

February 7, 2022



Nigeria Strategy Report

H1 2022

Global Economy and Markets

Global: Running Out of Steam?

Executive Summary

The second half of 2021 for the global financial markets was headlined by nearly the same theme as was the first. Investors once again took the (stock market) bull by the horn, as surging commodity prices revved up global inflation while China's property and tech sectors shed a few billion quids amid regulatory crackdowns. Expectedly, a recovery from the worst pandemic the world has witnessed this century was never going to be a straightforward affair. Following improving global vaccination rate, nations around the world simultaneously stepped up their reopening efforts in a bid to bring back economic prosperity to pre-pandemic levels. However, the fast spreading variants of the coronavirus have not only triggered a slowdown in said efforts, they have also ensured that the global rebound will remain [as divergent as we initially predicted](#).

In the January 2022 version of its World Economic Outlook (WEO), the International Monetary Fund (IMF) kept its 2021 growth projections for the global economy unchanged at 5.9% but lowered its 2022 growth outlook to 4.4% (October 2021 estimate: 4.9%), an indication of slowing recovery momentum amid brewing uncertainties. The downward revision to global growth prospect reflects a downgrade in the forecast for Advanced Economies (from 5.2% to 5.0%), and this was partly due to supply chain disruptions which are stoking inflationary flames. Meanwhile, the stronger near-term prospects among some commodity-exporting Emerging Market and Developing Economies (EMDE's) (6.5% vs 6.4% in October 2021) helped neuter the risks of worsening pandemic dynamics in the region. Furthermore, the multilateral financial institution projects a moderation in global growth to c.3.8% over the medium-term (beyond 2022) as policy normalization emerges in what is expected as a post COVID era.

In this report, we look at the major themes that dominated the global, economic, and financial landscape in 2021, outlining our outlook for 2022.

Base effect play begins to fade

A host of economies recorded strong growth numbers in the second quarter of 2021, with recovery driven by increased economic activity post lockdown, a rebound in international trade, and low base from the Covid-ridden corresponding quarter in 2020. Q3 2021 brought about more moderate growth across board as the base effect boost began to fade while the Delta variant-linked infections became widespread.

We start off with the US, the world's largest economy, where growth slowed to 4.9%YoY and 2.3%QoQ (Q2 2021: 6.7%QoQ) in the third quarter of 2021, the slowest expansion since the start of the pandemic. Personal consumption receded during the quarter (2.0%QoQ from 12.0%QoQ in Q2 2021) as expenditure on motor vehicles and parts slumped amid rising Covid-19 cases that stretched global supply chains. Government spending rebounded, up 0.9%QoQ (Q2 2021: -2.0%) while net exports wiped over 1.16 percentage points off overall growth as exports declined by 5.3%QoQ (Q2 2021: 7.6%QoQ) and imports surged by 4.7%QoQ (Q2 2021: 7.1%QoQ). Also weighing on growth during the quarter was Hurricane Ida, which hampered offshore energy production at the end of August 2021 and cost an estimated \$62 billion in damages according to the White House. Despite the slower growth in Q3 2021, the underlying strength of the U.S. economy remained evident. The labor market is on a much stronger footing this time around with the economy adding 6 million plus jobs over the course of 2021 and the number of Americans filing for first time unemployment benefits dropping to a 52-year low last December. Consumer and business spending have remained on an upward trajectory despite a slowdown in stimulus support from Washington. Personal spending jumped 0.6%MoM in November 2021, its 6th consecutive gain as consumers continued to spend more amid large pay increases.

Notably, household wealth in the US soared to a new high of \$141.7 trillion at the end of H1 2021. The coffers of most households were bolstered by a pandemic-induced boom in the real estate sector and gains in the stock market, the latter of which fueled the increase in overall wealth and added \$3.5 trillion to households' assets in Q2 2021 alone. As for Inflation, last year's surge reflected resilient demand, shortage of both supplies and labor, fragile transportation networks and pandemic-induced pressures that are reverberating throughout the world economy. Precisely, Consumer Price Inflation (CPI) averaged 5.4% in Q3 2021 (Q2 2021: 4.9%), peaking at 7% in December 2021 while the Federal Reserve bank's preferred gauge of inflation, the PCE price index, rose to 5.8%YoY in the same month. In the face of rising prices globally, Central banks in some advanced economies, particularly the US Fed, remained firmly on the "Transitory Express", as they predicted that inflation would begin to ebb once the demand and supply imbalances were corrected.

There has since been a change of tone from the still Powell-led Fed Reserve Bank, with the Bank's chief even suggesting that it was time to retire the word "transitory" from his vocabulary as inflation had proven to be stickier than expected. Against this backdrop, the Central Bank decided it was time to begin reigning back its crisis support measures at the October 2021 meeting, going one better in December by announcing a quicker tapering of its bond-purchase programme. Consequently, the bank confirmed its plans to trim bond-buying by \$30 billion per month from January 2022 as against the \$15 billion per month it cut in November and December 2021. This latest move is expected to pave the way for an impending three consecutive quarters of interest rate hikes by the end of 2022 and a possible reduction in the Central Bank's nearly \$9 trillion balance sheet.

In the Eurozone, economic growth slowed to 3.9%YoY in the third quarter of 2021 from a record expansion recorded in the previous quarter (Q2 2021: 14.4%YoY). The weaker growth in Q3 2021 stemmed largely from a slowdown in key member states - Germany (2.5%YoY vs 10.5%YoY in Q2 2021), France (3.3%YoY vs 18.8%YoY in Q2 2021), Italy (3.9%YoY vs 17%YoY in Q3 2021) and Spain (3.4%YoY vs 17.7%YoY in Q2 2021), which cumulatively account for c.75% of the bloc's GDP. Placing Germany, the zone's largest economy, under the microscope, we witnessed a moderation in key GDP components. Private (1.6%YoY vs 6.5%YoY in Q2 2021) and government (2.2% vs 6%YoY in Q2 2021) spending dwindled in the face of strong price increases while imports (+8.9%YoY) outpaced exports (+5.5%YoY) during the quarter, mainly due to a sharp rise in service imports. On the flip side, labor market conditions strengthened as the number of employed persons rose by 0.9%QoQ and 2.1%YoY. In comparison to its advanced peers, the European Central Bank (ECB) seemed the most relaxed about the growing¹ global price pressures. The bank kept rates at record low levels and refused to commit to a full exit from its pandemic support programmes, despite reducing the pace of its asset purchases.

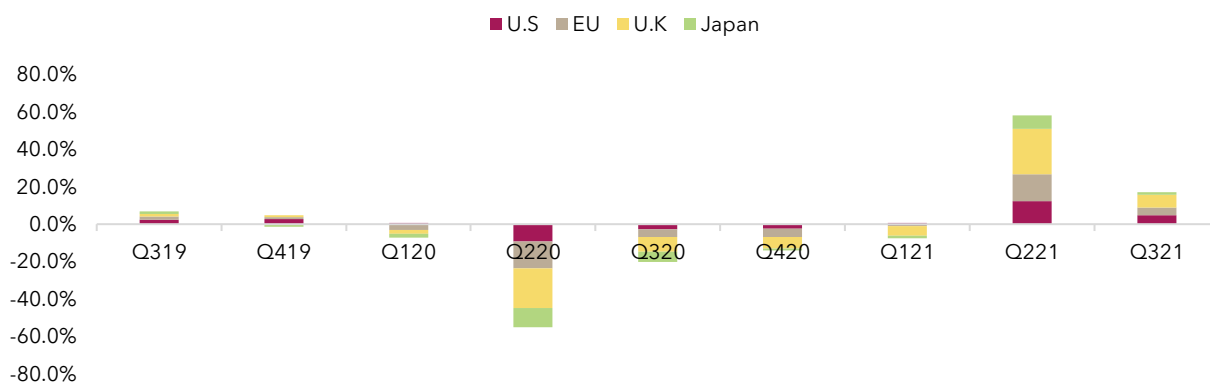
Over in the UK, economic growth slowed to 6.8%YoY in Q3 2021 (Q2 2021: 24.2%YoY). On the expenditure leg, expansion in household and government consumption waned to 5.3%YoY (Q2 2021: 22.5%YoY) and 13.7%YoY (Q2 2021: 35%YoY) respectively and that of Gross Fixed Capital Formation eased to 3.9%YoY during the quarter. Growth in the country's dominant service sector also slowed markedly, down to 7.4%YoY following a record 23.3% expansion in the preceding quarter. In the labor market, the jobless rate slumped to a 16-month low of 4.2% in October 2021, notably a month on from the expiration of the government's job-supporting furlough scheme, as the number of

¹ Annual Inflation in the zone jumped to as high as 5.0% in December 2021

employees on payroll rose by a record 257,278. Meanwhile, after surprising the market on occasions last year, the Bank of England (BoE) decided it was time to stop the recent jump in prices from developing into a longer-term problem. The Bank wrong footed investors last November when it held rates steady, affording policymakers time to assess the impact of any potential hit(s) to the labor market from the expiration of the government’s unemployment scheme. However, inflation accelerated to a decade high 5.1%YoY during the month, forcing members of the bank’s monetary policy committee to agree² to hike rates by 15bps to 0.25%. This put the BoE ahead of the U.S. Fed, ECB and BOJ as the world’s first major central bank to raise interest rates since the inception of the pandemic. However, the Bank did agree to let the £875 billion government bond-purchase program reach its full size while deciding to begin reinvesting the £20 billion corporate bond holdings in greener debt.

Although Japan’s economy expanded by 1.4%YoY in Q3 2021, the QoQ numbers painted a clearer picture of the country’s battle with the pandemic. GDP shrank by 0.9%QoQ, weighed on largely by a dip in household consumption (1.4%QoQ), public (2%QoQ) and business (2.3%QoQ) investments. Furthermore, exports slipped for the first time in five quarters, down 0.9%QoQ while imports also fell by 1% during the quarter. With the pandemic far from over and inflation on the rise³ but still well below the Bank of Japan’s (BOJ) 2% target, government spending quickened (1%QoQ vs 0.7%QoQ in Q2 2021) while the BOJ kept its key interest rate at a record low level, extending the September 2021 deadline for its pandemic-relief scheme by an additional 6 months. In addition, policymakers launched a new scheme to provide funds to financial institutions that invest or extend loans in relation with climate change issues, joining a growing number of central banks that are stepping up efforts to address its economic and financial impacts.

Figure 1: GDP growth in developed economies



Source: BEA, EUROSTAT, ONS, COJ, ARM Research

² The nine-member Monetary Policy Committee voted 8-1 in favour of a rate hike

³ Consumer Price Inflation rose to an almost two-year high of 0.8%YoY in December 2021

Varying Fortunes Across Emerging Markets

China was the only economy under our coverage to peak in the first quarter of 2021, expanding by 18.3%YoY. Since then, growth has moderated to 7.9%YoY in Q2 and then 4.9%YoY in Q3 2021. The world's second-largest economy, which initially staged an impressive rebound from last year's pandemic-induced slump, lost momentum after Q1 2021, as it contended with debt problems in the property market, a slowing manufacturing sector and persistent COVID-19 outbreaks.

Breaking down the numbers, growth in the services sector decelerated to 5.4%YoY in the quarter (Q2 2021: 8.3%YoY), hampered by COVID-19 flare ups that curtailed mobility. The industrial sector also grew at a slower pace (from 7.5%YoY in Q2 2021 to 3.6%YoY in Q3 2021), hit by the ailing construction and manufacturing sectors amid lingering power shortages and global supply constraints. In a bid to prop up growth, the People's Bank of China (PBoC) cut its Reserve Requirement Ratio (RRR) by 100bps over H2 2021, freeing up over \$360 billion in long-term liquidity to help financial institutions repay maturing medium-term loan facility. The bank went further, cutting its one-year loan prime rate (LPR) by 5bps to 3.80% for the first time in 20 months in December 2021. However, policymakers stopped short of slashing the five-year LPR, which influences the pricing of home mortgages. This decision came as Beijing remained skeptical of loosening conditions in the country's highly leveraged property market, affirming its reluctance to stimulate economic growth through the property sector.

India's economy grew 8.4%YoY in Q3 2021, following a record expansion (20.1%) in the April-June period of 2021. This marked the fourth consecutive quarter of expansion, albeit at a slower pace, as Covid-related disruptions continued to ease. On a sectoral basis, growth slowed across board, with the manufacturing (5.5%YoY vs 49.6%YoY in Q2 2021) and construction (7.5%YoY vs 68.3%YoY in Q2 2021) sectors recording softer growth numbers while the agricultural sector stagnated at 4.5%YoY. In addition, business activities picked up, consequently boosting employment in Q3 2021, with the jobless rate averaging 7.4% in the quarter (Q2 2021: 9.7%), dropping to a 7-month low of 6.90% in September 2021. To fan the flames of economic recovery, the Reserve Bank of India (RBI) decided to maintain its current accommodative stance, stating it remained necessary to support economic activities. The bank further reiterated that as near-term risks abound, it would keep its stance accommodative "for as long as necessary to revive and sustain economic growth on a durable basis.

Moving across to Europe, economic growth in Turkey slowed to 7.4%YoY in the third quarter of 2021 (Q2 2021: 22%YoY), mirroring a contraction in capital expenditure and a more moderate expansion in household consumption. Domestically, private spending surged by 9.1%YoY (Q2 2021: 23.3%) and growth in government spending accelerated to 9.6%YoY (Q2 2021: 3.4%YoY) during the quarter as demand strengthened amid a faster vaccine rollout and the subsequent reopening of economic sectors. On the other hand, fixed investment swung from a 20.5% expansion in the second quarter of 2021 to a 2.4% contraction in Q3 2021. On the external front, Net foreign demand contributed positively to the overall GDP growth, as imports dipped by 8.3%YoY while exports of goods and services grew 25.6%YoY, buoyed by stronger manufacturing and a weaker lira. Elsewhere, the revolving door that is Turkey's finance ministry kept turning in H2 2021 as President Erdogan appointed rumored loyalist and rate-cut enthusiast Nureddin Nebati as his new finance chief. The latest rejig came after Nebati's predecessor offered his resignation amid soaring inflation and an ongoing currency crisis in the country. The Lira has been on the receiving end of some unconventional policy measures which has seen the nation's banking regulator slash its key Selic rate by 500bps to 14% since September 2021, despite inflation jumping to a 19-year high of 36.1%YoY in December. The widespread selloffs forced the central bank to continuously intervene in the FX market, notably spending c.\$5billion across 4 attempts in December 2021 alone to protect the value of the embattled currency. While some element of reason exists in the president's plan to prioritize export and lending through lower rates, Turkey's chronic trade imbalance means the Lira's weakness translates into higher inflation, through imports, that has ultimately eaten into the earnings of the citizens. Furthermore, soaring import prices created shortages of medicines and briefly halted the sale of cell phones and other electronics as retailers scrambled to recalculate their prices.

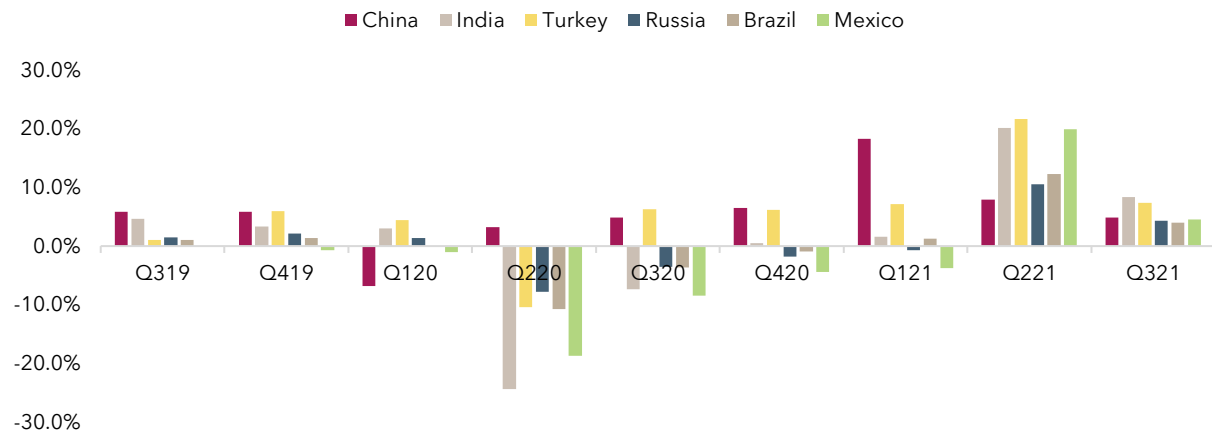
Buoyed by the rebound in global commodity prices, the Russian economy is back at pre-pandemic levels. In the wake of this development, growth slowed to 4.3%YoY in Q3 2021 (Q2 2021: 10.5%YoY). Although a complete breakdown of GDP components was unavailable at the time of writing, we opine that the moderation was likely driven by weaker growth in the wholesale and retail sectors. Expansion in Retail sales averaged 5.33% in Q3 2021 as against 24.50% in the second quarter of 2021. Additionally, the waning growth momentum in the manufacturing and construction sectors likely weighed on the overall performance. On the other hand, mining and Quarrying activities improved, buoyed by a healthier global oil market amid an easing of OPEC+'s oil production cuts and rising crude oil prices. While Unemployment levels continued to inch lower, inflation jumped to its highest level in over 5 years, peaking at 8.4% last November. The jump, spurred by a weaker local currency and rising prices globally, showed little signs of slowing despite the seven rate hikes enacted by the Bank of Russia. Unsurprisingly, the Apex Bank expects year-end inflation to exceed the finance ministry's 7.4% assessment, and well above its 4% target.

In Latin America, the Brazilian economy slipped into a technical recession in Q3 2021. Although GDP grew by 4%YoY, the economy shrank by 0.1% on a QoQ basis. Even though it is a softer contraction than Q2 2021's 0.4% decline. The agricultural sector slumped by 8%QoQ, hit by an unusual drought that disrupted grain production and coffee crops. Services grew by 1.3% during the quarter but the Industrial sector stagnated, as an expansion in Construction (3.9%QoQ) was offset by declines in Utilities (1.1%QoQ), Manufacturing (1.0%QoQ) and Mining (0.4%QoQ). On the expenditure front, the economy recovered some momentum as Fixed Investment shrank at a slower pace (0.1%QoQ) while Household Consumption and Government spending rose by 0.8%QoQ and 0.9%QoQ respectively. Also weighing on growth during the quarter were the steep interest rate hikes, as double-digit inflation forced the central bank to raise borrowing rates aggressively. Inflation printed at an 18-year high of 10.74% in November 2021 and the stubbornly high prices steadily eroded consumer's purchasing power, pushing the COPOM⁴ to raise interest rates by a cumulative 500bps over H2 2021 to 9.25%. Away from the gloom, labor market conditions improved during the quarter, with unemployment rate declining from 14.2% in Q2 to 12.6% in Q3 2021 - its lowest level since the start of the pandemic.

Growth in the Mexican economy slowed to 4.5%YoY in Q3 2021 (Q2 2021: 19.9%YoY). In QoQ terms, the economy recorded its first contraction in four quarters, with growth declining by 0.4%. The service sector shrank by 0.9% (Q2 2021: 1.2%QoQ) as a backdrop of the surge in delta-linked COVID-19 cases which led to the re-imposition of lockdown and restrictive measures. Furthermore, growth in the Industrial and Primary sector slowed to 0.3%QoQ and 1.3%QoQ, respectively. The global supply chain disruptions weighed heavily on recovery in the manufacturing space, adding supply-side layers to inflation which quickened to a 20-year high of 7.37% last November. This event further complicated issues for Banxico⁵, leading to the 150bps hike in rates over H2 2021, in an unsuccessful attempt to tame rising prices amidst change of leadership.

⁴ Monetary Policy Committee

⁵ Bank of Mexico

Figure 2: Emerging and developing economies GDP growth

Source: NBSC, MOSPI, TSI, FSSS, IBGE, INEGI, ARM Research

Pandemic and Inflation worries remain the elephants in the room

Before news of the Omicron Variant came out, the IMF projected that advanced economies would grow by 5.2% in FY 2021 then 4.5% in 2022. However, following the announcement by the World Health Organization (WHO) and the subsequent imposition of restrictive measures by some of these countries, those numbers were revised downwards as earlier noted. As for inflation, pandemic outbreaks and weather disruptions have resulted in the shortage of key inputs and when this supply shortfall is met with pent-up demand, a rapid rise in consumer price across board is expected. On the other hand, the emergence of the new variant has heightened fears of another global economic slowdown, particularly as it is rumored to be more resistant than the previous variants to the existing set of vaccines.

The Bretton-wood institution set its latest growth projection for the US economy at 5.6% and 4.0% in FY 2021 and FY 2022 respectively. Although the revised figures are lower than their October forecast, recent indicators all point towards sustained momentum in the nation's recovery. Prices are expected to remain stubbornly high till at least Mid-2022 and the labor market looks set to remain quite tight over H1 2022. However, there is growing optimism for an expansion in the labor pool as claims for jobless benefits have declined significantly and schools have reopened for in-person learning, affording parents the chance to re-enter the labor market. On the Pandemic front, the US' vaccination campaign remains a relative success, especially when the continued reluctance from Anti-vaxxers to getting a shot is considered. Putting things into perspective, at least 70% of the U.S. population had received at least one dose while 60% were fully vaccinated, with 21% in this class receiving a booster shot at the time of writing.

On the outbreak of the Omicron variant, President Joe Biden asked Americans not to panic as his administration was making contingency plans with pharmaceutical companies if new vaccines were needed. In his remarks, the President stated that the Variant is “a cause for concern, not for panic”, adding that the country would not return to lockdowns to curb the spread, but he did urge citizens to get vaccinated, get boosters and continue wearing masks. Based on this, we expect the US to be at the front of the queue when the modified vaccines from the pharmaceutical giants, Pfizer and Moderna, hits the market. Furthermore, the Food and Drug Administration (FDA) advisory panel endorsed the use of Merck’s Covid antiviral pill dubbed “Molnupiravir” for treatment of adults who are considered high-risk. The drug still needs a final authorization from the FDA and Centers for Disease Control and Prevention (CDC) before it is available to the public on an emergency basis. Elsewhere, while the fiscal stimulus payments and unemployment benefits have since been halted, the stream of liquidity from the White House into the economy is yet to completely thin out. Last November, Biden officially signed into law a \$1.2 trillion infrastructure bill after months of protracted negotiations on Capitol Hill. The measure will deliver \$550 billion of new federal investments in American infrastructure over the next five years, revamping everything from bridges and roads to the nation’s water, broadband and energy systems. Equally as important is the fact that its passage set the stage for talks on a companion piece of legislation to gather steam. The President’s Social Spending Bill has been scaled down substantially since our last report was released but would still invest an estimated \$1.75 trillion to expand education, lower healthcare costs and tackle climate change if it manages to scale through an increasingly tight Senate.

According to the IMF, the 19-member state Eurozone economy is projected to grow by 5.2% in FY 2021, before growth moderates to 3.9% in 2022. The outlook for the Zone is for a continued economic expansion, supported partly by accommodative monetary and fiscal policy stances. On the former, the European Central Bank still plans to end its emergency bond purchase program by Q1 2022 as ECB president, Christine Lagarde, claims that the euro zone is better equipped to face the economic impact of a new wave of COVID-19 infections. Top bank officials reaffirmed this expectation, adding that the Pandemic Emergency Purchase Program (PEPP) will end with a size of €1.85 trillion by March 2022 and the bank is expected to stop adding to the portfolio in early 2022. The bank will, however, ramp up bond buys under its longer-running Asset Purchase Program (APP) for as long as necessary to reinforce the accommodative impact of its policy rates. On the price aspect, inflation is currently at a 13-year high, but the ECB expects it to fall below its 2% target in 2023 and policymakers remain committed to supporting inflation in the zone using the other tools in its armory. Against this backdrop, and with large shares of the population currently protected against the coronavirus, the economy was initially

expected to gradually exit lockdowns, then came the Omicron variant which threw a spanner in the works. WHO has warned that Europe is once again at the epicenter of the pandemic and could record half a million more deaths by February 2022. While the number of daily cases is stable or falling in most regions, Europe is reporting its highest-ever number of daily cases, driven first by the Delta Variant and now the Omicron variant. To control the latest surge, the European Commission has proposed that EU residents will need to get the Covid-19 booster jabs if they wish to travel within the region next summer free of tests or quarantines. The proposal will also include accepting all WHO approved vaccines for travel purposes, a further boost to mobility. The pandemic aside, rising global inflation is also exacerbating issues for the Zone's policymakers. European energy prices surged to record highs this past autumn, feeding into the broader price rises and sending inflation to multi decade highs.

In the UK, the IMF now expects growth to print at 7.2% in FY 2021 and 4.7% in 2022, a slight downward revision from its October forecast as the country struggles to tame soaring Covid infections. In recent times, Britain has trailed only the US and a handful of other European countries in terms of daily Covid case counts and the worsening situation has fueled criticism of the government's decision to abandon most pandemic related restrictions. To stem the tide, Britain became the first country in the world to approve a COVID-19 antiviral pill developed by Merck & Co Inc. and Ridgeback Biotherapeutics. The green light is the first for an oral antiviral Covid-19 treatment and the first for a Covid-19 drug that will be administered on a community wide basis. Precisely, the drug, termed "Molnupiravir" globally but "Lagevrio" in Britain will be administered promptly following a positive Covid test and before the surfacing of its symptoms, possibly halving the chances of death or hospitalization for those with heightened risk of developing severe Covid-19 symptoms. However, while Britain has agreed a deal in principle with Merck to secure 480,000 courses of the pill, no timeframe for delivery had been communicated at the time of writing.

As of October, when the IMF revised its 2021 growth forecast for the Japanese economy down from 2.8% to 2.4% (Now 1.6% as of January 2022), the country was embroiled in a heated battle with the fast-spreading Delta variant of COVID-19. For context, Japan recorded daily caseloads of about 20,000 infections in early August 2021, reporting a total of 1.71 million and 18,000 confirmed cases and deaths respectively at some point. Since then, infection rates have declined to the lowest levels in over a year. Emergency measures have since been lifted, spurring widespread optimism that the worst days are now firmly behind, supporting the IMF's 3.3% growth forecast for 2022. While ex-Prime Minister Yoshida Suga faced backlash for prioritizing the economy over virus response, citizens expect his successor, Kishida, to prioritize public health and possibly sanction an early approval for antiviral drugs. The government has designed a record-breaking stimulus package said to be worth approximately \$490bn.

The plan, which includes \$880 payments for those aged 18 years or younger and aid for ailing businesses will require the government to compile an extra budget of about \$280bn to fund and would see Tokyo buck the global trend of policy normalization when other advanced nations are pivoting away from their pandemic-era support policies. The measure, however, places further strain on the country's already frail fiscal state as the three spending packages compiled to counteract the effects of the pandemic have left the world's third largest economy with long-term debts roughly double its size.

Same Story, Different Year

For most developing economies, the narrative seems all too familiar. Low vaccination rates leave them susceptible to worsening pandemic dynamics and swelling debt levels leave little to no room for maneuver in terms of fiscal buffers. The IMF estimated that these developing countries would require about \$2.5 trillion to plug their pandemic-induced financing gaps, so it was no surprise to see the Fund distribute \$650 billion in new Special Drawing Rights (SDR)⁶ to member countries, its largest ever distribution in 2021. Notably, about \$275 billion of the allocation was channeled to Emerging Market and Developing Countries, thereby providing fiscal buffers and reducing their reliance on more expensive domestic or external debt. There have also been calls by US lawmakers for Treasury Secretary, Janet Yellen, to back the issuance of \$2 trillion in additional emergency reserves by the IMF to further aid these poorer countries. On the part of the World Bank, the global lender increased its vaccine grant envelope for developing countries from \$12 billion to \$20 billion. This will allow countries procure vaccines through COVAX⁷ or other approved sources and also finance related activities that support their deployment and strengthen healthcare systems. The International Finance Corporation (IFC) also made \$4 billion available for the supply and local production of vaccines and unlocking the protracted medical supply bottlenecks. Positively, the stronger near-term prospects among some commodity exporting EMDE's help corroborate the IMF's projected 6.5% growth outlook for the group of nations in FY 2021, although growth is expected to moderate to 4.8% in 2022.

Emerging and Developing Asia is expected to grow by 5.9% in 2022 (FY 2021: 7.2%), but growth in the region will not be led by China this time around. The world's second largest economy is projected to expand by 8.1% in FY 2021 before recording a slower growth of 4.8% in 2022. China is making painful but necessary adjustments to its economy, particularly at a time when the nation juggles an array of issues ranging from disruptive

⁶ A supplementary foreign exchange reserve asset defined and maintained by the International Monetary Fund

⁷ COVID-19 Vaccines Global Access

floods, high debt exposure, and property bubble. The latter two might delay the People's Bank of China (PBoC) from easing monetary policy measures further in the months ahead. Signs of a lingering slowdown in economic activities or a drastic downturn in pandemic dynamics could however force the bank's hand to slash its Reserve Requirement Ratio (RRR) further, as they aim to keep adequate liquidity flowing through the banking system. In fiscal terms, the central government will launch another round of tax and fee cuts to support businesses. Local governments in the country are quickening their special bond issuances in order to spur infrastructure investment and consequently, support economic growth. Meanwhile, despite a change at the helm of affairs in the US, little has changed in terms of relation between the two leading economies. From finger pointing on the origin of COVID to the wide-ranging regulatory crackdown on technology companies, particularly those listed on US stock exchanges, both governments seem to be devising new ways to discourage their citizens from investing in the other. The probable next line of action is a rumored attempt by the US to boycott the 2022 Winter Olympic Games set to be staged in Beijing.

In the case of India, the IMF projects a 9.0% growth in 2022 (FY 2021: 9.0%), in line with various analysts and brokerage houses that raised their projections due to a pick-up in consumption and dwindling Covid-19 cases. Overall, China and India have administered the highest number of doses, with over 2.5 billion and 1.2 billion respectively, likely mirroring their huge population base. Moving forward, business activity should be spurred by improved consumer sentiment, the steady implementation of structural reforms and a slowdown in headline inflation, which will protect the purchasing power of consumers. Conversely, uncertainty over the Omicron variant, relatively high debt levels and stalling employment growth are the greatest downside risks to the country's growth outlook.

In Emerging and Developing Europe, growth is expected to print at 3.5% in 2022 following an expected 6.5% expansion in FY 2021. Specifically, for the Russian economy, the multilateral institution projects a 4.5% and 2.8% growth in 2021 and 2022 respectively, even as the nation continuously flirts with the prospects of international sanctions from the West. Russia's military dealings have once again drawn the ire of a host of countries, particularly the US which has sounded out its preparedness to impose strong economic and other measures on Russia in the event of a military escalation. Firstly, the US is evaluating the possibility of curbing investor's ability to buy Russian debt on the secondary market while also curbing their ability to convert Russian Roubles into dollars and other currencies. Furthermore, Russia could be cut off from the Society for Worldwide Interbank Financial Telecommunication (SWIFT)⁸ system used by banks around the world. This is an extreme move that could exacerbate Russia's high inflation problems

⁸ A cooperative society that serves as an intermediary and executor of financial transactions between banks worldwide

but would likely require coordination with allies. Another near-term risk to Russia's economic recovery is the recent downtrend in global oil prices. Brent has taken a beating in recent months amid renewed coronavirus fears and a U.S. marshaled release of strategic oil reserves. The volatility in the oil market looks set to linger over the first few months of 2022. OPEC and its allies have voiced concerns about a possible oil glut in H1 2022, and the Cartel is ready to respond to any negative changes in market dynamics.

Turkey's economy is projected to grow by 3.3% in 2022 (FY 2021: 11%). The nation's outlook remains highly clouded by surging consumer prices, projected to remain elevated after the initial Covid-19 shock. This development would further dent real incomes, constraining demand and employment. The loss of credibility in monetary policy amid incessant political interference has hurt investor's confidence, triggering recurrent episodes of capital outflows. Depreciation of the currency will continually fuel inflation in the import-dependent economy. Also, the continued interventions in the FX⁹ market provides an additional risk for a central bank that is not only easing policy in the face of rising inflation, but also must manage the nation's depleted foreign reserves. The Lira will remain under intense pressure heading into 2022, weighed on by unorthodox policy-making that has reduced appetite for Turkish assets and encouraged dollarization of the economy. To reverse this negative theme, the Turkish Central bank announced plans to support the conversion of foreign currency deposit accounts into lira deposit accounts, as more than half of local's savings is in foreign currencies and gold. On the pandemic front, Turkey's vaccination program has progressed fast, but apathy amongst certain population groups threatens to undermine those efforts, particularly with more contagious variants springing up. Some major markets are yet to recognize Turkey as a safe tourist destination, thus any hit to international trade and travel by renewed Covid restrictions could have potentially damning implications on the economy.

In Latin America, growth for the region is projected at 2.4% in 2022 (FY 2021: 6.8%), with Brazil, the region's largest economy, set to grow by a meagre 0.3% (FY 2021: 4.7%). Brazil has recorded over 22 million cases and 615,000 deaths since March 2020 - the world's second highest official death toll. Unsurprisingly, the country reported the first few positive cases of the Omicron variant in the region, further indication of the nation's susceptibility to the pandemic. To soften the pandemic's impact on the economy, the Brazilian government has rolled out very generous pandemic aid over the past 18 months.

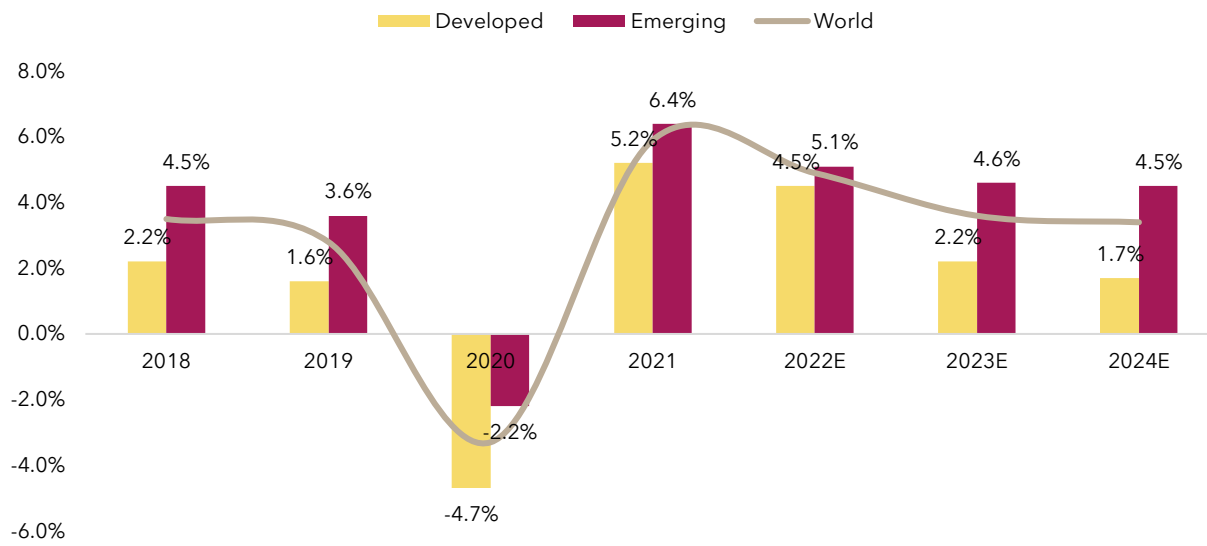
⁹ Foreign Exchange

However, these crises-era support measures have prompted widespread concerns of fiscal profligacy, despite claims from Brazil's economy minister that the government's primary budget deficit will fall to 0.5% of GDP in 2022 (FY 2021: 1%). Furthermore, a weaker than expected growth in China could hurt export performance in the new year while the upcoming 2022 general elections spell near term volatility for the economy, as we expect a weaker investment environment and a deceleration in private consumption, the later largely driven by high inflation, rising interest rates and a weak labor market.

Finally, to Mexico, which the IMF predicts will grow by 2.8% in 2022 (FY 2021: 5.3%). The country's economic recovery is losing momentum and will remain linked to developments North of its border in the United States of America. Deeper supply-chain integration emanating from the revised US-Mexico-Canada trade agreement should ease supply disruptions and support Banxico's efforts in lowering inflationary pressures. The Central Bank on its part has been more conservative than its peers in raising interest rates, placing Mexico in a slightly vantage position when the Fed's impending interest rate hike cycle begins. Additionally, barring any shocks, the elevated commodity prices, particularly for oil, will keep the Nation's public finances in good shape over 2022, especially as it accounts for approximately 16% of the government's public revenues.

Heading into 2022, countries across the globe return to the drawing board as they attempt to navigate their way through the haze. As the global economic recovery continues, the pandemic surges, leaving a protracted battle against burgeoning global inflation that threatens to derail the momentum built up over the past 12 months. While fiscal and monetary support provide commendable short-term reprieve, speeding up global vaccination in an equitable manner should remain the top priority, as recent developments have made it crystal clear that the battle against the novel virus is far from over. In the words of IMF's Chief economist, Gita Gopinath, "we are all in this **together**, and the pandemic is not over **anywhere** until it is over **everywhere**".

Figure 3: Trend in global growth and projection (%)



Source: IMF, ARM Research

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