy tightening began. Equity prices have been more stable, although the equity risk premium is now low.

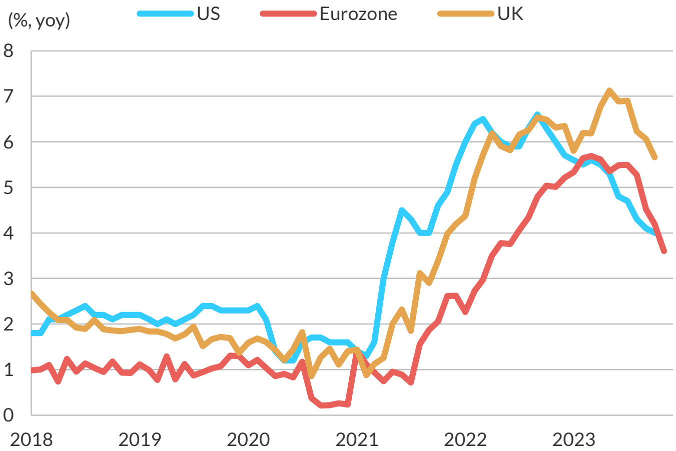
World Trade Decline Hitting Europe

The volume of world trade in goods peaked in September 2022 and looks set to decline by around 2% in 2023. This is uncommon outside global recession years and reflects the switch back towards services consumption and the clearing of earlier supply-chain backlogs. The downturn in trade has been associated with a stagnation in global industrial production in the past year. This has taken its toll on Europe's more manufacturing-centered economies including Germany, where a large current account surplus speaks to reliance on foreign demand. Falling exports are offsetting the benefits of the reversal of 2022's terms-of-trade shock as natural gas prices have fallen by about 70% in 2023.

China Struggles to Stabilise Property Sector

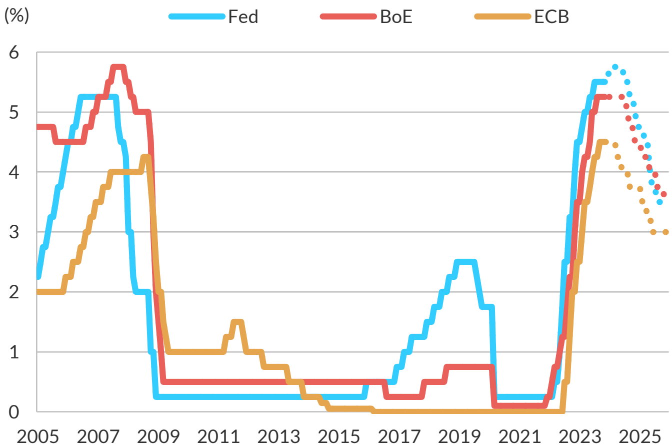
Our China forecasts assume that policy easing is sufficient to prevent GDP growth dipping below 4.5% in 2024. But easing measures so far have failed to put a floor under new home sales and there are significant downside risks. Potential purchasers have lost

Core CPI Inflation



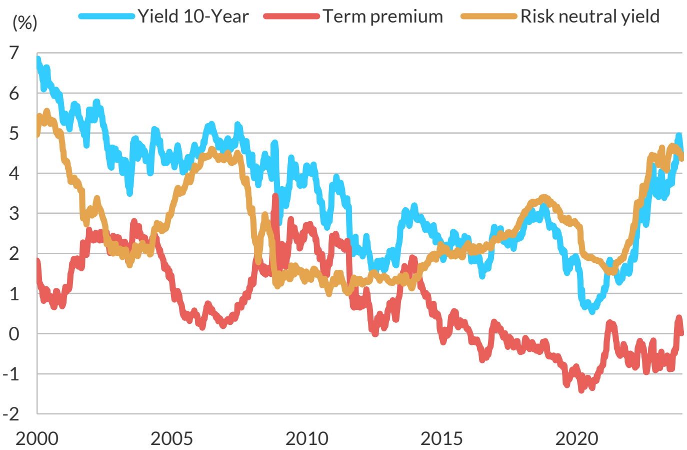
Source: Fitch Ratings, BLS, Eurostat, ONS, Haver Analytics

Policy Interest Rates Outlook - US, UK & Eurozone



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

US Treasury Yield-Term Premium



Source: Fitch Ratings, NY Fed, Haver Analytics

confidence in the capacity of private developers to deliver projects, undermining their willingness to commit savings and borrowed funds to purchase new dwellings off-plan through pre-sales. Pre-sales accounted for 80%-90% of new home sales in China prior to the recent crisis and about half of developer financing.

The sales slump is intensifying developer distress, in turn amplifying potential buyers' concerns. The authorities have stepped up efforts to boost the sector since August and in recent weeks have been pressuring banks to lend more to private developers. But with little traction on sales volumes and house prices still falling, there are doubts about the efficacy of these measures. This is rather uncharted territory for China and raises the possibility of much more aggressive macro policy easing becoming necessary to avoid a significantly sharper slowdown in growth.

Recent Progress in Reducing Inflation

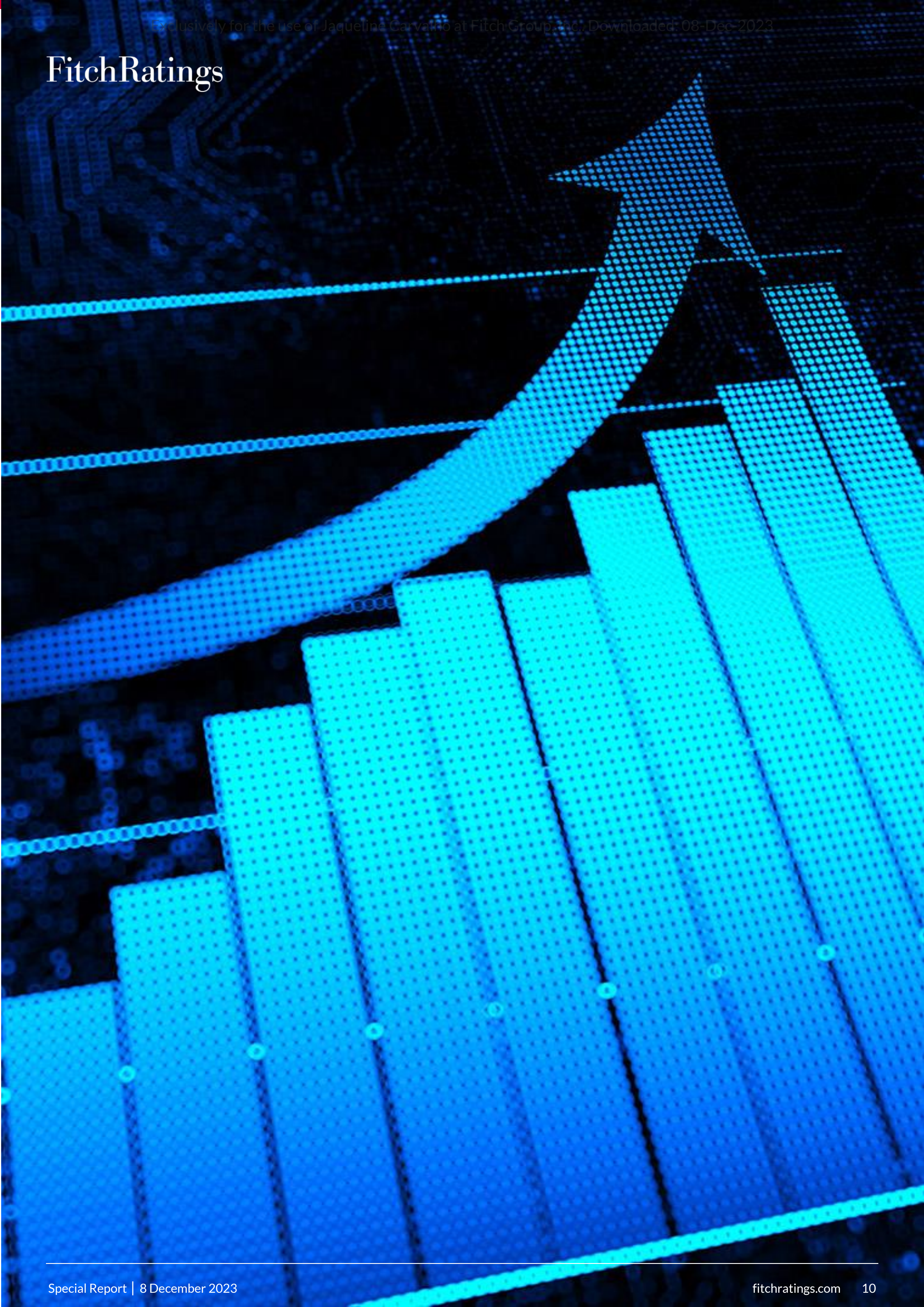
Headline CPI inflation has fallen sharply in recent months to 3.2% in the US and 4.6% in the UK in October and to 2.4% in the eurozone in November. Falling energy prices have taken about 2pp off the headline rate in the eurozone and UK and 0.7pp in the US. But core inflation has also fallen faster than anticipated, particularly in the eurozone. Global core goods prices have broadly stabilised as supply-chain pressures have dropped. Services inflation has also slowed and by more than expected in the eurozone and the UK, helped in the former by wage growth dipping back below 4%. However, at 5.5% in the US and 6.6% in the UK, services inflation is still far above rates consistent with inflation returning to target on a sustained basis.

Slow Descent in Policy Interest Rates

Stubbornly high services inflation, rapid increases in rental prices and still elevated wage growth are reducing the Fed's confidence that rates are restrictive enough. There are also concerns about upside risks to oil prices from geopolitical developments. Moreover, US labour market conditions remains tight, despite a pick-up in labour supply in 2023, increasing the risk that wage inflation could remain high. It is a close call, but following upward revisions to our US growth forecasts we anticipate one final hike from the Fed at its January 2024 meeting, before leaving the federal funds rate on hold for six months. With the first cut in rates expected in late July, we now see the fed funds rate at 4.75% at end-2024 and 3.5% by end-2025. These projections have both have been revised up by 25bp since the September GEO.

Recent falls in core inflation mean that we now expect the ECB to start cutting rates in April 2024. This is earlier than in our September GEO forecast of June, but we still expect the ECB to reduce the main refinancing rate to 3.75% by end-2024. The Bank of England has indicated that rates are unlikely to rise further, but we expect rates will remain at current levels until August. We now believe that the BOJ is finally set to raise the official policy rate by 20bp in 2024 as services and wage inflation rise.

In general, policy rates are expected to fall much more slowly than the pace of increases since early 2022 and will settle well above pre-pandemic levels. This will keep upward pressure on US and global bond yields. US Treasury yields have been volatile in recent weeks but real rates have risen and the term premium has turned positive. This may reflect increased bond market concerns about supply, in the context of large deficits and ongoing quantitative tightening.



United States

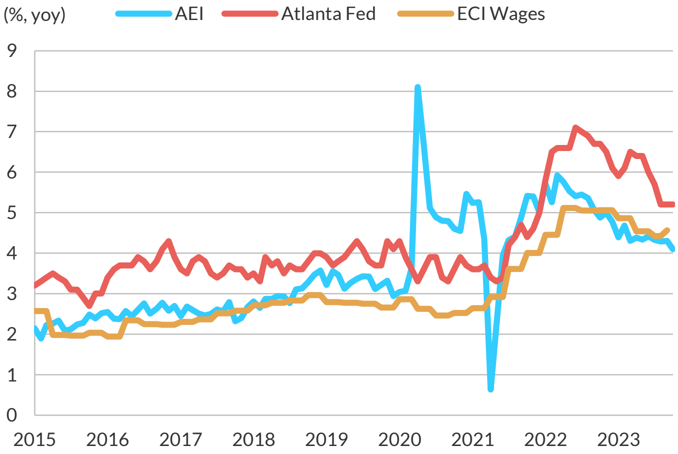
GDP growth rose to 1.3% quarter on quarter (qoq) in 3Q23 (5.2% annualised), the fastest rate since 4Q21, much higher than the 0.4% increase expected in September's GEO. Inventories contributed to this rise, but final demand was also strong with consumption growing by 0.9%, government spending by 1.3% and private investment by 0.6%, the latter helped by the first rise in residential investment for more than two years. Renewed fiscal easing has played a big part in recent demand strength, but private spending is also proving more robust than expected to higher interest rates. We no longer forecast a recession in 2024.

Fiscal easing has boosted growth significantly. Government spending on goods and services rose 4.7% yoy in real terms in 3Q23, household income tax payments have been falling and IMF estimates show a sharp widening in the cyclically adjusted general government primary deficit in 2023. Renewed falls in the household savings ratio since the middle of the year have also helped growth. Recent data revisions suggest the remaining cushion of excess pandemic-related savings could continue to support spending for some time. Private-sector finances were robust prior to the pandemic and the huge fiscal support in 2020-2021 helped the private-sector financial surplus (saving minus investment) to surge to an all-time high. The associated strengthening of private-sector financial balance sheets has dampened the impact of interest rate rises on cash flow. The dominance of long-term fixed-rate household mortgages has also slowed the pace at which effective mortgage rates faced by existing borrowers have risen.

Nevertheless, credit is slowing sharply, profit growth is falling and lead indicators of business investment are deteriorating. Slower nominal wage growth and employment will reduce household income growth and consumer debt service will rise materially in 2024. Real interest rates will also rise as inflation falls and nominal rates come down more slowly, increasing incentives to save. We still expect a sharp slowdown in GDP growth from 2.4% in 2023 to 1.2% in 2024 and then only a shallow recovery in 2025.

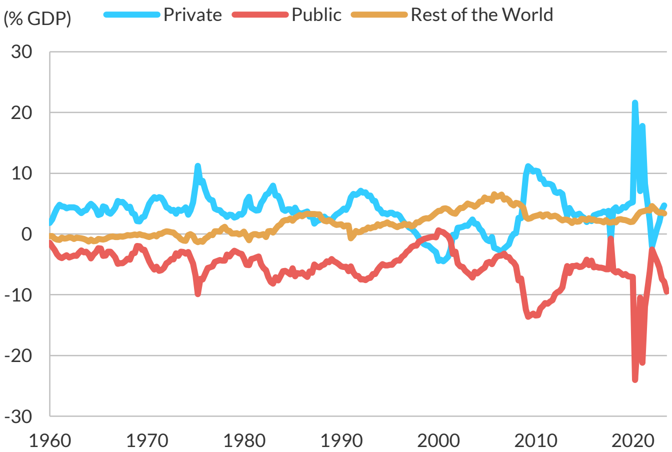
Progress in reducing core inflation is continuing as core goods prices stabilise and inflation in some services eases. But core and services inflation are still too high from an inflation target perspective. A tight labour market and high wage growth will keep the Fed vigilant and we expect one more hike in January 2024 and then for the Fed to keep rates on hold for six months before cutting them in July. The later peak in rates means our end-2024 federal funds rate prediction is 25bp higher than in September.

US - Nominal Wage Growth Measures



Source: Fitch Ratings, BEA, Atlanta Fed, BLS, Haver Analytics

US - Net Lending (Saving Minus Investment) by Sector



Source: Fitch Ratings, BEA, Fed, Haver Analytics

United States - Forecast Summary

(%)	Annual Avg. 2018-2022	2022	2023F	2024F	2025F
GDP	2.2	1.9	2.4	1.2	1.4
Consumer spending	2.6	2.5	2.2	1.3	1.2
Fixed investment	2.8	1.3	0.2	-1.4	2.2
Net trade (contribution pp)	-0.5	-0.5	0.5	0.0	-0.2
CPI inflation (end-year)	3.6	6.5	3.3	2.6	2.4
Unemployment rate	4.9	3.6	3.6	4.6	4.8
Policy interest rate (end-year)	1.40	4.50	5.50	4.75	3.50
Exchange rate, USDEUR (end-year)	0.88	0.94	0.93	0.93	0.93

Source: Fitch Ratings

Eurozone

We have lowered our estimate for eurozone growth in both 2023 and 2024, the latter substantially. Euro area 3Q23 GDP was weaker than expected, contracting 0.1% qoq, and we expect a further mild contraction in 4Q23 based on coincident indicators, such as PMIs.

Growth of 0.5% in 2023 has come despite stagnation since 2Q23. By contrast, our forecast for 0.7% growth in 2024 relies on a meaningful recovery in sequential growth. We expect consumption to drive this as disinflation leads to an improvement in real wages. Households will benefit from still-strong labour markets, albeit these are starting to deteriorate at the margin. Even with this recovery, consumption would not recover its 3Q22 level until 2Q24. Eurozone households, unlike their US counterparts, have shown little compulsion to draw down excess savings.

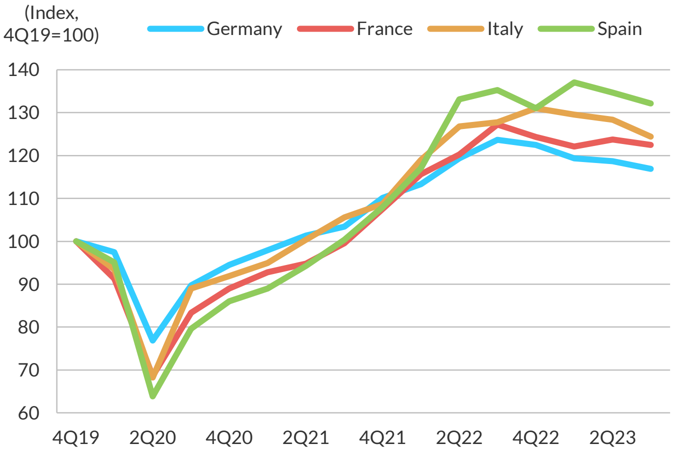
Tighter monetary policy has restricted credit growth and credit conditions. Lending to business contracted by 0.3% yoy in October, with lending to households barely growing. Effective rates on household debt will continue to increase even as ECB rates have peaked but the rise in debt service will be less pronounced than in the US or UK. Higher rates have also curbed investment, albeit by less than expected. Construction investment has been worst affected, peaking in 1Q22 and declining by 2.2% through 3Q23.

We expect another meagre contribution from net trade in 2024. Export performance has been weak across the three of the four largest eurozone countries (Spain is the exception). Imports have also contracted, limiting the impact.

Euro area inflation has fallen faster than expected in 4Q23, and we have lowered our projections. As well as the expected decline in annual energy prices, which caused inflation to tumble below 1% in some parts of the euro area, core inflation fell surprisingly quickly in November. We think core inflation could fall towards 2% by 2Q24 although services inflation will take longer to converge.

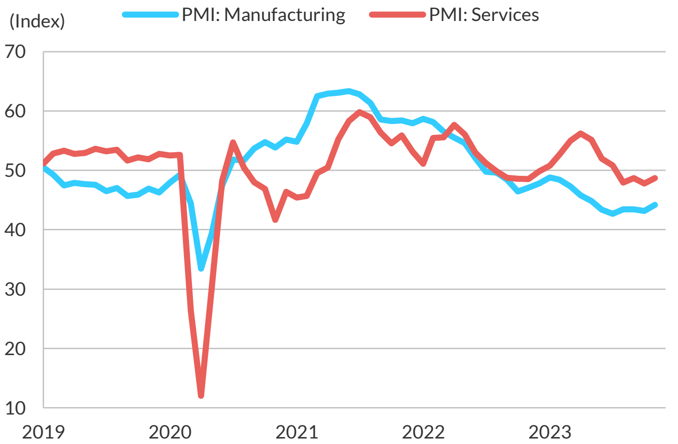
We now expect the ECB to start cutting rates as early as April 2024, barring further external shocks, delivering the same 75bp of cuts by end-2024. While hawks on the ECB governing council have acknowledged the faster progress on inflation, communication from the ECB suggests caution around policy easing, even if the ECB lowers its growth projections ahead of its December 15 meeting.

Eurozone - Big4 Exports (Nominal)



Source: Fitch Ratings, FSO, Banque de France, Banca d'Italia, BdE, Haver Analytics

Eurozone - PMI Surveys



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

Eurozone - Forecast Summary

(%)	Annual Avg. 2018-2022	2022	2023F	2024F	2025F
GDP	1.3	3.4	0.5	0.7	1.7
Consumer spending	0.7	4.2	0.5	1.0	1.8
Fixed investment	2.1	2.6	0.8	0.8	2.4
Net trade (contribution pp)	0.0	0.0	0.2	-0.1	0.2
CPI inflation (end-year)	2.8	9.2	2.9	2.5	2.0
Unemployment rate	7.6	6.7	6.6	6.6	6.4
Policy interest rate (end-year)	0.15	2.50	4.50	3.75	3.00
Exchange rate, EURUSD (end-year)	1.14	1.07	1.08	1.08	1.08

Source: Fitch Ratings

China

China's recovery regained momentum in 3Q23 with real GDP growth at 4.9% yoy, higher than our September GEO 4.0% forecast. Recent improvements in consumption, industrial production and labour market dynamics mean that growth now looks on track to slightly exceed 5% in 2023. However, the property market collapse shows no signs of abating, and even with stepped-up policy easing we expect growth to slow to 4.6% in 2024.

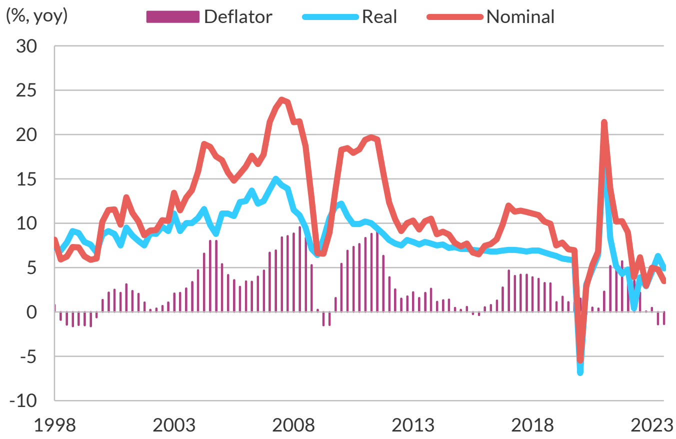
Data releases for 3Q23 and October provided some relief after the weakness in 2Q23. Retail sales growth (in value terms) picked up to 7.6% yoy in October after dipping to around 3% in July; unemployment fell to 5%; and industrial production growth (in volume terms) was solid at 4.6% in October. Credit growth (Fitch-adjusted measure) also rose to 9.3% yoy in October after being flat at 9.1% in the previous four months.

However, the pick-up in growth in 2023 is best viewed as a normalisation of consumption patterns after pandemic restrictions were removed at the start of the year. This is reflected in the recovery in domestic travel and the bounce in contact-intensive services consumption, such as leisure and hospitality. Fundamental demand conditions remain very weak, including external demand, with US dollar export values down 6% yoy in October.

Most importantly, the property market collapse shows few signs of stabilising - housing sales and starts fell, respectively, by 21% and 20% yoy in October, and house prices continue to fall. The direct impact on domestic demand is reflected in the slowdown in fixed asset investment growth to just 1.3% yoy (in value terms) in October. But the sector's difficulties are having far-reaching impacts and help explain why consumer confidence remains extremely depressed. Nominal GDP growth also weakened to just 3.5% yoy in 3Q23 as the GDP deflator fell. Export prices and the CPI are also in deflation territory.

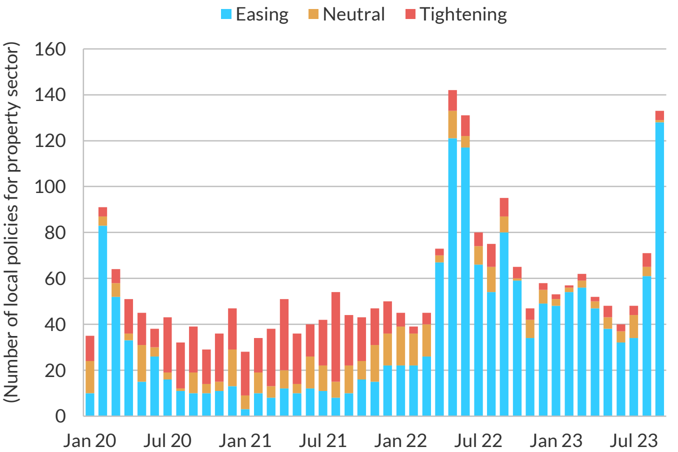
Policy easing has been further stepped up in recent months with a cut in banks' reserve requirement ratios (RRR) in late September, a rise in local government bond issuance and progressive easing in macro-prudential restrictions on housing purchases at the local level since August. Central government support is also stepping up with CNY1 trillion (0.8% of GDP) issuance of sovereign bonds announced in late October with the proceeds earmarked to support local government infrastructure spending. With further modest RRR and interest rate cuts expected in 2024, our forecasts assume policy easing will be sufficient to prevent growth falling below 4.5% next year. But until the property sector stabilises, significant downside risks to this forecast will prevail.

China - Real and Nominal GDP Growth



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

China - Local Policies for Property Sector



Source: Fitch Ratings, China Real Estate Association

China - Forecast Summary

(%)	Annual Avg. 2018-2022	2022	2023F	2024F	2025F
GDP	5.3	3.0	5.3	4.6	4.6
Consumer spending	4.9	0.3	10.0	5.2	4.6
Fixed investment	4.4	3.2	2.7	2.8	4.5
Net trade (contribution pp)	0.8	0.7	-0.3	0.2	0.2
CPI inflation (end-year)	2.1	1.8	0.0	0.7	1.5
Policy interest rate (end-year)	3.07	2.75	2.50	2.35	2.35
Exchange rate, USDCNY (end-year)	6.72	6.99	7.15	7.30	7.30

Source: Fitch Ratings

Japan

Increasing evidence of a virtuous cycle between prices and wages should enable the BOJ to end its negative interest rate policy in 2024. We expect monetary tightening thereafter to be gradual.

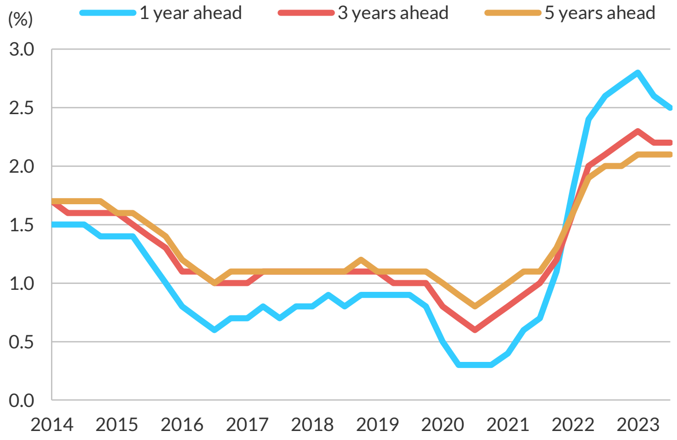
Headline inflation in Japan rebounded in October, to 3.3%, while the core rate – which excludes fresh food and energy – remained above 4% for the seventh consecutive month. Surveys suggest that while households' and firms' inflation expectations are no longer climbing, they remain well above their pre-pandemic levels and are consistent with persistent price pressures. This suggests that Japan's deflationary mindset is finally shifting.

There are also signs that domestic inflationary pressure is building, with services inflation reaching 2.1% in October, its highest since the spring of 1998. Critical to sustaining this will be wage growth and the BOJ is putting a lot of emphasis on the 2024 Shunto wage negotiation round in the spring. The 2023 round resulted in a much higher increase than in previous years and early indications from labour unions and employers suggest 2024 will be stronger.

Accordingly, we have raised our inflation forecasts and now expect the headline rate to fall to only 2.5% by end-2024 and 2.0% by end-2025, meeting the BOJ's target. We think the BOJ will feel sufficiently confident to end its negative rate policy in 2Q24, once the indications from the 2024 Shunto round are clearer. After raising its short-term policy rate from -0.1% to 0% in 2Q24, we then expect the BOJ to proceed cautiously, with one further rate hike next year and two in 2025, to 0.25% by end-2025. The policy rate would still be much lower in Japan than elsewhere, though the shrinking differential should still see the yen appreciate from its current level.

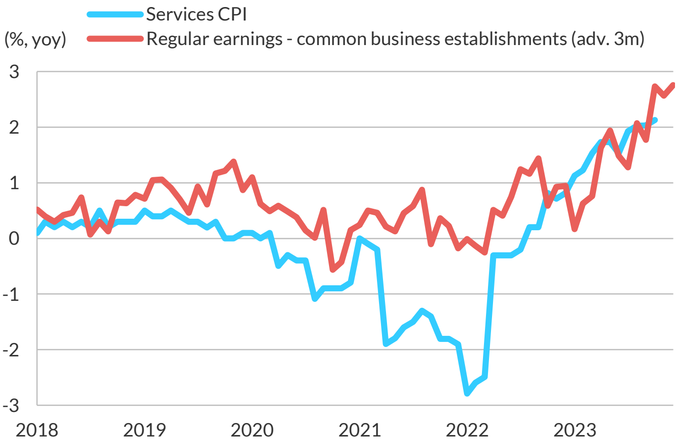
We have kept our growth forecast for 2023 at 2.0% despite a surprising 0.7% decline in GDP in 3Q23. This reflects upward data revisions to earlier quarters. We expect a further slowdown in 2024 and 2025, to 0.8% and 0.7%, respectively. Pent-up demand from the pandemic continues to fade, while consumer purchasing power has been hit by falling real wages. Machinery orders have remained weak, boding ill for business investment. And the recent strength in exports largely reflects autos shipments as supply-chain disruptions ease, rather than a marked improvement in global demand, which we expect to remain subdued.

Japan - Companies' Inflation Expectations



Source: Fitch Ratings, Tankan, Haver Analytics

Japan - Earnings Growth and Services Inflation



Source: Fitch Ratings, MIC, MHLW, Haver Analytics

Japan - Forecast Summary

(%)	Annual Avg. 2018-2022	2022	2023F	2024F	2025F
GDP	-0.1	0.9	2.0	0.8	0.7
Consumer spending	-0.4	2.1	0.9	0.7	0.7
Fixed investment	-0.8	-1.4	1.6	0.7	0.9
Net trade (contribution pp)	-0.1	-0.5	0.7	0.3	0.0
CPI inflation (end-year)	0.7	4.0	3.5	2.5	2.0
Unemployment rate	2.6	2.6	2.6	2.5	2.5
Policy interest rate (end-year)	-0.10	-0.10	-0.10	0.10	0.25
Exchange rate, USDJPY (end-year)	113.5	132.7	150.0	145.0	135.0

Source: Fitch Ratings

United Kingdom

Revisions to GDP published in late September showed that the UK economy fared better during the pandemic than previously estimated. However, they did not change the picture of broad stagnation in activity since spring 2022. Industry has been a laggard, mainly reflecting a decline in electricity and natural gas production. But other sectors have also stagnated, and surveys are pointing to further weakness. With perhaps more than half of the increase in rates still to be felt, we think the UK economy is probably in the early stages of a mild recession.

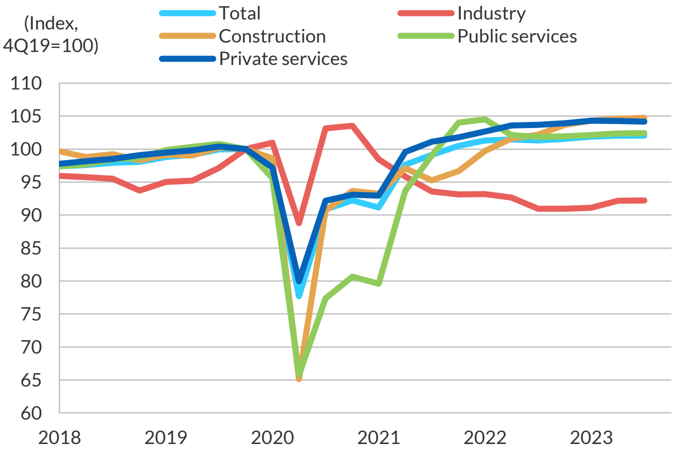
Indebted households face steep increases in interest payments in the next couple of years, with an estimated 1.6 million fixed-rate mortgages due to reset in 2024. The large stock of excess savings suggests that households will be able to cope, but we doubt that the savings will be drawn on to fund consumer spending. Data quality issues have made labour market trends difficult to read in recent months, but we suspect that weaker activity will lead to the labour market cooling further, adding to consumers' caution.

We expect investment growth to remain weak. Higher interest rates have weighed on dwellings investment, which contracted for the fourth consecutive quarter in 3Q23. The government's decision to make permanent full expensing should help to boost investment in the long run, but it removes the incentive for companies to bring forward their capex plans. We expect GDP growth to slow to 0.3% in 2024 from 0.5% in 2023.

Headline inflation has fallen meaningfully, to 4.6% in October. While the big drop in October mainly reflected base effects in the energy component, the core rate also fell. Surveys of manufacturers' selling price expectations point to core goods inflation easing further. Our base case is for services inflation also to decline in 2024, as a cooling labour market reduces wage growth momentum.

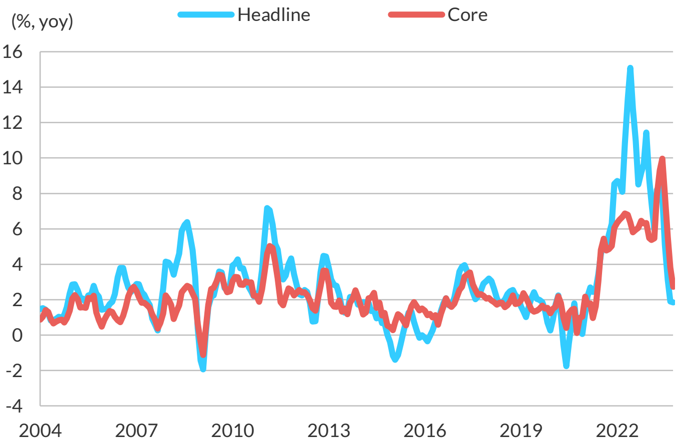
Given the improvement in the inflation outturns, alongside comments from some Bank of England officials, we now think that Bank Rate has most likely peaked. We would not rule out further tightening if the inflation outlook were to deteriorate, as faced by the central banks in Canada and Australia in 2023. But the emphasis at the Bank of England has been on "longer" rather than "higher". We expect the first rate cut only in August 2024 and the risk is skewed towards it being even later.

UK - Real Gross Value Added by Sector



Source: Fitch Ratings, ONS, Haver Analytics

UK - CPI Inflation



Source: Fitch Ratings, ONS, Haver Analytics

United Kingdom - Forecast Summary

(%)	Annual Avg. 2018-2022	2022	2023F	2024F	2025F
GDP	1.1	4.3	0.5	0.3	1.8
Consumer spending	0.5	5.2	0.3	-0.1	1.5
Fixed investment	1.3	7.9	2.5	-1.7	1.9
Net trade (contribution pp)	-0.1	-1.7	0.2	-0.3	0.1
CPI inflation (end-year)	3.4	10.5	4.7	3.0	2.5
Unemployment rate	4.1	3.7	4.2	4.6	4.2
Policy interest rate (end-year)	0.64	3.50	5.25	4.50	3.50
Exchange rate, GBPUSD (end-year)	1.30	1.21	1.25	1.25	1.20

Source: Fitch Ratings

Germany

The German economy remains the laggard among the big four eurozone countries and is either in recession or close to it. A contraction in 3Q23 was milder than expected (-0.1% versus. -0.3% forecast). Consumption contracted again after a recovery in 2Q23, and investment grew. Composite output PMIs including services have been under the 50 threshold since August, reaching a low of 45.7 in November. Factoring in a likely contraction in 4Q23, output should be -0.2% overall in 2023.

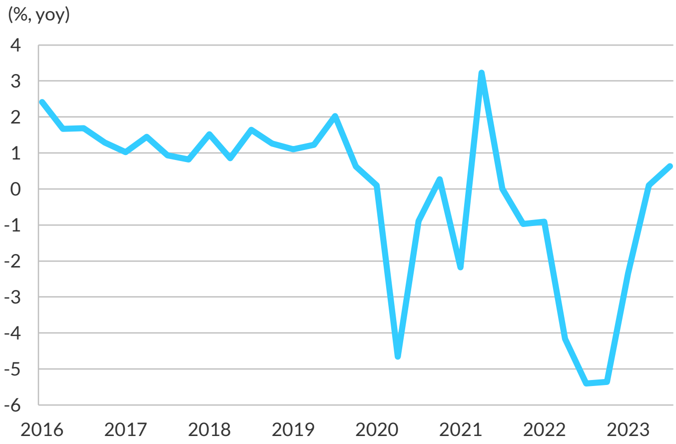
We have lowered our forecast for 2024 growth to just 0.4%, and even this will require a recovery in sequential growth over the course of the year.

The case for a return to growth relies chiefly on a projected recovery in consumption. Disinflation and wage gains mean that real wages have already rising, although business and consumer confidence are low, which has tempered our expectations.

The German economy faces a series of challenges: its out-performance in the 2010s relative to the eurozone came at the cost of increasing dependence on global demand, but it is struggling in an environment of lower global trade growth and higher energy costs. The manufacturing sector, which accounts for almost twice the eurozone average in terms of value-added, is in difficulties. The construction sector has been severely affected by rising financing costs. Finally, fiscal policy will tighten more than expected in 2024 following a ruling by the federal constitutional court that will affect how much the government can spend from its special purpose funds; this will show up primarily in lower investment, both public and private.

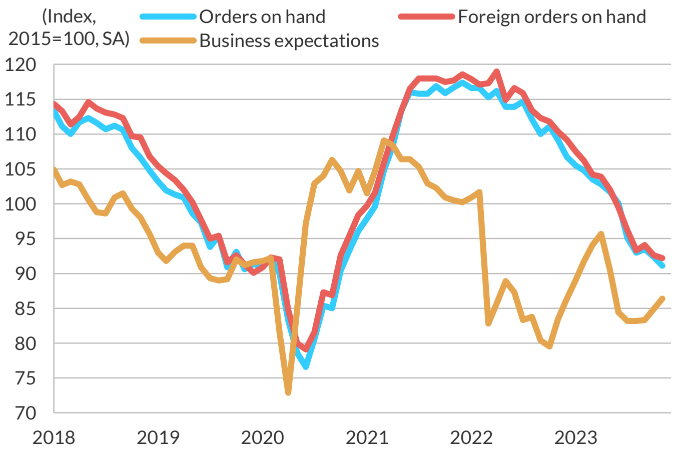
The most salient structural issue is a shrinking workforce. Labour force participation cannot rise fast enough to compensate for demographic decline. The working-age population has resumed its decline after a bounce related to migration. Skills shortages persist. While there is strong evidence of labour hoarding, illustrated by the divergence between job creation and hours worked, we expect the labour market to weaken given the gloomy outlook. In light of these challenges we have also cut our forecast for growth in 2025 from 2.0% to 1.6%.

Germany - Real Wage Growth



Source: Fitch Ratings, Destatis, Haver Analytics

Germany - Ifo Survey Indicators



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

Germany - Forecast Summary

(%)	Annual Avg. 2018-2022	2022	2023F	2024F	2025F
GDP	0.6	1.8	-0.2	0.4	1.6
Consumer spending	0.5	3.9	-1.0	0.6	1.2
Fixed investment	0.5	0.1	0.9	0.9	2.1
Net trade (contribution pp)	-0.5	-1.3	0.4	-0.1	0.3
CPI inflation (end-year)	3.1	9.6	3.0	2.5	2.0
Unemployment rate	3.3	3.1	3.0	3.1	3.0
Policy interest rate (end-year)	0.15	2.50	4.50	3.75	3.00
Exchange rate, EURUSD (end-year)	1.14	1.07	1.08	1.08	1.08

Source: Fitch Ratings

France

After a strong rise in 2Q23, GDP contracted by 0.1% in 3Q23 according to the first revision of the data, with a negative contribution from net trade and a sharp slowdown in investment, but an encouraging recovery in consumption. A weakening job market and the end of temporary tax reductions and energy relief spending by the government will dampen consumption in 2024, but growing real wages supported by disinflation will help.

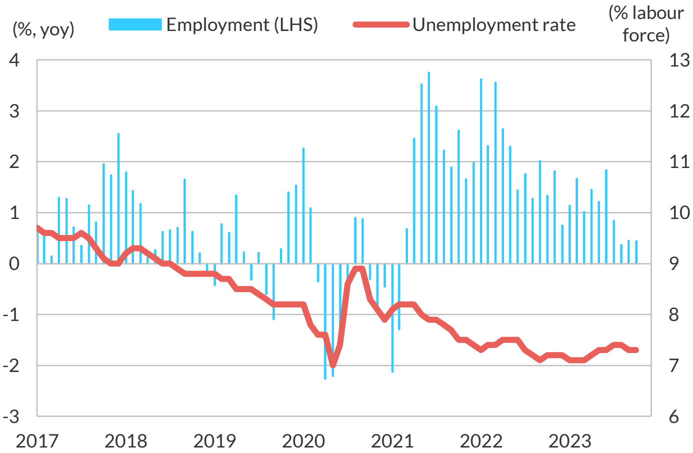
We would expect a return to growth in 4Q23, in line with the Bank of France current conditions survey. This would push overall growth to 0.9% in 2023, a mild upward revision from our September forecast. We have lowered our growth forecast for 2024 to 1.0%, based on similar dynamics to the rest of the eurozone.

There are risks in view of the deterioration in the composite output PMI in November, which sank to 44.5, the lowest among the largest economies and below the eurozone average. The latest industrial production data show it stabilising in October, albeit after a decline in September. French companies have accumulated larger stocks of finished goods and their order books are shrinking. Services are still outperforming manufacturing.

Inflation in France has been less severe in view of the energy mix and the government's policy response, which involved greater intervention in energy prices. This held the inflation peak 3pp below the eurozone average in 2022 but conversely is now showing less disinflation than the eurozone average.

Employment has been growing faster than GDP. Gains in employment among the young and unskilled in particular have been impressive, albeit at the cost of declining labour productivity. However, the pace of job creation has slowed to just 0.5% annualised, while participation has risen strongly, leading to a mild uptick in unemployment. We also expect pension reform to increase the number of older workers staying in employment or in the job market, and for the labour force to continue to grow as a result. The unemployment rate will rise in 2024.

France - Employment and Unemployment Rate



Source: Fitch Ratings, Eurostat, Haver Analytics

France - Current Finished Goods and Order Books

Source: Fitch Ratings, Banque de France, Haver Analytics

France - Forecast Summary

(%)	Annual Avg. 2018-2022	2022	2023F	2024F	2025F
GDP	1.0	2.5	0.9	1.0	1.6
Consumer spending	0.7	2.3	0.7	1.1	1.7
Fixed investment	2.6	2.2	1.4	1.0	1.8
Net trade (contribution pp)	-0.3	-0.6	0.2	-0.1	0.0
CPI inflation (end-year)	2.4	6.7	4.1	2.6	2.0
Unemployment rate	8.1	7.3	7.3	7.5	7.4
Policy interest rate (end-year)	0.15	2.50	4.50	3.75	3.00
Exchange rate, EURUSD (end-year)	1.14	1.07	1.08	1.08	1.08

Source: Fitch Ratings

Italy

We have again reduced our growth forecast for Italy, to 0.7% in 2023 and to 0.6% in 2024.

This is partly the result of disappointing incoming data. The economy avoided a contraction in 3Q23, but grew by much less than expected after a sharp contraction in 2Q23. The inventory cycle made a large negative contribution. Consumption grew by 0.7%, the fastest since 3Q22. Our forecast for 0.6% growth in 2024 relies on an improvement in sequential growth, led by consumption.

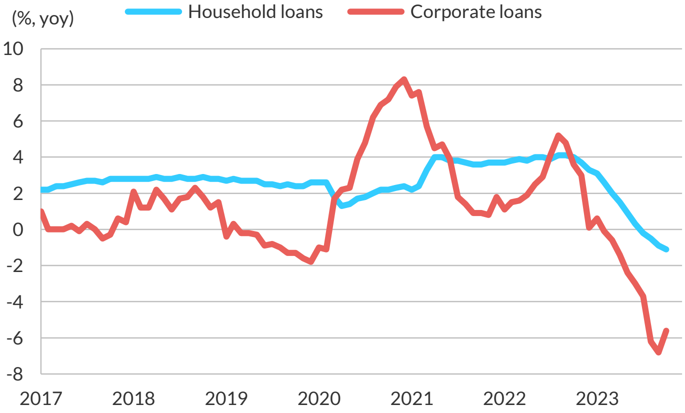
Investment slipped by 0.1% in 3Q23 and we now expect investment to decline in 2024 from high levels. Household investment, which accounts for around a quarter of investment, was a growth driver in 2022 but has since faded. It declined steeply in 2Q23, and then grew quarter on quarter, but was still 5.6% lower yoy in view of the phasing out of government incentives for household renovation.

We expect public investment helped by the NextGenerationEU-funded National Recovery and Resilience Plan (Piano Nazionale di Ripresa e Resilienza, or PNRR) programme to pick up, but not by enough to prevent a decline in investment in 2024. The 2024 budget postponed some PNRR spending. By 2025 we expect an acceleration in the spending of these funds. Other business investment is holding up, despite a sharp decline in credit to business, which contracted 6.2% yoy in October, and a steep rise in interest rates.

Employment is still growing relatively quickly, with the number in employment rising 0.4% qoq in August-October according to the labour force survey and by 2% yoy. The unemployment rate rose to 7.8% in October; the share of the population that is economically inactive is falling; participation is rising. Our forecast is for the unemployment rate to decline slightly given slow population growth.

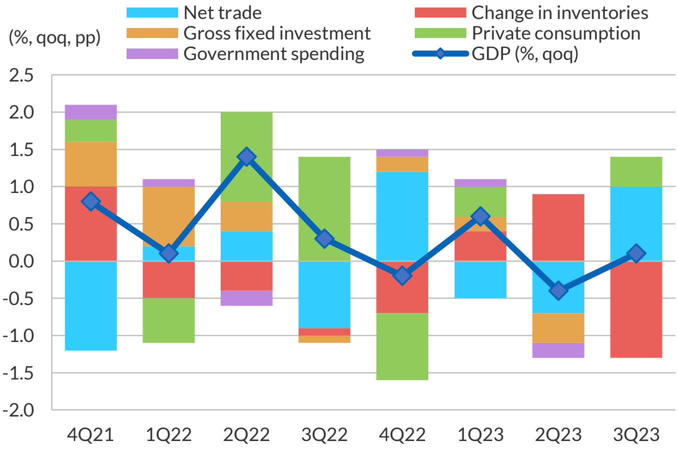
The annual rate of inflation fell to just 0.7% in November. The annual decline in energy prices reached 25% and stripped 2.6pp from the annual rate. Core inflation fell to 3.4%. We expect core inflation to continue to decrease while the headline rate is likely to rise in 1H24.

Italy - Household and Corporate Loans[a]



[a] adjusted for reclassification
Source: Fitch Ratings, ECB, Haver Analytics

Italy - Contributions to GDP Growth



Source: Fitch Ratings, ISTAT, Haver Analytics

Italy - Forecast Summary

(%)	Annual Avg. 2018-2022	2022	2023F	2024F	2025F
GDP	0.9	3.7	0.7	0.6	1.3
Consumer spending	0.2	5.0	1.6	1.2	1.5
Fixed investment	5.4	9.7	0.4	-0.2	0.9
Net trade (contribution pp)	-0.2	-0.5	-0.1	0.4	0.1
CPI inflation (end-year)	2.5	12.3	1.0	2.3	2.0
Unemployment rate	9.5	8.1	7.7	7.6	7.5
Policy interest rate (end-year)	0.15	2.50	4.50	3.75	3.00
Exchange rate, EURUSD (end-year)	1.14	1.07	1.08	1.08	1.08

Source: Fitch Ratings

Spain

We have strengthened our estimate for growth in 2023 to 2.4% and have lowered our 2024 growth forecast to 1.6% in view of the weaker eurozone backdrop. An upward revision to GDP in 2021 (+0.9pp) and 2022 (+0.4pp) has altered Spain's recovery path from the pandemic shock. This now looks to have been more in line with that of the eurozone, although the dependence on tourism meant that a full recovery took longer.

Even without accounting for the statistical revisions, Spain's rate of growth was much stronger than the eurozone in 2023, averaging 0.4% quarter on quarter (qoq) compared to the eurozone's 0.0%. Resilience is partly because of the structure of the Spanish economy. Reliance on manufacturing, and on the Chinese export market (at 1.1% of gross value-added versus 2% for the eurozone), are lower than in the other large eurozone economies.

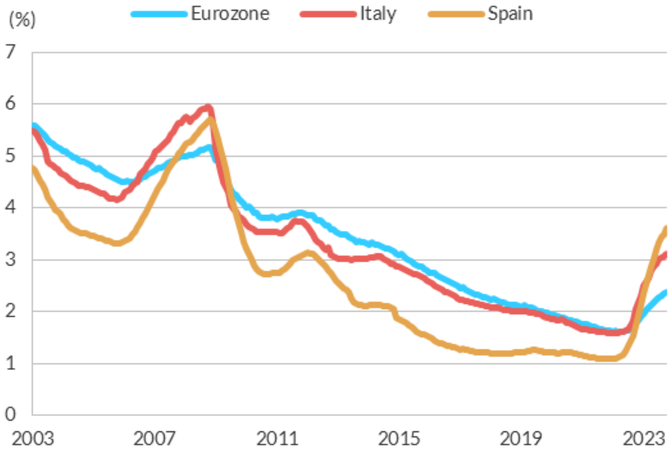
Momentum is stronger in Spain than elsewhere in the eurozone heading into 2024. We expect Spain to continue to outperform the eurozone, although growth will slow. Survey data show that business and consumer confidence are decreasing. The composite PMI for Spain was 49.8 in November, compared with 47.1 in the euro area.

Disinflation has been more rapid in Spain than in the rest of the eurozone, benefitting consumers. GDP revisions also led to a rise in the estimated savings rate; a normalisation could add to consumption in 2024.

In line with stronger growth, employment also has been growing faster than the eurozone average. The timeliest employment series, affiliations to social security, showed these were 2.6% higher yoy in November, but the quarter-on-quarter pace has slowed. There is greater slack in the labour market than in other large eurozone economies and we expect the unemployment rate to continue to decline in 2024.

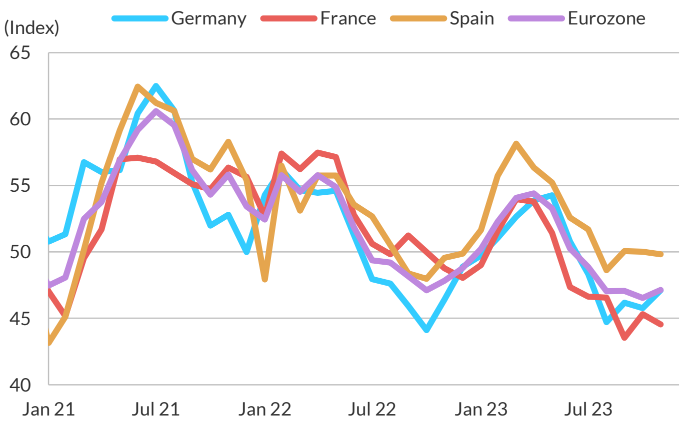
We expect higher interest rates to have a greater impact on households in Spain than elsewhere, given that 70% of the mortgage stock is at variable rates, despite the decline in household indebtedness since the 2010s. Pass-through has been rapid – the effective mortgage rate in Spain rose by 190bp in the year to October, compared with 60bp in the eurozone – but the process is not yet complete.

Spain - Effective Mortgage Rates



Source: Fitch Ratings, ECB

Spain - PMI Composite Output Survey



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

Spain - Forecast Summary

(%)	Annual Avg. 2018-2022	2022	2023F	2024F	2025F
GDP	1.1	5.8	2.4	1.6	2.0
Consumer spending	0.5	4.7	2.2	1.9	1.5
Fixed investment	1.4	2.4	1.7	1.6	2.5
Net trade (contribution pp)	0.0	2.8	0.4	0.0	0.5
CPI inflation (end-year)	2.7	5.5	3.4	3.0	2.0
Unemployment rate	14.5	12.9	12.1	11.9	11.9
Policy interest rate (end-year)	0.15	2.50	4.50	3.75	3.00
Exchange rate, EURUSD (end-year)	1.14	1.07	1.08	1.08	1.08

Source: Fitch Ratings

Switzerland

The Swiss economy is on track to grow faster than the eurozone. We have revised up our forecast for 2023 to 0.8% and our forecast for 2024 is unchanged at 1.2%. The economy grew 0.3% in 3Q23. Domestic demand was unchanged – consumption grew 0.2% qoq, as expected, but there was a large drawdown in inventories. Exports rebounded by contrast. Short-run prospects are mixed. The UBS/Procure.ch manufacturing PMI remains low, with the November reading at 42.1, but slightly higher than in October. Services activity is much more buoyant with the respective PMI at 53.2.

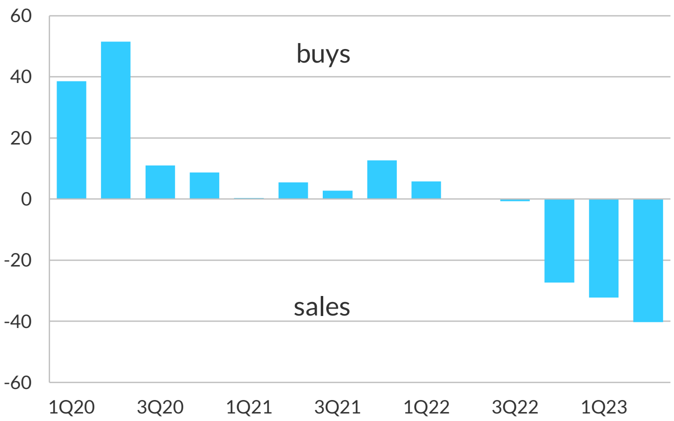
Job creation slowed according to the 3Q23 labour force survey; the number of employed (in terms of full-time job equivalents) contracted by 0.2% qoq in seasonally adjusted terms, and was unchanged in non-adjusted terms, although it was still 2.2% higher yoy. Unemployment remains extremely low.

Export demand is critical to the Swiss economy, with goods and services exports averaging 63% of GDP in 9M23. Net exports of goods and services according to GDP measures (excluding non-monetary gold and valuables) topped 13% of GDP over the same period, compared with an average of 10% of GDP in 2019. We expect a positive contribution from net trade in 2024.

Inflation fell again to 1.4% in November 2023, despite a 1.1% mom rise in rents linked to an increase in the reference mortgage rate for regulated rents. We still expect an adjustment in electricity prices to push up the inflation rate, but have lowered our inflation forecast for 2024.

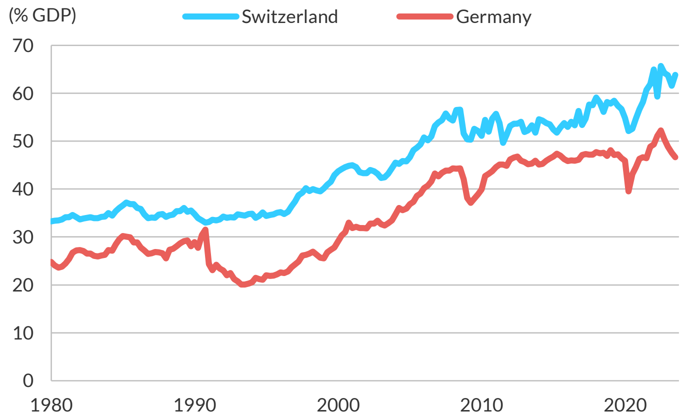
Given that inflation has fallen much faster than the central bank predicted, we now think that the policy rate has peaked. The Swiss National Bank (SNB) surprised markets by holding rates at its most recent meeting on 22 September. We think that the SNB can start to cut rates in June 2024, if not sooner. As of December, the SNB no longer remunerates bank reserves or deposits used to meet the minimum level, which amounts to a further tightening of monetary policy. This follows a similar move by the ECB in July. It is also considering raising the minimum reserve requirement. The SNB's balance sheet has been shrinking rapidly, partly owing to SNB sales of foreign exchange.

Switzerland - SNB Forex Interventions



Source: Fitch Ratings, SNB

Switzerland - Export of Goods & Services as % of GDP



Source: Fitch Ratings, SECO, Deutsche Bundesbank, Haver Analytics

Switzerland - Forecast Summary

(%)	Annual Avg. 2018-2022	2022	2023F	2024F	2025F
GDP	2.0	2.7	0.8	1.2	1.7
Consumer spending	0.9	4.2	2.2	1.5	1.4
Fixed investment	0.9	1.2	-1.2	0.4	1.4
Net trade (contribution pp)	1.1	0.3	-0.1	1.0	0.7
CPI inflation (end-year)	0.8	2.8	1.6	1.5	1.5
Unemployment rate	2.6	2.2	2.0	2.1	2.1
Policy interest rate (end-year)	-0.63	1.00	1.75	1.50	1.50
Exchange rate, USDCHF (end-year)	0.96	0.92	0.90	0.90	0.90

Source: Fitch Ratings

Australia

The tightening in monetary policy and weaker activity in China are starting to weigh on Australia's economy, which increased by just 0.2% qoq in 3Q23, as increases in investment and government consumption were partly offset by a decline in net exports.

Weakness in China's property sector remains a challenge for Australian exporters, but high commodity prices and recent measures to stabilise the Chinese housing market should help to cushion the blow. Business confidence has weakened too, and companies' capital expenditure plans are consistent with fairly weak investment growth ahead. Consumers continue to face challenges of tighter monetary policy and spending stagnated in 3Q23. Mortgage interest payments have shot up and Reserve Bank of Australia (RBA) data suggest they have nearly doubled as a share of disposable income since 1Q22. Inflation is still outpacing wage growth.

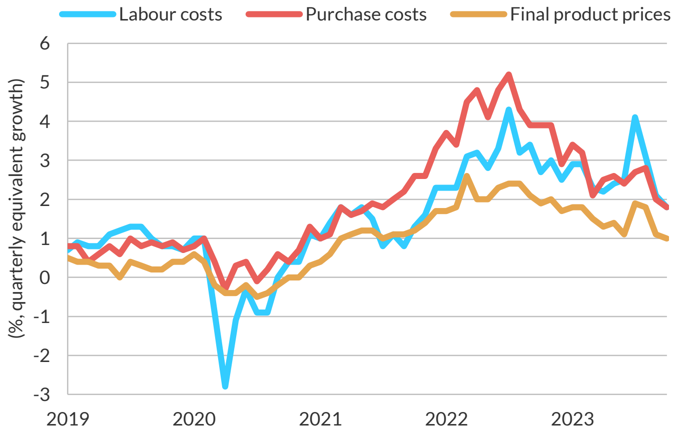
We expect the economy to make a soft start 2024, to mean that GDP grows by 1.5% in 2024 after 1.8% in 2023. Revisions to the pandemic years' GDP outturns have not radically altered the picture. We have therefore kept our 2025 forecast at 2.2%.

Headline inflation has peaked, but at 5.4% in 3Q23 remains well above the RBA's 2%-3% target range. Measures of underlying inflation have also eased from highs, but the trimmed mean, weighted median and core indicators are all still over 5%. The monthly CPI measure for October points to a further decline in 4Q23, which is echoed by timelier survey measures for November.

Even so, cost pressures faced by companies remain above 2019 levels. Inflation increasingly is being driven by services, which is particularly susceptible to labour cost growth. A cooling labour market will dissipate some wage growth momentum, but we still expect the headline inflation rate to be above target through 2024 and much of 2025.

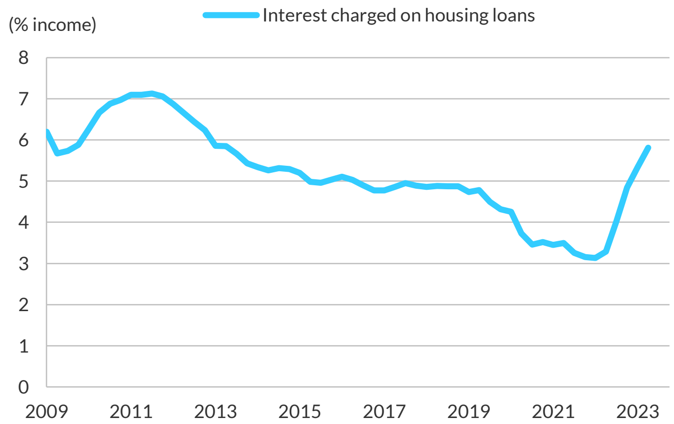
The recent resilience in inflation has meant that after several months on hold, the RBA raised the cash rate by 25bp to 4.35% in November, in line with our September GEO forecast. New Governor Michele Bullock has since struck a fairly hawkish tone, but we think that the decline in underlying inflation means the cash rate has probably peaked. But as domestic inflationary pressures, notably growth in unit labour costs, are still strong, we expect an extended pause until at least mid-2024.

Australia - Business Survey Cost Indices



Source: Fitch Ratings, NAB, Haver Analytics

Australia - Households' Mortgage Interest Burden



Source: Fitch Ratings, RBA, Haver Analytics

Australia - Forecast Summary

(%)	Annual Avg. 2018-2022	2022	2023F	2024F	2025F
GDP	2.4	3.9	1.8	1.5	2.2
Consumer spending	1.9	6.7	1.1	1.3	1.8
Fixed investment	2.1	2.3	5.3	2.2	2.2
Net trade (contribution pp)	-0.4	-1.7	0.8	0.0	0.3
CPI inflation (end-year)	2.7	8.4	4.5	3.3	2.8
Unemployment rate	5.2	3.7	3.7	4.2	4.5
Policy interest rate (end-year)	0.88	3.10	4.35	3.75	3.00
Exchange rate, USDAUD (end-year)	1.40	1.48	1.50	1.45	1.40

Source: Fitch Ratings

Canada

Canada's economy is stagnating, as higher interest rates and a slowing US economy offset rapid population growth. This is likely to persist in 1H24, but Bank of Canada (BOC) rate cuts will help to stoke a recovery in 2H24 and into 2025.

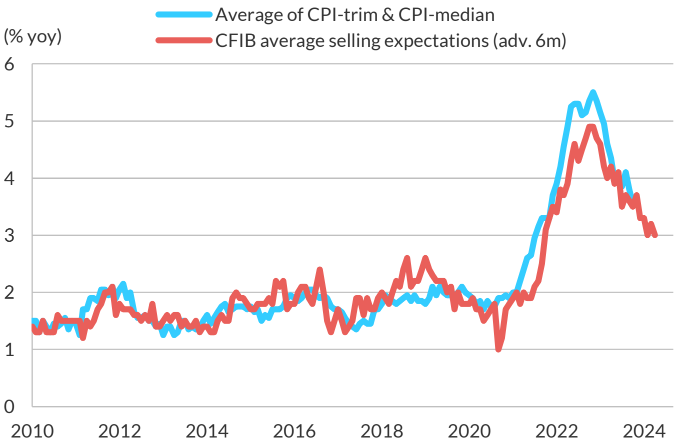
The 0.3% qoq (non-annualised) decline in 3Q23 GDP was worse than the stagnation that we had expected in September's GEO. But it followed an upwardly revised 0.3% increase in 2Q23, so the picture remains one of unchanged activity over the two quarters. This economic weakness is despite a surge in immigration that has boosted the population – in per-capita terms, Canada's GDP is contracting.

The near-term outlook remains downbeat. We no longer forecast a technical recession in the US economy, but we still expect US activity – a key determinant of Canada's exports – to be lacklustre. Moreover, the impact of past BOC monetary policy tightening is continuing to hit domestic economic activity. Investment has contracted more than 5% since 1Q22, primarily due to sequential contractions in residential investment. Business investment has fared better, but the BOC's Business Outlook Survey suggests that this is slowing.

Responses to the Canadian Survey of Consumer Expectations for 3Q23 indicate that households are cutting back on spending and shifting their savings to higher-rate accounts. Household credit growth has also slowed sharply. More than half of mortgage borrowers have yet to see monthly payments increase, with many fixed-term mortgages due to reset in 2025. There is also evidence that the labour market is cooling: job vacancy rates have fallen, while employment gains are not keeping pace with rapid population growth. The unemployment rate has already risen to 5.8% in November from 5% at the start of 2023, and we expect it to climb further in 2024.

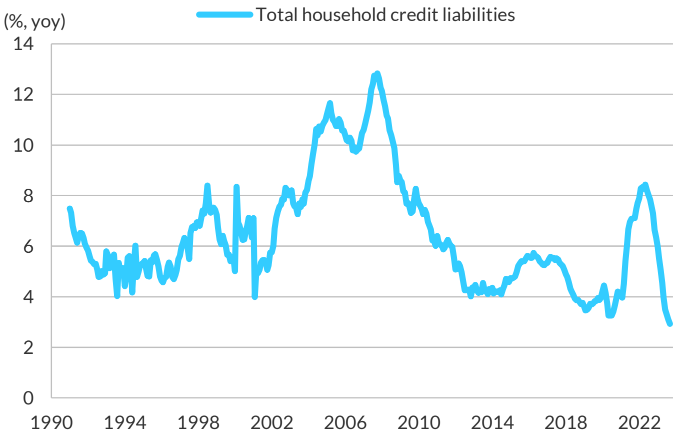
Headline inflation fell to 3.1% in October, the 3m/3m annualised rates of CPI-trim and CPI-median have been stable since the spring. Surveys of businesses' price expectations and input cost difficulties point to headline and core inflation easing in the coming months. We think that by April, the BOC will be more confident that the recent decline in inflation has become sustained, so we expect it to start cutting rates then. We forecast the policy rate to fall to 4% by end-2024 and 3% by end-2025, though would not rule out the BOC cutting more rapidly if inflation subsides more quickly than expected.

Canada - Firms' Selling Price Expectations & Core CPI



Source: Fitch Ratings, BOC, CFIB, Haver Analytics

Canada - Household Credit Liabilities



Source: Fitch Ratings, StatCan, Haver Analytics

Canada - Forecast Summary

(%)	Annual Avg. 2018-2022	2022	2023F	2024F	2025F
GDP	1.7	3.8	1.1	0.5	1.7
Consumer spending	1.6	5.1	2.1	0.6	1.5
Fixed investment	1.3	-2.4	-2.3	0.7	2.5
Net trade (contribution pp)	-0.5	-1.5	1.0	-0.3	0.0
CPI inflation (end-year)	3.0	6.3	3.0	2.5	2.0
Unemployment rate	6.8	5.3	5.4	6.4	6.1
Policy interest rate (end-year)	1.20	4.25	5.00	4.00	3.00
Exchange rate, USDCAD (end-year)	1.30	1.36	1.35	1.35	1.35

Source: Fitch Ratings

Brazil

Economic activity weakened in 2H23 after strong momentum earlier in the year, rising by a seasonally adjusted 0.1% qoq in 3Q23 after 1.4% in 1Q23 and 1.0% in 2Q23. Fitch expects growth of 3.0% for 2023 as a whole. Economic momentum has cooled amid the lagged effect of still-restrictive (albeit loosening) monetary conditions and the end of the exceptionally strong agricultural harvest. Private consumption was steady, however, supported by a strong job market, real wage recovery, and a fiscal impulse this year. Investment has been the weak spot, and Fitch projects it will contract 3.4% in 2023.

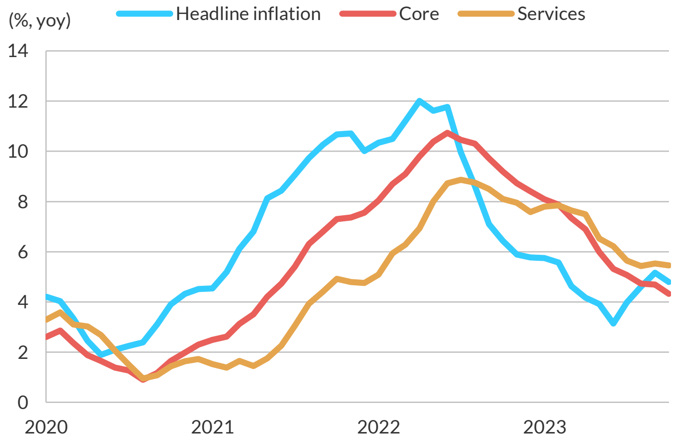
We expect growth to slow to 1.5% in 2024, reflecting normalisation in agricultural output but steady domestic demand. Consumption should remain supported by the labour market, and less restrictive monetary policy could balance out the impact of a moderate fiscal tightening.

Inflation was 4.7% in October, having risen from a low of 3.2% in June due to base effects from fuel tax cuts in 2022. Recent sequential prints have signalled limited inertia, however, and core inflation net of the fuel-price effects has continued to decline to 4.3% yoy. Services inflation has proven somewhat stickier. Fitch has revised its end-2023 inflation projection to 4.5%, and projects 4.0% for 2024.

We expect the central bank (Banco Central do Brasil) will make one more cut to the Selic policy rate of 50bp by end-2023, bringing it to 11.75% from a peak of 13.75% before the loosening cycle began in August. We expect the BCB will lower Selic to 9.0% by the end-2024, but it could take a more cautious approach should rising uncertainty on the fiscal outlook or global developments put pressure on inflation expectations.

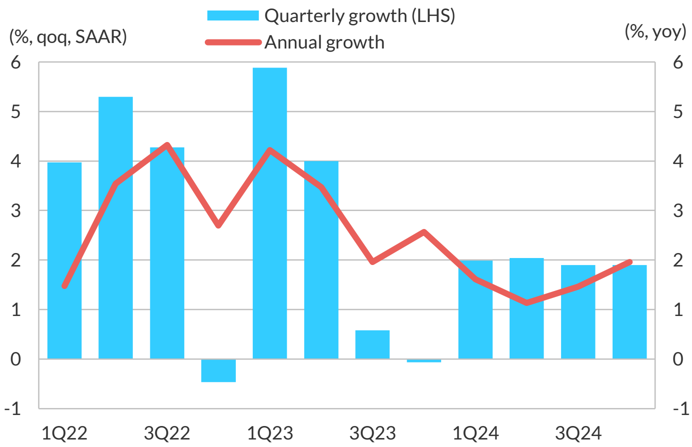
The Brazilian real is hovering about BRL/USD 5.0, having fluctuated in recent months due to local and external developments, but preserved gains from earlier in the year. A significant strengthening in the trade balance (reflecting both cyclical and structural factors) has supported the real, helping it to shrug off some concerns about the fiscal outlook, but this could remain a risk going into 2024.

Brazil - Inflation Measures



Source: Fitch Ratings, IBGE, Haver Analytics

Brazil - GDP Growth



Source: Fitch Ratings, IBGE, Haver Analytics

Brazil - Forecast Summary

(%)	Annual Avg. 2018-2022	2022	2023F	2024F	2025F
GDP	1.5	3.0	3.0	1.5	2.1
Consumer spending	1.5	4.1	3.4	2.7	2.4
Fixed investment	4.3	1.0	-3.4	-0.2	2.4
Net trade (contribution pp)	-0.1	0.7	1.4	0.0	-0.1
CPI inflation (end-year)	5.6	5.8	4.5	4.0	3.5
Policy interest rate (end-year)	6.55	13.75	11.75	9.00	8.50
Exchange rate, USDBRL (end-year)	4.66	5.22	5.00	5.10	5.20

Source: Fitch Ratings

Russia

The economy continues to surprise with stronger than expected outturns driven by strong consumption and investment spending but offset by deteriorating net trade. Growth in 3Q23 increased 5.5% yoy (on a non-seasonally adjusted basis), which according to our calculations corresponds to a 1.5% quarterly increase (on a seasonally adjusted basis). A breakdown of GDP is not available, but recent high-frequency indicators point to ongoing strength. Retail sales, construction activity and services output have been strong, with consumption supported by high credit growth, rising real wages and a historically low unemployment rate.

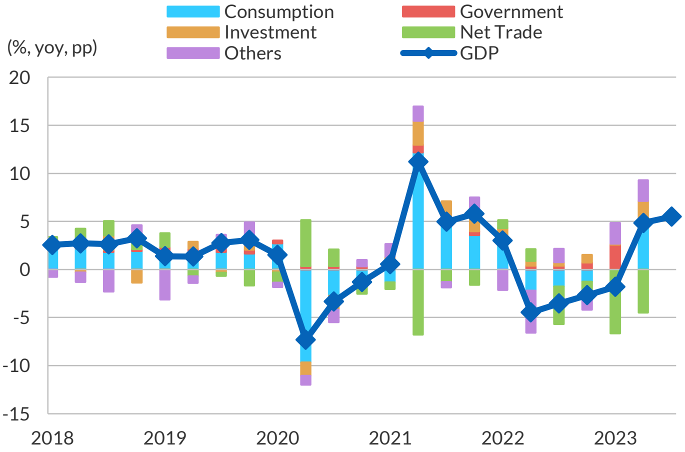
We now expect the economy to grow 2.3% in 2023, an upward revision on our previous projection of 1.9%. The strength of domestic demand has been reflected, among other factors, in rising imports that contributed to the weakening in the Russian rouble. But as the economy slows in response to tighter monetary policy we expect consumption and imports to decelerate rapidly in 2024. Strong domestic demand also has been met by growing constraints on the supply side of the economy and this has been reflected in increasing labour market shortages and rising capacity utilisation, the latter close to all-time highs.

With unemployment at 3%, the tightness in labour market is being compounded by mobilisation and emigration, resulting in rising wages and, in turn, higher prices. As a consequence, inflationary pressures have built up in the economy.

Headline inflation had dropped to a low of 2.3% in April 2023 but has picked up in recent months to 6.7% in October with a further increase in the annual rate expected in the near term. Rising CPI inflation has been driven by the goods sector with services inflation remaining persistently high. Core inflation has also climbed back above the Central Bank of Russia's 4% target and earlier rouble weakness has added to inflationary pressures. In response, inflation expectations among households increased and have remained high in the corporate sector.

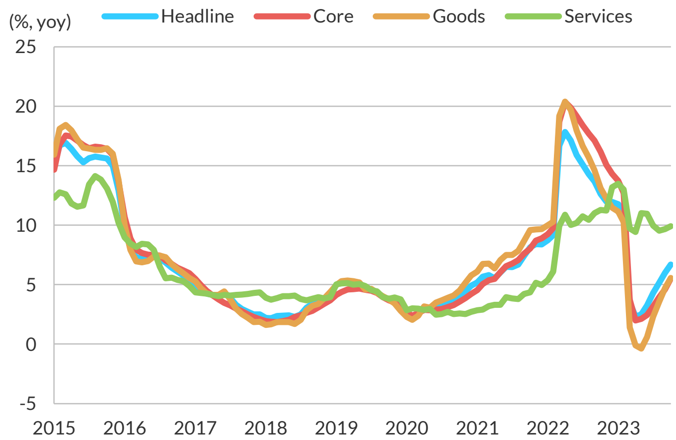
Against this inflationary backdrop, the central bank has tightened policy rates by an additional 300bp since September to 15%. The bank's statement following the decision stated that it "will take into account actual and expected inflation dynamics" in coming meetings. Given the underlying inflationary pressures we now expect the central bank to raise rates to 16% at its final MPC meeting in December and to then keep them at that level until the spring of 2024.

Russia - GDP and Components



Source: Fitch Ratings, ROSSTAT, Haver Analytics

Russia - Inflation Rates



Source: Fitch Ratings, ROSSTAT, Haver Analytics

Russia - Forecast Summary

(%)	Annual Avg. 2018-2022	2022	2023F	2024F	2025F
GDP	1.2	-2.1	2.3	1.5	1.2
Consumer spending	2.1	-1.4	5.1	-0.5	1.3
Fixed investment	2.0	3.3	8.0	0.8	0.7
Net trade (contribution pp)	-0.3	-1.1	-2.6	0.7	0.3
CPI inflation (end-year)	6.2	11.9	7.0	6.0	4.5
Policy interest rate (end-year)	7.32	7.50	16.00	10.00	7.50
Exchange rate, USDRUB (end-year)	68.33	70.34	88.00	90.00	92.00

Source: Fitch Ratings

India

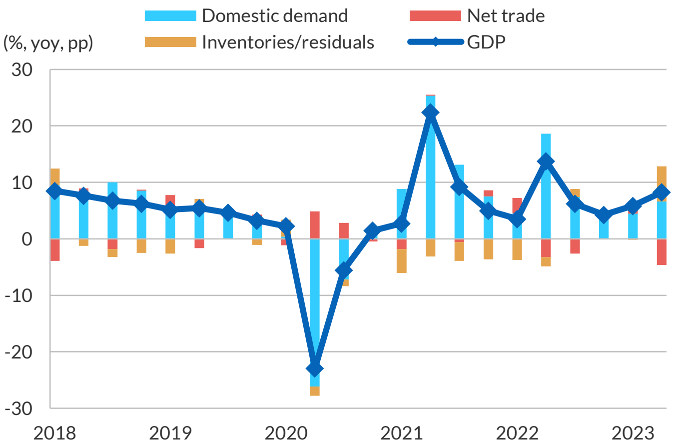
India's economy continues to show resilience amid a challenging global backdrop with growth likely to be the fastest among large emerging markets. The growth outturn in 3Q23 was stronger than expected with GDP increasing 7.6% yoy on a non-seasonally adjusted basis, outpacing the 6.0% yoy we had expected in September's GEO. The boost to growth came from government spending and investment with some offset from weak consumption and a slowdown in the agricultural and services sectors.

Given the strength in 2Q23 and 3Q23, we now expect fiscal year (FY) 2023-2024 to be 6.9% rather than the 6.3% we had expected in September's GEO. High-frequency indicators point to ongoing near-term economic growth with autos sales higher, e-way bills (a permit needed for inter-state and intra-state transportation of goods) reaching an all-time high in October and retail sales remaining strong. We have not changed our growth forecasts for the outer years, though this still represents a slowdown from our forecast for the current fiscal year. Growth of 6.5% in FY24-25 would reflect a degree of external weakness and the cumulative impact of past monetary tightening.

Inflation slowed more than expected in October, easing to 4.9% and is well within the Reserve Bank of India's (RBI) CPI tolerance band of 2%-6%. Nevertheless, we have maintained our end-2023 forecast of 5.5% given the gradual increase in daily prices of tomatoes and other foods staples in recent weeks. Rapid increases in tomato prices were largely responsible for the surge in headline inflation during July and August of this year. Moreover, the threat of the El Niño weather pattern mean that food price shocks could still affect near-term headline inflation. We expect headline inflation to decelerate next year, though it is likely to remain volatile, and for core CPI to fall further. Core inflation is already just above the RBI's target of 4%.

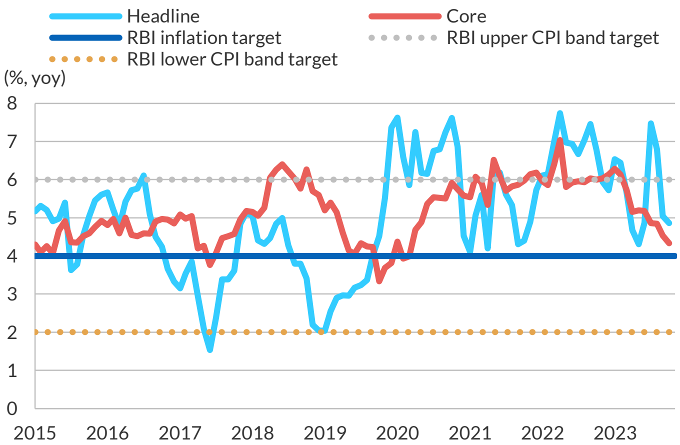
The RBI has kept policy rates at 6.5% since February 2023 and we expect these to remain until 2Q24. Recent communication from the bank has been hawkish with the RBI governor saying in a speech in late October that "the outlook on food inflation is beset with uncertainties". That was followed by comments in November that "headline inflation remains vulnerable to recurring and overlapping food price shocks". The RBI has also recently raised its growth forecast for (FY) 2023-2024.

India - GDP Growth and Components



Source: Fitch Ratings, CSO, Haver Analytics

India - Inflation Measures



Source: Fitch Ratings, MOSPI, Haver Analytics

India - Forecast Summary

(%) FY starting April	Annual Avg. 2018-2022	FY22-23	FY23-24F	FY24-25F	FY25-26F
GDP	4.2	7.2	6.9	6.5	6.5
Consumer spending	5.2	7.5	3.6	3.8	5.1
Fixed investment	6.2	11.4	10.0	9.7	7.9
Net trade (contribution pp)	0.2	-1.0	-5.3	0.3	0.3
CPI inflation (end-cal. year)	5.2	5.7	5.5	4.7	4.5
Policy interest rate (end-cal. year)	5.04	6.25	6.50	5.75	5.75
Exchange rate, USDINR (end-cal. year)	73.09	82.79	82.00	82.00	82.00

Source: Fitch Ratings

Korea

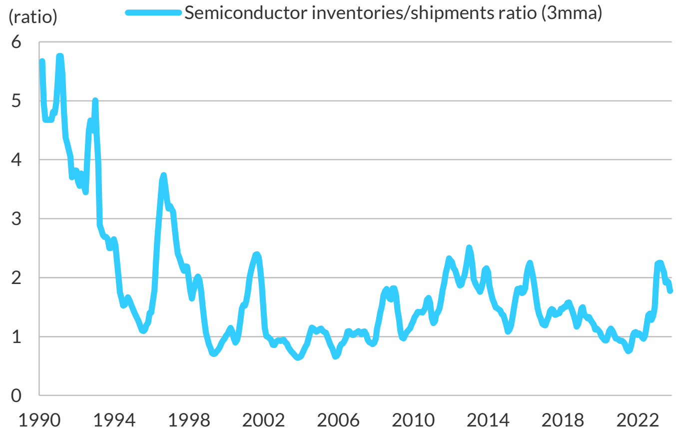
In 3Q23, Korea's GDP increased by 0.6% qoq, helped by a modest recovery in domestic demand and a positive contribution from net trade. The monthly data suggest a mixed picture for 4Q23: in November, goods exports fell and the latest set of PMIs suggest further weakness in industrial production after October's 3.5% month-on-month slide. We anticipate a gradual export recovery to persist in 2024. The semiconductor cycle is now on an upward trend, but Korean manufacturers still have high inventories relative to shipments, so any near-term boost to output is likely to be limited. Slower Chinese economic growth will also be a challenge.

Domestic demand is likely to be weak in 1H24. Business sentiment remains downbeat and the Federation of Korean Industries' investment intentions survey fell sharply in November. Interest rates on new loans to companies have stabilised at a high level and growth in bank lending to corporates is slowing. It is a similar picture for indebted households, with the effective interest rate on outstanding loans at about 5% since the start of 2023. This has crimped consumer lending. However, household debt is still close to a record high at 101.7% of GDP in 2Q23, according to Bank of Korea (BOK) data.

The BOK has kept its policy rate at 3.5% since January 2023 to dampen inflationary pressure. Headline inflation had climbed in recent months due to higher food and fuel prices, but this was partly reversed in November. Core inflation also fell, to 3%, for the first time since March 2022. Fitch expects headline inflation to slow to 2% by end-2024 and 1.7% by end-2025.

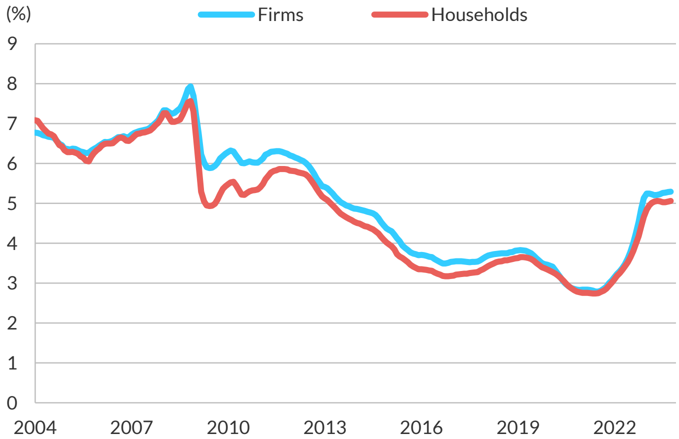
The recent strength in inflation and concerns about a reacceleration in household debt accumulation means the BOK is likely to retain its "hawkish hold" status for longer than we had expected. In its late November decision, the BOK said it would maintain a restrictive stance for a "sufficiently long period of time". By the summer of 2024, we think that it will start to cut rates, lowering the policy rate to 3% by year-end and then further in 2025, to 2.5%. That easing of monetary conditions will help to spur faster economic growth, and we expect GDP growth to accelerate to 2.1% in 2024 and 2.7% in 2025 from 1.3% in 2023.

Korea - Semiconductor Inventory-to-Shipments Ratio



Source: Fitch Ratings, KOSTAT, Haver Analytics

Korea - Interest Rate on Outstanding Loans



Source: Fitch Ratings, Bank of Korea, Haver Analytics

Korea - Forecast Summary

(%)	Annual Avg. 2018-2022	2022	2023F	2024F	2025F
GDP	2.3	2.6	1.3	2.1	2.7
Consumer spending	1.6	4.1	1.9	1.7	2.2
Fixed investment	0.4	-0.5	1.6	1.7	2.9
Net trade (contribution pp)	0.7	0.2	-0.1	0.8	0.4
CPI inflation (end-year)	2.0	5.0	3.2	2.0	1.7
Policy interest rate (end-year)	1.31	3.25	3.50	3.00	2.50
Exchange rate, USDKRW (end-year)	1,176	1,267	1,300	1,300	1,300

Source: Fitch Ratings

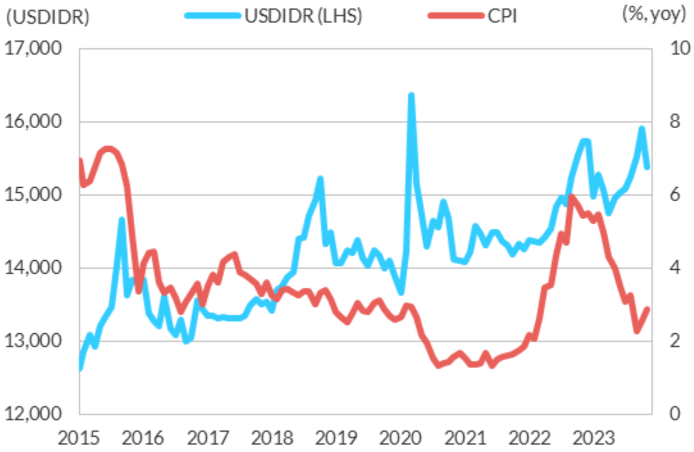
Indonesia

We have kept our 2023 growth forecast at 5%, given that growth in 3Q23 was 4.94% yoy on a non-seasonally adjusted basis and was close to out September projection of 5.1% yoy. The expenditure breakdown of annual GDP showed strong household consumption, a decline in government spending, a pick-up investment and a contraction in export growth. The economy experienced a slowdown in the agricultural sector with growth hampered by drought caused by the El Niño weather pattern while manufacturing output continued to increase. Lower commodity prices and weaker global demand weighed heavily on exports in 3Q23. However, high-frequency data point to near-term growth momentum in the economy as reflected in upbeat consumer confidence, higher income expectations and a PMI index that signals ongoing expansion in the manufacturing sector.

Headline annual inflation had been moderating for most of this year, dropping to a low of 2.3% in September, but then reversed course and rose to 2.9% in November driven by an acceleration in basic food prices. The inflation rate remains below Bank Indonesia's (BI) target of 3% (+/- 1%), but it is alert to the risk of a rise in headline CPI. Global food prices also remain vulnerable to near-term increases given ongoing concerns over the El Niño. Imported inflation remains a concern for Indonesia and recent weakness in the rupiah could accentuate that trend. However, core inflation continues to slow with the annual rate dropping to 1.87% in November.

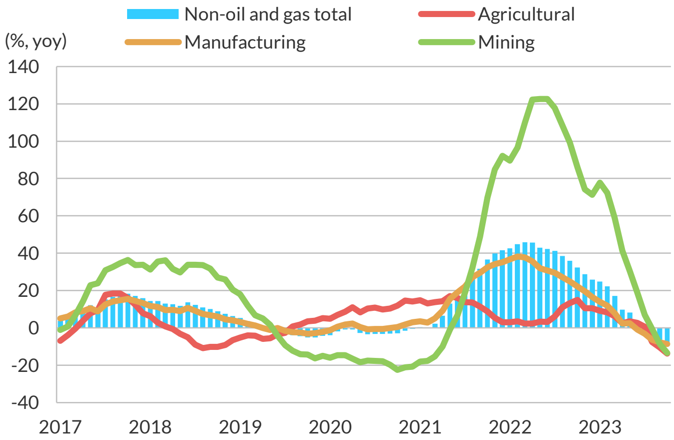
BI unexpectedly increased policy rates in October to 6%, primarily with a view to stabilising the currency but also cognisant of rising food prices. The move by BI and its hawkish tone in its October statement has led us to revise our forecast for policy rates: we now expect them at 6% until 1Q24 before easing to 5.25% by end-2024 (we had expected rates to peak at 5.75%). BI has increased policy rates by a cumulative 250bp since August 2022 and this should help to cushion inflationary pressures. The rupiah has appreciated since October and we expect the USD/IDR to settle at 15,400 by end-2023.

Indonesia - Exchange Rate and Inflation



Source: Fitch Ratings, IMF, Badan Pusat Statistik, Haver Analytics

Indonesia - Non-Oil and Gas Exports



Source: Fitch Ratings, Badan Pusat Statistik, Haver Analytics

Indonesia - Forecast Summary

(%)	Annual Avg. 2018-2022	2022	2023F	2024F	2025F
GDP	3.4	5.3	5.0	5.0	5.2
Consumer spending	2.9	4.9	5.1	4.2	4.7
Fixed investment	2.8	3.9	4.8	6.3	5.4
Net trade (contribution pp)	0.5	0.8	0.3	0.4	0.7
CPI inflation (end-year)	2.8	5.5	2.6	3.0	2.5
Policy interest rate (end-year)	4.50	5.50	6.00	5.25	4.50
Exchange rate, USDIDR (end-year)	14,425	15,731	15,400	15,200	15,000

Source: Fitch Ratings

Mexico

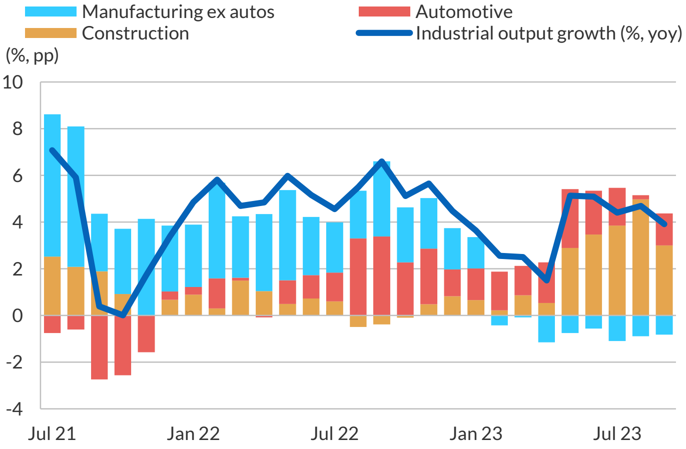
We have raised our 2023 growth forecast by 0.3pp since the September GEO to 3.4%. Growth accelerated to 1.1% qoq in 3Q23, faster than we expected, benefitting from a steep increase in investment and robust consumption. The latter is supported by falling unemployment and rising wages. We have raised our 2024 growth forecast to 2.4% (September: 1.8%), factoring in higher carryover from 2023, a more moderate slowdown in the US economy and benefits from nearshoring investments. Mexico's market share of US imports has been rising, surpassing China in mid-2023. Lastly, fiscal policy will also support growth in 2024.

The steep investment increase in 1H23 (averaging 18%) provides an early signal of rising demand for Mexican manufacturing production due to nearshoring effects. However, non-residential construction, also related to the execution of public infrastructure projects in the south of Mexico (Tren Maya and the Tehuantepec inter-oceanic corridor) was also a major driver of industrial output growth in 3Q23, and this is now fading. Non-automotive manufacturing growth has decelerated.

Annual inflation continues to decline, reaching 4.3% in November from its peak of 8.7% in September 2022. Core inflation has been stubbornly high (although it fell by 0.2pp to 5.3% in November), held aloft mostly by the lagged demand recovery in services following pandemic-related disruptions. We forecast inflation to be at 4.3% by year-end and to continue declining to below 4% in the coming years, helped by the impact of earlier monetary tightening.

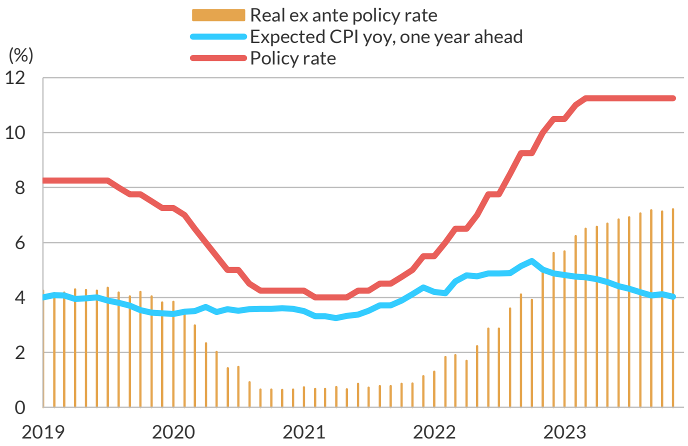
Banco de Mexico (Banxico) policymakers have pursued a conservative stance throughout the rate-tightening cycle and have kept the policy rate at 11.25% since May 2023 while some other emerging-market central banks have started to cut. Banxico's board continues stress the need to maintain the policy rate unchanged to ensure inflation convergence with the central bank's target range. High ex-ante real interest rates will enable Banxico to ease its monetary policy rate ahead of the Federal Reserve. Fitch anticipates Banxico will start its monetary policy easing by 1Q24 absent lingering inflationary pressures, particularly in services and other core inflation items.

Mexico - Industrial Output



Source: Fitch Ratings, INEGI

Mexico - Policy Rate, CPI Expectations



Source: Fitch Ratings, Banco de México, Haver Analytics

Mexico - Forecast Summary

(%)	Annual Avg. 2018-2022	2022	2023F	2024F	2025F
GDP	0.6	3.9	3.4	2.4	2.2
Consumer spending	1.3	6.2	4.6	2.3	2.3
Fixed investment	-0.6	8.6	18.3	4.3	2.8
Net trade (contribution pp)	0.0	-0.1	-4.8	-0.7	-0.2
CPI inflation (end-year)	5.1	7.8	4.4	4.0	3.8
Policy interest rate (end-year)	6.66	10.50	11.25	9.25	7.50
Exchange rate, USDMXN (end-year)	20.08	19.41	17.20	18.00	18.50

Source: Fitch Ratings

Poland

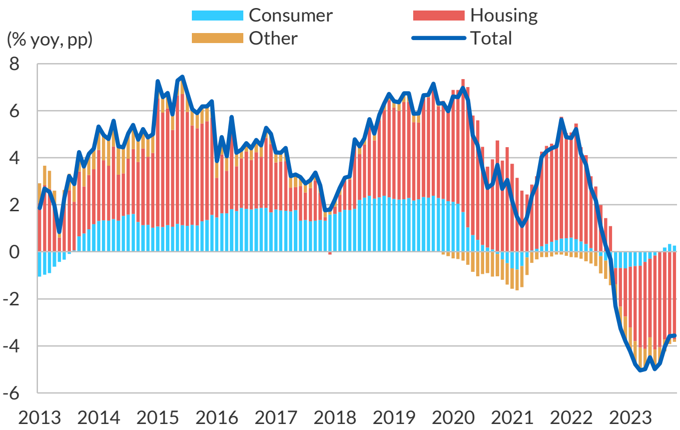
The economy remains weak but we expect growth to recover in 2024 and 2025. The economy expanded 0.5% yoy in 3Q23 (on a non-seasonally adjusted basis); on a seasonally adjusted basis this equates to a gain of 1.5% qoq, with consumption providing a boost to growth. Net trade also contributed as imports fell more rapidly than exports. High-frequency data suggest 4Q23 growth should further improve, though the industrial sector remains under pressure. Given the stronger than expected outturn in 3Q23 and momentum in the economy, we have revised growth modestly higher in 2023 to 0.6% from our previous forecast of 0.4%.

We expect GDP to grow faster in 2024 as consumption recovers, helped by further slowing inflation, growing consumer confidence, still-strong nominal wage growth and social transfer increases. The latter include the introduction of a permanent pension payment and the increase in the Family 500 plus child benefit allowance from 2024. Household credit continues to decline as mortgage loans fall but consumer credit is gradually improving. The large drag from inventories is also expected to fade. However, this will be tempered by the subdued economic outlook in the eurozone and the UK.

Headline inflation has fallen rapidly, easing more than we projected in September, with core inflation also continuing to slow. Weaker inflation trends will be helped by a moderation in nominal wages – though these remain elevated. Inflation expectations over the next 12 months for consumers and enterprises have also dropped noticeably. Inflationary pressures will ease further into next year.

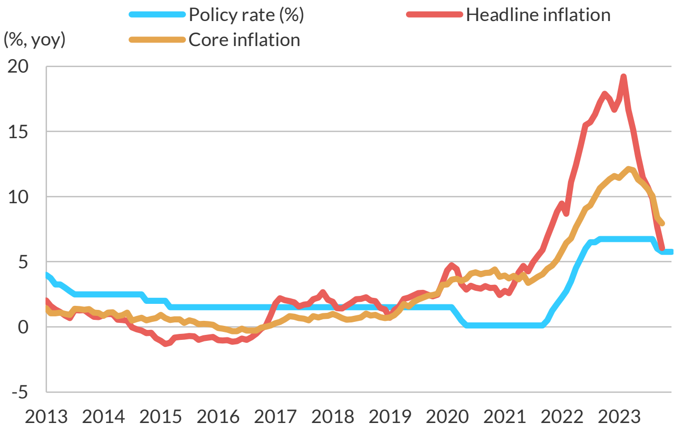
The central bank (NBP) kept policy rates at 5.75% in November after cutting by a total of 100bp in September and October. In the October policy statement, the NBP had suggested that future decisions would depend on inflation (taking into account the extension of the freeze in electricity and gas prices) and the outlook for growth. We had expected the NBP to cut rates to 5.5% by end-2023 but now expect it to keep them at 5.75% until 1Q24, before easing rates to 5% in the course of next year. Despite the rate cuts, the zloty has strengthened against the US dollar in recent weeks on expected improved relations with the EU and the NBP's near-term less dovish stance on policy rates.

Poland - Household Loans by Type



Source: Fitch Ratings, National Bank of Poland, Haver Analytics

Poland - Policy Rates and Inflation Rates



Source: Fitch Ratings, National Bank of Poland, Central Statistical Office, Haver

Poland - Forecast Summary

(%)	Annual Avg. 2018-2022	2022	2023F	2024F	2025F
GDP	4.1	5.3	0.6	2.5	3.2
Consumer spending	3.0	5.2	0.0	2.9	3.5
Fixed investment	4.3	4.9	6.5	3.5	3.1
Net trade (contribution pp)	0.2	0.1	3.3	-0.4	0.0
CPI inflation (end-year)	5.4	16.7	6.2	5.0	4.0
Policy interest rate (end-year)	1.83	6.75	5.75	5.00	4.50
Exchange rate, USDPLN (end-year)	3.93	4.40	4.10	4.20	4.20

Source: Fitch Ratings

Turkiye

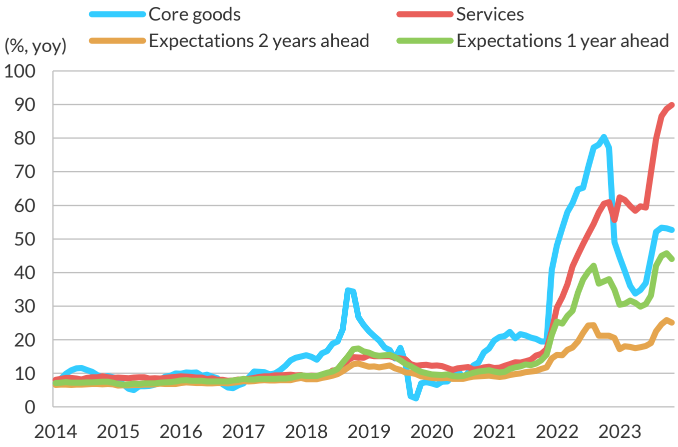
The Central Bank of the Republic of Turkiye (CBRT) has tightened policy rates by 31.5pp since June 2023 and simplified the macro-prudential framework, after it adopted a more orthodox approach to monetary policy. The Bank main policy rate was lifted to 40% in November and the accompanying CBRT statement signalled that the current tightening cycle might be ending. The "level of monetary tightness is significantly close to the level required to establish the disinflation course," it said. However, given still-high annual inflation rates and rising inflation expectations, we expect the CBRT to raise rates twice more to a peak of 45%. We expect the Bank to implement two more 250bp moves at December's policy meeting and in January 2024, and for rates to then remain unchanged until mid-2024.

Annual headline CPI rose to 62% in November with services sector inflation climbing to almost 90%, driven by strong increases in the housing component of CPI. The election-related stimulus, increases in taxes and administered prices and significant depreciation in the Turkish lira has damaged pricing dynamics and we don't expect this to end soon. Core inflation (using the 'C' measure that excludes food, energy and other volatile items) also increased further to 70% in November.

The cumulative impact of monetary tightening already appears to be having an impact on domestic demand. Consumer confidence is lower, credit growth is slowing and surveys that assess future spending on durable goods by households are also weakening. The manufacturing PMI is below 50, with new orders, output and employment all moderating. The slowdown in the eurozone economy also presents an external challenge for the Turkish one. Some of these trends were also apparent in the 3Q23 GDP data, with consumption recording the first contraction since late 2020 though fixed investment growth hit a three-year high.

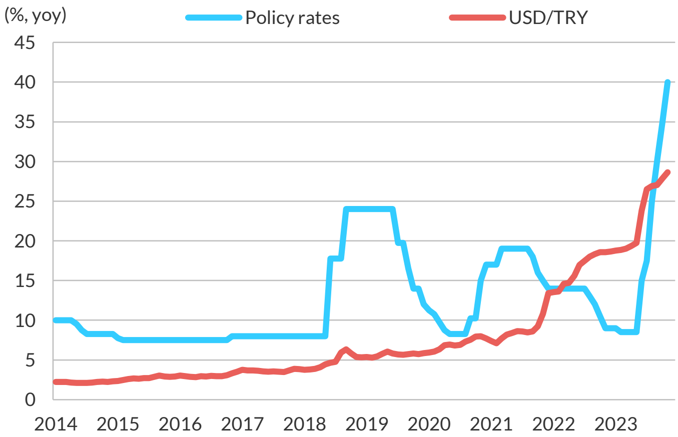
For the economy as a whole growth was 0.3% qoq in 3Q23, close to our September GEO forecast of 0.4% qoq. Given the extra monetary tightening that has already been implemented along with increased external hurdles, we now expect growth in 2024 to be 2.5%, below the 3% we had expected.

Turkiye - CPI and Inflation Expectations



Source: Fitch Ratings, CBRT, Haver Analytics

Turkiye - Policy Rates and USD/TRY



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

Turkiye - Forecast Summary

(%)	Annual Avg. 2018-2022	2022	2023F	2024F	2025F
GDP	4.5	5.5	4.1	2.5	3.2
Consumer spending	7.9	18.9	12.3	1.4	2.3
Fixed investment	0.7	1.3	9.6	4.5	2.5
Net trade (contribution pp)	1.3	0.7	-3.3	0.2	0.4
CPI inflation (end-year)	27.1	64.3	65.0	38.0	25.0
Policy interest rate (end-year)	15.30	9.00	42.50	37.50	27.50
Exchange rate, USDTRY (end-year)	8.58	18.72	29.50	34.00	34.00

Source: Fitch Ratings

South Africa

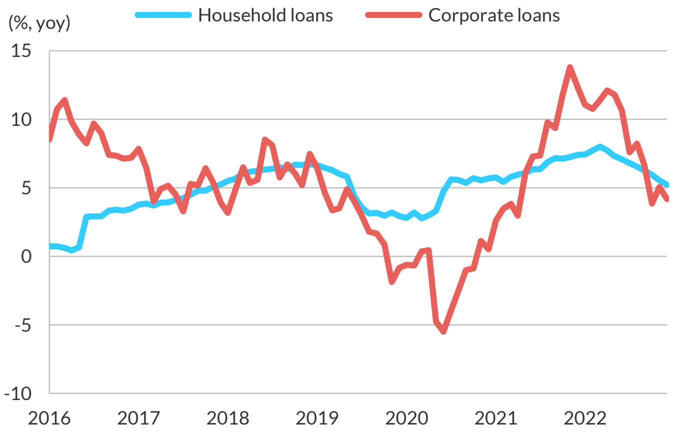
The economy remains weak, severely troubled by the impacts of electricity and logistics capacity constraints. On a seasonally adjusted basis, the economy contracted 0.2% qoq in 3Q23 (September GEO -0.4% qoq) driven by a decline in consumption and investment but supported by a sharp decline in imports. High-frequency data show a contraction in manufacturing and mining output, a slowdown in business confidence and a further deceleration in the growth of loans and advances to the private sector. Households are being affected by the 475bp cumulative increase in policy rates in the past two years, high inflation (particularly food and fuel), limited job creation and the impact of power cuts on the cost of living.

Tight lending conditions and high inflation have also dampened or postponed investment plans, according to CFO surveys. The South African Reserve Bank (SARB) recently upgraded its growth forecasts modestly for 2023 and 2024 based on the expectation that electricity supply will increase gradually in the medium term. However, frequent unplanned breakdowns at older power stations and constraints on grid capacity could continue to affect power supply.

Headline annual inflation increased further in October, reaching 5.9%, almost breaching the upper band of the SARB's inflation target of 4.5% (+/-1.5%). Higher food and fuel prices were behind the increase in overall CPI in October but we expect the drop in the price of crude oil since then to lower inflation by year-end. The upward pressure on food prices should also ease as the poultry sector gradually improves supply. However, El Niño remains a risk to the inflation outlook while rand weakness is also a concern. The rand has weakened for the past year but now appears to be steadying following the SARB's recent hawkish, higher-for-longer stance and this should help cushion inflationary pressures. Meanwhile, annual core CPI continues to slow and inflation expectations have moderated further.

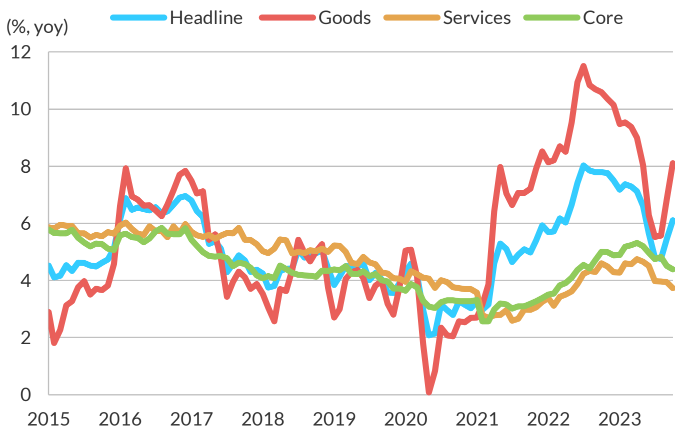
It now seems likely that the SARB will discount the recent rise in headline inflation and take comfort from slowing underlying pressures. We think the SARB has completed its tightening cycle and this contrasts with our previous expectation of one further 25bp rise before year-end. Nevertheless, given the risks to inflation picking up, we expect the SARB to leave the policy rate at 8.25% until 1Q24.

South Africa - Loans to Corporates and Households



Source: Fitch Ratings, South African Reserve Bank, Haver Analytics

South Africa - Inflation Rates



Source: Fitch Ratings, Statistics South Africa, Haver Analytics

South Africa - Forecast Summary

(%)	Annual Avg. 2018-2022	2022	2023F	2024F	2025F
GDP	0.5	1.9	0.5	0.9	1.3
Consumer spending	1.3	2.5	0.5	0.7	1.0
Fixed investment	-2.4	4.8	4.4	0.7	2.4
Net trade (contribution pp)	-0.3	-2.0	0.0	1.2	0.0
CPI inflation (end-year)	4.7	7.2	5.5	5.0	4.0
Policy interest rate (end-year)	5.25	7.00	8.25	7.00	5.75
Exchange rate, USDZAR (end-year)	15.06	16.99	18.60	18.50	18.50

Source: Fitch Ratings

Appendix 1

Quarterly GDP QOQ

(%)	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24
US	0.7	0.6	0.6	0.5	1.3	0.3	0.1	0.1	0.1	0.2
Eurozone	0.5	-0.1	0.1	0.1	-0.1	-0.1	0.2	0.3	0.4	0.4
China	3.7	0.8	2.3	0.5	1.3	0.3	1.3	1.4	1.6	1.8
Japan	-0.1	0.2	1.2	0.9	-0.7	0.1	0.4	0.3	0.3	0.3
UK	-0.1	0.1	0.3	0.2	0.0	-0.1	-0.2	0.3	0.4	0.5
Germany	0.4	-0.4	0.0	0.1	-0.1	-0.3	0.2	0.3	0.3	0.4
France	0.5	0.0	0.1	0.6	-0.1	0.2	0.2	0.3	0.3	0.4
Italy	0.3	-0.2	0.6	-0.4	0.1	0.0	0.2	0.3	0.3	0.3
Spain	0.5	0.5	0.6	0.4	0.3	0.2	0.4	0.5	0.4	0.5
Switzerland	0.2	0.0	0.3	-0.1	0.3	0.2	0.3	0.4	0.5	0.5
Australia	0.2	0.9	0.5	0.4	0.2	0.1	0.3	0.5	0.6	0.6
Canada	0.5	-0.2	0.6	0.3	-0.3	0.1	0.1	0.2	0.3	0.4
Brazil	1.1	-0.1	1.4	1.0	0.1	0.0	0.5	0.5	0.5	0.5
Russia	1.0	1.0	0.7	0.9	1.5	0.4	0.1	0.1	0.1	0.1
India	2.7	1.4	1.3	2.6	2.1	0.0	0.9	2.2	2.2	1.7
Korea	0.2	-0.3	0.3	0.6	0.6	0.3	0.4	0.6	0.8	0.8
Mexico	1.2	0.7	0.6	0.9	1.1	0.9	0.3	0.4	0.5	0.4
Indonesia	0.9	1.5	1.5	1.3	0.7	1.1	1.4	1.4	1.3	1.3
Turkiye	0.5	1.1	-0.3	3.3	0.3	0.7	0.4	0.3	0.4	0.6
Poland	0.6	-2.3	1.1	0.3	1.5	0.6	0.4	0.6	0.3	0.9
South Africa	1.8	-1.1	0.4	0.5	-0.2	0.1	0.4	0.4	0.3	0.3
Developed [a]	0.4	0.3	0.5	0.4	0.6	0.1	0.1	0.2	0.2	0.3
Emerging [b]	2.7	0.7	1.7	0.9	1.2	0.3	1.0	1.2	1.3	1.4
Emerging ex China	1.3	0.5	0.9	1.4	1.1	0.3	0.5	0.9	0.9	0.8
World [c]	1.3	0.5	1.0	0.6	0.8	0.2	0.5	0.6	0.6	0.7

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

Appendix 2

Quarterly GDP YOY

(%)	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24
US	1.7	0.7	1.7	2.4	3.0	2.6	2.1	1.7	0.5	0.5
Eurozone	2.4	1.8	1.3	0.6	0.0	0.0	0.2	0.4	0.9	1.4
China	3.9	2.9	4.5	6.3	4.9	4.4	3.3	4.3	4.5	6.1
Japan	1.5	0.6	2.5	2.3	1.6	1.4	0.6	0.0	1.1	1.3
UK	2.1	0.7	0.5	0.6	0.6	0.3	-0.2	-0.1	0.3	0.9
Germany	1.2	0.8	-0.2	0.1	-0.4	-0.3	-0.2	0.0	0.5	1.2
France	1.3	0.8	0.9	1.2	0.6	0.7	0.9	0.6	1.1	1.2
Italy	2.6	1.6	2.1	0.3	0.1	0.3	-0.1	0.6	0.9	1.2
Spain	5.3	3.8	4.1	2.0	1.8	1.5	1.4	1.5	1.6	1.9
Switzerland	1.1	1.1	1.6	0.3	0.3	0.7	0.6	1.2	1.4	1.7
Australia	5.8	2.3	2.4	2.0	2.1	1.3	1.1	1.1	1.5	2.1
Canada	4.0	2.2	1.8	1.2	0.5	0.8	0.2	0.1	0.7	1.1
Brazil	4.3	2.7	4.2	3.5	2.0	2.6	1.6	1.1	1.5	2.0
Russia	-3.5	-2.7	-1.8	4.9	5.5	3.6	3.0	2.2	0.7	0.3
India	6.2	4.5	6.1	7.8	7.6	6.1	5.7	5.3	5.4	7.2
Korea	3.2	1.4	0.9	0.9	1.4	1.9	1.9	1.9	2.1	2.5
Mexico	5.0	4.5	3.5	3.4	3.3	3.6	3.2	2.7	2.1	1.6
Indonesia	5.7	5.0	5.0	5.2	4.9	4.6	4.5	4.7	5.3	5.5
Turkiye	4.1	3.3	4.0	3.9	5.9	4.0	4.7	1.7	1.8	1.9
Poland	4.1	2.5	-0.3	-0.6	0.5	3.5	2.8	3.1	1.8	2.1
South Africa	4.1	0.8	0.2	1.5	-0.7	0.7	0.7	0.6	1.1	1.4
Developed [a]	2.0	0.9	1.6	1.8	1.9	1.7	1.3	1.0	0.7	0.9
Emerging [b]	3.8	2.7	3.8	5.4	4.6	4.2	3.4	3.7	3.8	4.9
Emerging ex China	3.6	2.5	2.9	4.2	4.2	3.8	3.5	2.9	2.7	3.2
World [c]	2.7	1.6	2.5	3.2	3.0	2.6	2.1	2.1	1.9	2.5

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

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