Global Economic Outlook 2023

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Uncertain Times

- Inflation spike, high borrowing costs trigger global slowdown.
- Consumer spending softens. Businesses are uncertain.
- Inflation appears to peak. Recent declines
- U.S. Fed end decades of “easy money” policy.
- Fed starting to dial back pace of rate hikes. Tightening likely through year-end. Recent U.S. bank failures: alarm bells!
- Business, consumer confidence mixed. Layoffs gain momentum.
- Higher borrowing costs – *DISINCENTIVE to invest.*
- Energy production cuts, food insecurity, war: Keep global costs elevated!

Uncertain Times

- ***Challenges***: **price pressures, labor shortages, supply-chain disruptions, rate hikes!**
- **Conditions ripe for defaults, refinancings, productions cuts. Hurts households & pace of recovery.**
- **Rising debt servicing costs. Country defaults on the rise.**
- ***Russian war on Ukraine – no exit strategy. Increased global tensions.***
- **Past year: painful slump in global markets.**
- **Trade navigate conflicts & confrontations.**
- **Seeds of recovery? Global shipping demand slows.**
- **IMF signals 2023-26 slow growth. Recession avoided in Europe.**
- **Global economic recovery – tepid**

Global Overview

- Vulnerabilities exposed: global supply chains.
- Trade flows decline. Supply-chain delays have eased.
- 2022 Russia weaponized oil & gas supplies.
- **Broken Russian economic ties: Usher big changes.**
- Higher costs hit transportation, manufacturing, mining, agriculture, technology, services, households.
- **Central banks raise interest rates. Tightening cycle could ease by year end-2023.**
- **Spike in borrowing costs. Weak currency exchange rates hits debt-servicing potential for many countries!**

Global Overview

- **Tense geopolitical relations: Weakens global confidence**
- **Energy crisis, raw materials scarcity, hoarding concerns, weak consumer spending: When combined dampen expectations for recovery.**
- **Hunt for alternate sources of energy supplies. Spotlight on Africa, LATAM, Asia.**
- **2023-26: Indo-Pacific likely to lead recovery**
- **Governments, traders, companies – find "work arounds" to sanctions, shortages, disruptions.**
- **Past 3 years – Many expansion plans, new investments placed "on hold".**

Obstacles to Growth

- Higher prices; labor, input shortages.
- Factory closures in Europe, China.
- Heightened geopolitical tensions & cross border risks.

- Sourcing raw materials, fertilizers, copper, aluminum, steel, microchips.
- Need to access multiple sources, locations. Longer-term supply contract: new norm.
- Global demand struggle to recover.

- Inflation remains elevated.
- Port delays ease. Shipping costs decline.
- Sovereign debt crisis hits poor countries.

  - Ghana, Zambia, Sri Lanka in default.

Impact of Ukraine War

- **Exacerbated energy crisis. Drive global food, raw material prices to record highs!**
- **Forced rethink, timing, transition to alternative energy.**
- **Prolonged supply shortages!**
- **Diversification of supply sources. New norm!**
- **West imposes price cap on Russian oil.**
- **Global uncertainty –High Risk of escalation.**
- **Russia-China builds close alliance.**

  Saudi Arabia close with both; re-establishes ties with Iran.

USA

- Interest rates raised by 4.5% in past year
- U.S. posts largest trade deficit on record.
- 2022- Imports exceeded exports by $948.1 billion; 12.2% over 2021.
- Consumer spending slows. Sharp slowdown in housing market!
- 11 million unfilled jobs. Unemployment: 3.5%, lowest in 40 years. Yet confidence remains subdued.
- Embarks on green investment & infrastructure boom.
- Outlook mixed. Consumers grow cautious.

Germany

- Upbeat mood – 1st time in a year. Europe's biggest economy –
- Employment rebound; manufacturing output rise in Q4.
- Changes attitude: increased defense spending. Handles energy crunch.
- Inflation slowed to single digits [8.7% from last year's high of 10.6%]. ECB relieved.
- Natural gas prices fell to levels last seen prior to Russia's invasion of Ukraine. Warm weather reduces heating demand.
- Gas inventory solid -30% over same period last year. Reduced demand for gas due to mild winter.
- Outlook improves. Renewed focus on regional economic security & defense. Russia's oil weaponization: wake-up call!

Germany

- Generous gov't support cushions impact of last year's energy crisis.
- German industry dominates EU gas demand & industrial output: 27%, Italy 16%, France 11%.
- Export opportunities improve. China's reopening should help.
- Extends life of nuclear power.
- Inflation slows. 8.7% from 9.6%. Down from 10.7% peak.
- Confidence returns. Companies, investors, consumers look ahead; but remain cautious.

Eurozone

- Coping well with energy crisis. Economic growth: slight
- ECB to pause rate increases in 2023.
- Poland, Czech Rep., Slovakia, Austria, Sweden, Slovenia, Finland, Italy: Employment heavily dependent on gas-intensive sectors.
- Companies, workers relieved. However, 2024 gas shortages – not ruled out!
- Outages at France's nuclear reactors. Lower water levels at Norway's hydropower plants.
- Region ends dependency on Russian gas. France willing to import *gas*!!
- EU imposes price ceiling on Russian oil. A first!
- Russia retaliates – Won't sell to countries supporting price cap.

Eurozone

- **2021- Russia supplied 40% of gas needs.**

  2024: zero Russian gas imports to Europe. Supplies adequate. 2024 – refill depleted reserves.

- **Reconfigure gas, energy supply sources.**

- **2024-25 European countries look to Qatar – the world's largest LNG exporter – as Europe weans from Russian gas.**

- **New suppliers: Algeria, Norway, Africa, U.S. – Soaring prices put North Sea back on map.**

- **Increased budgetary help to businesses, households. Brought wholesale gas prices down.**

United Kingdom

- **Brexit has not worked. Economy falters – cost of living crisis!**
- **Bankruptcies highest since 2009. Housing downturn.**
- **Construction, retail, public sectors hard hit.**
  - **Workers on strike.**
- **Falling wages hit personal finances. Consumer, business confidence hit.**
- **Gov't energy support scaled back. Need trade agreements to lock-in better trade terms.**
- **Recovery likely in 2024.**

China

- 3% GDP growth [down from 5.5%]. Imports fell, exports frozen due to lockdowns. Begin to pick-up pace.
- 2022 growth weakest in 40 years!!
- Covid restrictions: Factory closures, hit production, exports, employment. Youth unemployment 20%!!
- Buyer of deeply discounted Russian oil & gas.
- U.S. export controls tightens. Disruptive to China's tech companies.
- Decoupling from West – difficult for both!
- Biggest U.S. rival; most important trading partner.
- Tense U.S. relationship. Views the U.S. as equal.
- Xi's Autocratic leadership – 3rd 5-year term.
- Recent internal dissent over Covid- pose challenge to leadership.
- FOCUS: Innovation, technology dominance, global influence.
- Domestic demand – improves in 2023.

China

- Western mistrust intensified. Close Russia alliance alarms U.S., Europe, Asia.

- Multinationals examine diversifying from China.
- India and SEA - increasingly attractive alternatives to China.
- Chinese consumers buy “made in China” labels.

- Global pushback against unfair Chinese practices.
- Growing global anti-China sentiment. Too late?
- Anti-American sentiment grows in China.

- Belt & Road Initiative: Aided infrastructure development across developing countries. Major creditor nation. Tensions with recipient countries rise. Puts China in driver’s seat.

- Hong Kong’s Security Law: 1 step closer to China’s dominance over H.K.

- Taiwan: No retreat likely - despite protests & western complaints. Dominance over South China sea, Taiwan, HK - main goal.

- Attack on Taiwan expected! Hence U.S. agreement on use of Philippine bases.

China

- **Economic outlook: Modest growth. Expect stimulus. Covid subsides.**
- **Challenges! Civil discontent. Weak demand. "Save rather than spend" mindset.**
- **Gov't pressure on domestic & foreign corporations – breeds uncertainty!**
- **CCP dominance over business, technology, civic life. Cemented Xi's 3rd term.**
- **U.S./West acknowledge new phase in tense relationship.**

China's Influence Grows

- World's biggest creditor nation. 50 debtor nations: owes China 30% of foreign debt.
- Own multilateral institution: Asian Infrastructure Investment Bank [AIIB]. Exert greater power, influence across Asia & developing world.
- BRI – Puts China at nexus of influencing growth among developing nations.
- Wields power role in debt-relief negotiations for poor countries.
- Influence commodity prices – Major importer of critical raw materials. Leader in search for global trade, mining.
- Leads, controls 90% of manganese for car production. Lithium, cobalt, titanium. 90% of rare earth. EV's, AI, R&D?
- Seek change in world order. Jointly with Russia.
- Arranges Saudi-Iran renewed ties.

Brazil

- Largest LATAM economy. Population: 211 million.
- Struggle to resume growth. 2023 recovery; 1-2% GDP growth.
- Tight credit conditions, record household debt.
- Raised rates –March 2021. 1-Year before FED. Inflation starts decline.
- Narrow Lula victory – spells political uncertainty.
- Lula face fiscal consolidation; needed reforms. Must work closely with congress.
- Bolsonaro allies strong in congress. Governors in influential states.
- Country attracts insufficient foreign investment. Investors worry government intervention.
- Weak currency – strain on local companies servicing dollar debt!

Brazil

Highly diversified economy; undermined by systemic corruption.

Competitive industrial sector – steel, autos, iron ore, aluminum, manufacturing. Low production costs. Skills shortage.

Economy benefits from China's demand: iron ore, soy; raw materials. China major trade partner. Brazilian industry unhappy- Chinese imports undermine local producers.

Major Agri-business, fertilizer, minerals exporter: China, U.S., Europe, Asia –main trade partners.

Recovery subject to global pick-up!

IMF, multilateral & regional institutions - support likely.

Banking sector mostly well capitalized; face challenges from online start-up's.

Interest rates at all-time low; credit growth likely over 2023-24

Weak currency – unlikely to strengthen before 2024

Mexico

- 2nd largest LATAM economy. Population:130 million.
- Peso strengthens. At 4-year high. Inflation declines to 5%.
- Remittances 2nd largest FX earner. Exports Oil, natural gas, minerals, manufacturing.
- President Obrador dominates scene. 2024 next presidential election. Weak opposition.
- Strong U.S.- Canada trade links via USMCA.

Mexico

- State sector dominates oil, mining, electricity.
- Drain on gov't coffers; marked by inefficiencies!
- Could benefit from reshoring. Close proximity to North American market!
- U.S., Canada seek arbitration for energy sector law deemed hostile to foreign investors.
- Private sector distrusts Pres Manual Lopez Obrador. Gov't intervention – a red flag.
- Legal remedies available but need to "know your customer".
- Foreign policy subordinate to domestic policy.

Peru

- Population: 33 million. Political instability hits supply chains, mining, business environment. Several cooper mine closures. Output cut 20%.
- Violent anti-government attacks against foreign mining interests. Alarm investors.
- Major importer of energy, food & fertilizers! Price pressures remains high.
- Difficulty replacing Russian urea supplies.
- Severe drought- decline in harvest & basic food production.
- Firms warned of likely adverse financial conditions - due to civil unrest, changed conditions on the ground.
- Exports: gold, zinc, tin, in addition to copper.
- Protesters demand new election after Pres Castillo removal, arrest.

Chile

- Population:19.5 m. 40 years politically & economically stable replaced by uncertainty.
- $2.5bn proposed Domingo iron, copper mine rejected.
- Largest copper exporter. Large lithium deposits. Export gold, silver, iron ore.
- Boric administration- 1st year completed. Changes to constitution rejected.
- New investments on hold. Business confidence hit.
- Tough regulatory hurdles for foreign mining interests. Constitutional reform seek higher royalties.
- Uncompetitive due to high costs, tax reforms.
- Adequate foreign exchange reserves.

India

- Economy recovers – hit hard by pandemic!
- Overtakes China - world's largest population.
- Strong GDP growth projected over next decade.
- Hindu dominance. Insecure Moslem, Christian minorities.
- Electronics, technology, manufacturing, assembly. Expands factory locations.
- Assemble Apple 14 iPhones!! Boosts employment. Educated, trainable workforce, a plus.
- Expect inflows of new private investments. Gov't cuts red tape, modernize bureaucracy- ongoing.
- Alternate manufacturing location. Could rival China in 5 years.
- Government coziness with big business suspect!

India

- Supplies pharmaceutical industry worldwide.
- Needs stronger laws: land ownership; regulatory reforms, investment rules.
- Service sector grows. Support multinationals, logistics, trade flows. Boosts employment.
- Government boost spending ahead of 2024 elections. Emphasis on infrastructure. Leads in digital infrastructure footprint.
- Private sector expands global reach. – Spotlight on Adani group's losses amidst fraud charges.
- Perceived corruption, lack of transparency- obstacle to confidence.

India

- Banking sector- seek modernization. Difficulty attracting foreign interests.
- Dominant government presence in banking.
- Needs reform. Political influence, significant to economic stability.
- Country shows potential for reform- but resistance from bureaucracy; corruption embedded!
- Caution advised: know customers, counterparties. Change will be gradual.
- Shift toward cleaner energy - $2.4bn subsidy for green hydrogen!
- Chronically dependent on imported energy.

Turkey

- Recent earthquake disaster exacerbates challenges. Weakened lira, 64% inflation. High deficits!
- Significant regional player – 85 million population. Crossroads where East meets West. Trade hub, politics, finance & tourism.
- Erdogan in power 20 years; dominates policy. Gov't handouts & large wage increases offset high cost of living.
- NATO member. Strong ties with Russia, China, Asia, Middle East. EU pays Turkey to maintain migration flows.
- Russia avoids sanctions. Trade, finance, conducted through Turkey, China, UAE, elsewhere.
- Brokers Ukraine grain deal; sells it weapons!!
- Robust manufacturing sector; exports to Europe, Mideast.

Turkey

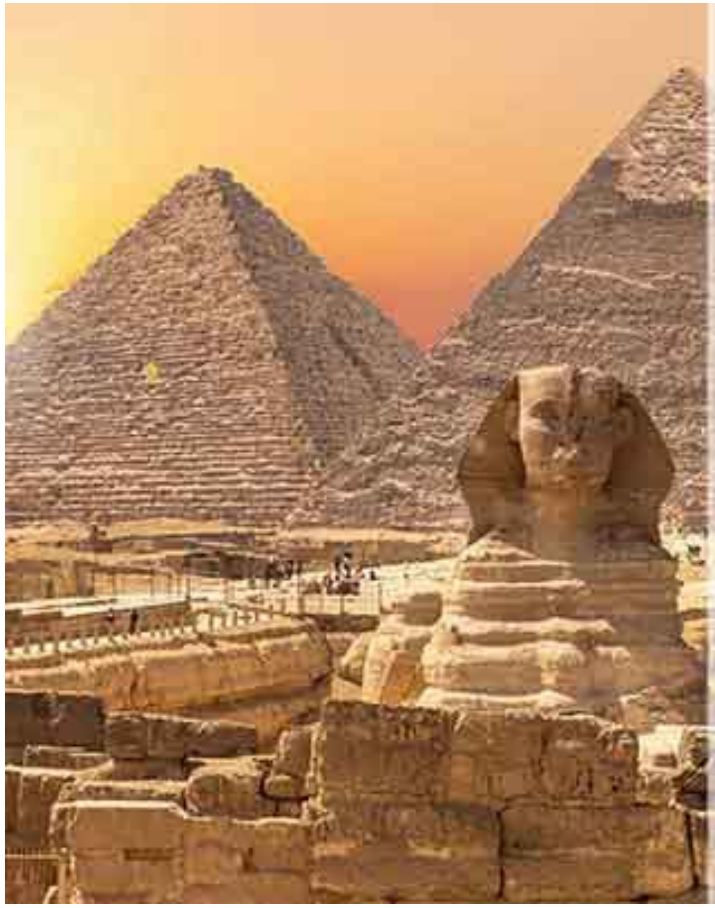
- Surge in Russian capital inflows. Investment surge since war. Russians: largest tourists' arrivals.
- Foreign capital inflows fund 2023 current account deficit.
- Economy face recession threat. Reckless interest rate cuts.
- Companies, banks: robust trade business.
- Expect international disaster assistance.
- Receives discounted Russian energy; preferential payment terms.

Indonesia

- Population: 272 million
- Important exporter: oil & gas, LNG, lithium, palm oil, rubber.
- GDP growth 5%. Resilient household spending.
- Investment inflows: large lithium, LNG, reserves.
- Tin, bauxite, copper, gold, nickel, silver, mining thrives. Exports expected to pick-up in 2023. China's reopening – a plus!
- State watchful of adequate domestic supplies of natural resources. Banned nickel exports.
- Free trade agreements: ASEAN, APEC.
- Weak currency. Manageable external debt load. Wide trade surplus.
- Politically stable. Graft is rife.

Egypt

- Inflation at 20%- food scarcity bites! Currency plunge to record lows.
- Severe foreign currency crunch. Importers- unable to secure FX to pay on time.
- $3 billion IMF rescue loan.
- Companies lack parts, manufacturing inputs, raw materials, consumer goods.
- “L/C’s only” imports regs withdrawn.
- Economy in need of revival.
- IMF plays guiding role.
- Tourism arrivals up.



Egypt

- **Population: 100 million. 50 million live below poverty.**
- **Military's significant role in economy – deep problem.**
- **Crowd-out private sector. Disincentive to foreign investment!**
- ***IMF bailout- seek to reduce army's footprint in economy.***
- **State-owned asset sales likely – IMF uses leverage.**
- **Transparency lacking at state-owned entities.**
- **Accounting practices, compliance under review.**

Saudi Arabia

- Largest OPEC producer. Partnership with Russia to restrict crude production.
- Keep crude prices elevated.
- No longer close U.S. ally.
- Influence grows with Russia, China, Asia, Iran.
- Long term development strategy- less dependence on oil. Invests globally.
- Oil, gas export revenue boom.
- Generous welfare; unemployed youth.
- Formidable regional force. Low inflation.

South Africa

- Population 58 million. Africa's most advanced economy. Diversified industrial base.
- Diamond, gold, iron-ore, mining; mineral extraction sectors flourish.
- 2023 GDP growth 1.5%. Unemployment 35%!
- Slow growth, weakened currency, high unemployment, high inflation= weak demand.
- Mismanagement pervasive! High transportation costs.
- Power supply cuts hits industry, mining, manufacturing & households.
- ANC government face 2025 elections. ANC Support below 50%. A first.

South Africa

- Africa's Largest economy.
- Interest rates up 275 bps. Inflation at 7.9%, down from 13-year high of 8.1%.
- Structural constraints, high unemployment, skills deficit, power cuts: obstacles to growth.
- Weakened domestic & export-oriented business activity.
- Confidence weak among creditors.
- Cost to cover SA risks stay elevated; limited capacity available.
- Political climate volatile ahead of 2024 elections. ANC credibility shot.
- Threat of civil disorder fueled by poverty, weak job growth, perception of corruption in high places!
- Opportunities for credit cover present – limited appetite.

Nigeria

- Sub-Sahara's largest economy. Population:207 million.
- Major oil exporter: 85% FX earnings. OPEC member.
- Elections due Feb 25. Doubts abound.
- Inflation hit 30%. Currency plunge.
- High commodity prices! Boost government revenues.
- *FX Reserves pressured. High foreign debt burden.*
- Face expensive debt service costs – even with modest overall debt.
- Mining, mineral sectors boom. Poor government fiscal mismanagement.
- IMF insists on orderly introduction of new currency notes.
- 20% annual oil pipeline theft – continues!
- Militias. Boko Haram controls territory. Earns FX via sabotage of crude pipeline. Security threat.

Sub-Saharan Africa

- **Mining, minerals sectors expect growth in 2023-27.**
- **Region attracts foreign interests: China, U.S., Europe, Asia, Russia – seek access to natural resources.**
- **Pressure to implement economic reforms: reduce subsidies, cut public spending.**
- **Major energy projects – improve energy generating capacity, come on stream.**
- **Grand Ethiopian Renaissance Dam.**
- **S.A. Redstone solar power plant, natural gas & LNG projects - come on stream in 2023-24.**

Sub-Saharan Africa

- Ghana, Congo, Zambia, Zimbabwe, Mozambique- high debt-service burdens.
- Angola, Ethiopia, Gabon, Kenya, manageable public debt.
- Debt rescheduling – Due to growing costs.
- Resource-intensive economies, commodity exporters expect boost in activity over 2024-25.
- Challenges: high fuel costs, skills shortage, political instability.

Ghana

- Country unable to repay foreign debt.
- Will seek restructuring.
- Attempting to restructure domestic debt.
- IMF $3bn bailout loan- A lifeline.
- 2022 Fuel prices jump 140%.
- Inflation 50%+. Highest in 3 decades.
- Currency lost 52% of value against US$.
- Shortage of FX for imports. Imports account for 70%: consumer goods, manufacturing inputs.
- Higher borrowing costs hits business hard.
- Desperately seek foreign investments: mining, minerals, cocoa. Early recovery unlikely.

Global Challenges

- **Russia-Ukraine conflict. Contributes to elevated energy & food prices. World on alert!**
- **U.S./China tensions harden.**
- **Global supply- chain resilience re-examined!**
- **Need for new international system. Lack of Trust.**
- **Global recovery- uneven. Economy at crossroads.**
- **Geopolitics, high debt, labor shortage, inflation, interest rates.**
- **Debt service costs balloon – Rescheduling talks!**
- **Growth in protectionism, nationalism!**
- **Rebalancing of global economy –A must!**
- **Is China's recovery enough?**
- **Raw material access/ high costs –obstacles!**
- **Global rivalry, competition heats up.**

Forecast

- Subdued consumer spending. Government outlays to lead recovery.
- Govts. increase borrowing to help defray higher costs; fund deficits.
- Means interest rates stays elevated.
- Inflation stays elevated. Costs of doing business hit profits.
- 2024 - demand stabilizes. Growth recovers?
- Middle East – economies stable due to oil & gas demand.
- High debt service; demand for credit grows.
- Gradual return to growth 2024-25.
- Trade remains lifeblood of global economy!

Likely Growth Drivers

- Competitive: China-U.S.-Russia-West
- ***Adapting new technologies. Global focus on new ways of doing business.*** **Includes shift to alternative energy.**
- Cyber-security, military readiness, surveillance, national security: boosts investment, employment.
- New “arms race” begin.
- Spending on R&D; intelligence gathering. Boosts equipment production.
- Energy security: Need to have alternatives to hydro-electric power.
- Diversification of energy sources. A must.

Likely Growth Drivers

- **Spending on alternative energy. Maintain adequate investments in fossil-fuels during transition.**
- **Infrastructure investment: enhanced high-tech, healthcare systems, bio- technology, R&D.**
- **Next Generation technology. Equipment suppliers; workforce training.**
- **6G, AI, Robotics, EV'S, R&D, innovation.**
- **Concerns mount over reliable raw material supplies: rare earth, lithium, raw materials- EV batteries.**
- **Adequate supplies to meet future demand?**
- **Whomever dominates technologically- leads the world coming decades.**

Caution Justified

- Pace of recovery uncertain.
- **Global services: restaurants, hotels, travel, leisure, tourism – roars back!**
- Full recovery not assured before 2025-6.
- Take pains to identify risks. Private sector should voice concerns.
- **Need to understand policy changes - impact on global business relationships. Geopolitical risks increases.**
- Seek new business – but ask tough questions.
- **Slow growth: 3% range 2023-25.**
- Focus on rebuilding, strengthening supply-chains.
- **Debt rescheduling: priority for growing number of countries**

Caution Justified

- Credit environment tightens. Due diligence essential.
- New growth driven by government-led infrastructure investments.
- Labor shortages: Drive wages higher.
- Elevated production costs- hits consumers' pocketbooks.
- Poor countries face stiffer debt servicing costs on dollar-denominated debt.
- China's recovery – 2nd half 2023 - driver of new global demand? Not guaranteed!
- Intense global competition for market share, influence.
- Heightened geopolitical risks – a more dangerous world!

Conclusion

- **Priority: Maintaining adequate global energy, food supplies. Infrastructure spending to spur new hiring; boost economic activity.**
- **Demand for commodities- stays high.**
- **Companies urged to keep debt levels manageable.**
- **Strong dollar: pressure on debtors with U.S. dollar-denominated debt.**
- **Workforce training for future marketplace; investing in new processes – top priority.**
- **Rebuilding new, flexible, reliable delivery systems.**
- **Lack of dialogue adds to risks; more divided world!**

Conclusion

- Search for wider raw material supply sources. Need to maintain domestic reserves!
- Keeping up with China's inroads.
- Investment in new technologies: Source of MT optimism.
- Market response to cost increases, worker shortages, higher borrowing costs: it adjusts!
- Global Tensions: undermine confidence. Modest global expansion expected 2024-26.
- Conditions ripe for slow payments, requests for payment extensions, reschedulings & defaults.
- Complacency not an option!

Thanks for your attention.

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