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THINK Economic and Financial Analysis

ING global economic outlook 2023

8 December 2022

May he live in

interesting times

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‘May he live in interesting times’

Rarely have predictions for an upcoming year been so difficult and wide-ranging. But we are sure of some things, and we are doing our best to help you navigate this unprecedented uncertainty

3 calls for 2023: Recession, inflation and central banks

Carsten Brzeski on what he's expecting in 2023

Goodbye to all that

'May he live in interesting times' is a Chinese proverb that many of us have heard, perhaps a little too often in recent times. The list of unprecedented crises gets longer by the year. 2022 was supposed to be the year of post-pandemic and post-lockdown reopenings. But it became the year of war, inflation, energy and commodity price crises, drought and floods.

It was also a year which saw a paradigm shift at major central banks, trying to fight inflation at all costs. It's where we said goodbye to low interest rates for longer and that easing bias. Central banks got all of us used to jumbo-size rate hikes and, at least in the US, the policy rate is almost back at levels last seen prior to other financial crises. 2022 was also the year of what the Germans call 'Zeitenwende' or 'game changer', at least for Europe: a war in the EU’s backyard, which is still ongoing with no end in sight; an end to cheap energy, and an end to globalisation as we knew it.

Combined with the well-known longer-term challenges of population ageing, a lack of international competitiveness, and the never-ending debate on further European integration, Europe's to-do list is long. The chances are very high that the continent will have a hard time returning to a pre-growth trajectory any time soon.

Different shades of recession

So what will 2023 bring? A natural reflex of many forecasters is to simply extrapolate recent trends and developments into the new year. And, indeed, many of this year's issues will also be prominent in the next: war, the energy crisis, inflation, trade tensions and even Covid are likely to affect the global economy significantly. This is not the moment to identify potential new black or grey swans… nor even pink ones. Our predictions and calls for 2023 reflect our base case: median forecasts backed by this year’s events and assumptions.

We expect to see several different shades of recession in 2023. We should get a rather textbook-style recession in the US with the central bank hiking rates until the real estate

and labour markets start to weaken, inflation comes down, and the Fed can actually cut policy rates again. Expect a recession that feels but doesn't read like a recession in China with Covid restrictions, a deflating real estate market and weakening global demand, bringing down economic activity to almost unprecedented low levels. And finally, look forward to an end to the typical cycle in the eurozone, where a mild recession will be followed by only very subdued growth, with a risk of a 'double dip', as the region has to shoulder many structural challenges and transitions. These transitions will first weigh on growth before, if successfully mastered, they can increase the bloc's potential and actually add to growth again.

The widest range of possible outcomes and forecasts

Inflation will continue to be one of the key themes of 2023. We expect it to come down quickly in America, given the very special characteristics of the US inflation basket, allowing the Fed to stop rate hikes and eventually even cut before the end of the year. In the eurozone, inflation could turn out to be stickier than the European Central Bank would like and also perhaps afford. Still, with interest rates entering restrictive territory in early 2023, the looming loss of economic wealth and a large need for investment, the bank will be forced to stop earlier than it perhaps might like. Or, alternatively, it could commit a policy mistake if it hikes rates far beyond mildly restrictive levels.

In any case, we are entering a year with the widest range of possible outcomes and forecasts in years. And this is not even taking into account potential blind spots such as the start of a pandemic or a war in Europe that markets simply did not have on their radar screens at the end of 2019 or 2021. It is both interesting and challenging, for the economy, for financial markets, for companies, for households but also for economists like us.

'May he live in interesting times'. A friend of mine just told me that this is actually not a Chinese proverb but more a curse. We shall see. In any case, Merry Christmas and a Happy New Year.

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At a glance: The world right now

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The World Reimagined globes in London, UK - 20 Nov 2022

1 US: Markets doubt the Fed's intent

The economy is experiencing a strong second half of 2022. Jobs are being created in significant number, wages continue to rise and household keep spending as the Fed signals a step down to 50bp incremental rate hikes, but with a higher ultimate rate than they indicated was likely back in September. Officials suggest they may not cut rates until 2024 given their concern about stickiness in key service sector components of inflation, but their forward guidance needs to be taken with huge handfuls of salt given their recent track record. The "hawkish" rhetoric is likely the result of concern that the recent steep falls in Treasury yields and the dollar, coupled with a narrowing of credit spreads is loosening financial condition – the exact opposite of what the Fed wants to see as it battles to get inflation lower. Nonetheless, the softer core inflation prints seen in October, combined with bad housing market data and weaker business confidence has led the market to anticipate rate cuts from second half of 2023 – in line with our long-held view.

2 Eurozone: Lower energy prices have temporarily stopped the downturn

With lower natural gas prices on the back of the unusual warm autumn weather the downturn in sentiment has been temporarily halted, though most indicators are still weak. With retail sales falling sharply in October a recession over the winter quarters still looks very likely, albeit perhaps not as deep as we previously pencilled in. Thereafter, growth will be subdued at best, as higher interest rates will start to bite, energy prices are likely to remain at elevated levels, while budgetary stimulus is bound to peter out in the course of 2023. Headline inflation fell back in November to a still high 10%, while underlying inflation remains stuck at 5%. The ECB is therefore likely to lift the deposit rate to 2% in December, considered by some members of the Governing Council as the neutral rate. The first quarter might see another 50 bp further tightening, as well as the start of gradual reduction of the balance sheet, though at a very slow pace in the beginning.

3 UK: Calmer markets and delayed fiscal pain not enough to stop recession

Calmer financial markets and some fresh tax rises allowed the Chancellor to put off some of the painful spending cuts until after the next election in 2024/25 in his Autumn Statement. Nevertheless, energy support will become considerably less generous for

most households from April, and the housing market is showing very early signs of faltering. Despite the sharp fall in swap rates since September's mini-budget crisis, mortgage rates have fallen much more gradually. A recession now looks virtually inevitable, though it might not be until the first quarter until we see more material signs of slowing. The Bank of England has begun to talk down market rate hike pricing, and investors have taken the hint, but are still probably overestimating what is to come. We expect the BoE to pivot back to a 50bp hike in December, and expect one further 50bp move in February, which is likely to mark the top of this tightening cycle.

4 China: Still dire from rising number of Covid cases

Even the government offers property developers to increase funding channels, uncompleted home projects are yet to be finished. Most of those projects are left in the hands of local governments to find a private company to finish the construction work. This takes time to finish. The housing market is therefore quiet as home price continues to fall. On Covid, more local governments have subtly changed to slightly softer practices to implement Covid measures. But the higher number of Covid cases means that there is limitation on how fine-tuning can benefit the economy. Sporadic lockdowns would continue and still affect retail sales and production adversely. We have already seen retail sales fell into yearly contraction in October, and PMIs showed that could easily repeat for the rest of 4Q22. More, exports should continue to show weaknesses due to high inflation in US and Europe. The only support to the economy is now fiscal spending, which has been in the area of advanced technology and new energy.

5 Rest of Asia: No recession, but certainly slowdown

On the positive side, inflation rates in Asia look to be peaking out, and at levels well below comparable rates in Europe and the US. And this has also meant that although central banks across the region have been raising policy rates, they have not gone up alarmingly, and it feels as if in many cases, we are nearing a peak after the next one or two hikes. On the negative side, Asia is highly geared to global growth through global trade, and so with Europe contracting, China in as weak a state as we have seen it, and the US slowing, it is not surprising to see Asia export figures swinging sharply negative, with Korea and Taiwan the bellwethers for the North Asia, and Singapore's Non-oil domestic export declines performing the same barometer role for SE Asia. Not entirely independently, the global semiconductor downturn is heaping further downward pressure on the region, which is the key production centre for most global technology hardware, weighing on industrial production and exacerbating the export downturn.

6 CEE: Geopolitical misfortune

In addition to the global story of high energy prices and headline inflation, the CEE region is suffering from its own problems. The common denominator is the region's unfortunate geographic location in the current geopolitical landscape and historically strong labour market. The result is significantly higher inflation than in Western Europe, but also high and persistent core inflation, underpinned by a still massively tight labour market that shows no signs of easing despite the coming recession. Moreover, in response to the energy and migration crises at the same time, governments across the region have come up with another wave of household support spending, resulting in massive twin deficits. However, this has been countered by central banks tightening monetary conditions through interest rate hikes, well above global peers, but also often through the FX channel. The resulting picture of this wild mix for next year is thus a shallow recession driven mainly by a fall in household consumption, only gradually slowing inflation with a possible upside surprise, and cautious central bank foot-dragging around the timing of the start of monetary policy normalisation.

7 FX: Everyone is asking whether the dollar has topped

At top of everyone's minds in the FX market is the question as to whether the dollar has topped. Softer US inflation data and some hints of softer Covid policy in China have combined to knock the dollar some 8% off its late September highs. Those arguing for a continued dollar decline are wholly focused on the Fed story and the extension of a Fed pivot into a full-blown easing cycle. We certainly agree that a dovish turn at the Fed – a turn that finally sees short-dated US yields start to fall – is a necessary condition for a drop in the dollar. But a sufficient condition requires investment destinations in Europe and Asia being attractive enough to pull funds out of dollar deposits yielding 4%+. It remains questionable whether either of these necessary or sufficient conditions are met in 2023 and we remain sceptical that EUR/USD will be able to sustain gains above the 1.05 level. Elsewhere, sterling has recovered after November's fiscal U-turn – a sign that policy credibility has a big role to play in FX markets. And finally, Japanese policy makers will be looking at back at some incredibly effective FX intervention to sell USD/JPY in September and October.

8 Rates: To reverse higher first, and then collapse lower as a theme for 2023

2022 is shaping up to be the biggest bear market for bonds in modern times. This might help explain why market rates have reversed lower in recent weeks. But it's also to do with position squaring, as a decent rump of investors square up on bear market positions taken in 2022. That requires the buying of both duration and risk.

However, this stores up problems for the turn of the year. Arguably, financial conditions (especially in the US) are prone to loosening too much, driven there by falls in market rates. But the Fed is still hiking and needs tighter financial conditions. That should force market rates back up first.

But the biggest narrative for 2023 will be one of big falls in market rates. The Fed and the ECB will peak in the first quarter, and once there, market rates will have a carte blanche to anticipate future cuts.

Our 3 calls for the global economy and energy prices

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With thanks to Cici Xia

An overview of our current base case alongside potential upside and downside scenarios of what could be next for the global economy

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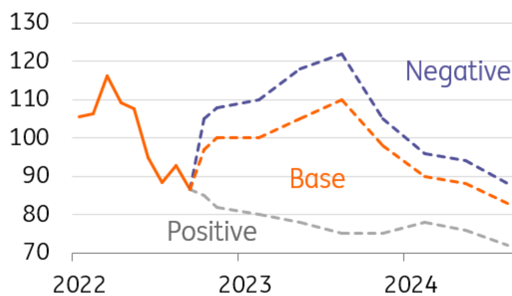
Energy and commodity prices have taken over from Covid lockdowns as a key driver for the global economy and inflation developments across the world. Needless to say that at the current juncture, all forecasts are surrounded by unprecedented uncertainty. Therefore, we're continuing with our tradition of stress testing assumptions and central forecasts. What follows is an overview of our base case alongside both upside and downside scenarios for growth, inflation and central bank policy.

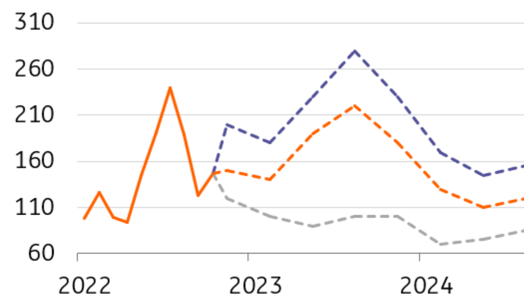
Three scenarios for energy prices

	Oil (Brent Crude)	Natural Gas (Dutch TTF)
Low price scenario	War de-escalation and/or the G7 price cap has the desired effect of keeping Russian oil exports flowing. Iranian talks progress. Market in surplus through 2023	Risk premium is removed and gas flows pick up along certain routes (e.g. via Ukraine/Yamal-Europe, though not Nord Stream). Increased flows see prices fall
Energy Base case	Market in deficit through 2023 due to OPEC+ cuts and EU ban on Russian oil. As a result, higher prices expected. Potential refill of the SPR provides a floor to the market.	Russian gas flows don't improve. Demand destruction helps Europe make it through winter. Difficulty filling inventories next year means higher gas prices in winter 2023/24
High price scenario	Russia reduces output on G7 price cap and/or secondary sanctions. Market goes into deep deficit in 2023. OPEC doesn't have capacity to make up Russian shortfall	Russian flows come to complete halt. Recovery in Chinese LNG demand means Asia competes more aggressively with Europe for LNG. Prices trade to record levels

Brent Crude (USD/bbl)



Dutch TTF gas (EUR/MWh)



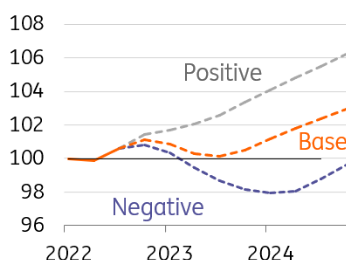
Source: Macrobond, ING

Three scenarios for the US economy

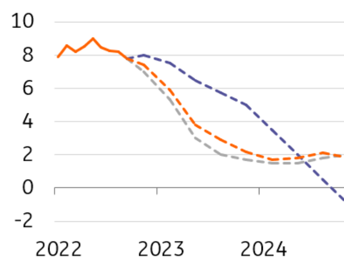
United States: Three scenarios

	Growth	Inflation	Central bank
Positive scenario	Inflation and wage growth slow rapidly. Swift Fed policy reversal and tight jobs market mean any downturn is brief and shallow	Corporate pricing power weakens. Lower energy, shelter and vehicle prices mean steep falls in CPI through 2023	Housing/consumer worries lead the Fed to pause after the December hike with steep inflation falls allowing early cuts
US Base case	House price falls weaken consumer demand. Lower investment/higher joblessness mean recession from early 2023	Core inflation remains sticky for now, but pricing power rapidly weakens and inventories rise, slowing inflation through 2023	Fed hikes to 4.5% in Dec and 5% in Feb 2023. But recession and lower inflation allow cuts to start from 3Q 2023
Negative scenario	Housing market in painful correction on Fed hikes. Capex falls dramatically. Deep and prolonged recession likely	Inflation fails to slow in any meaningful way, owing to higher energy prices and persistent labour shortages	Sticky inflation, resilient jobs market push the Fed to hike rates to 6%. Late 2023 rate cuts do little to prevent recession

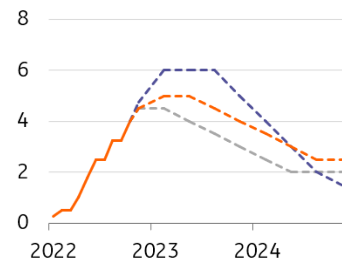
Real GDP level (1Q22 = 100)



Inflation (YoY%)



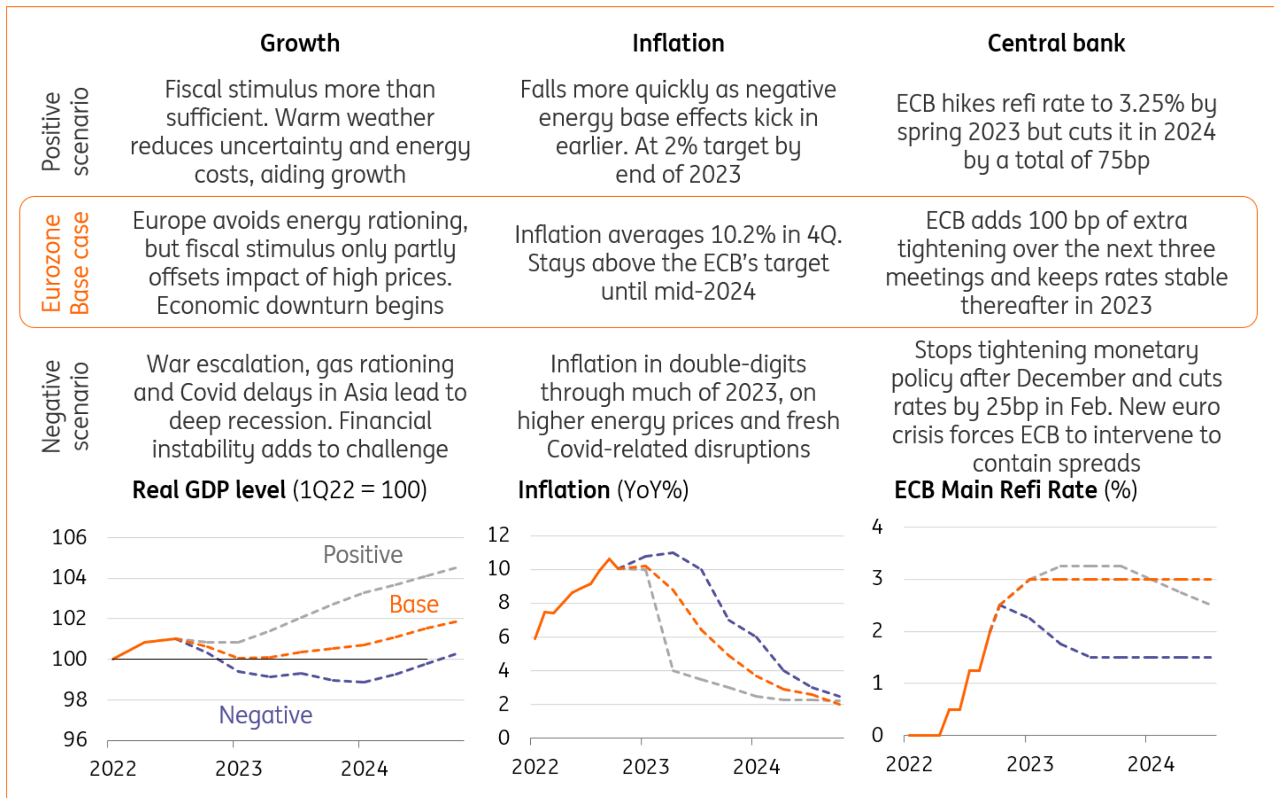
Fed Funds rate – Upper Bound (%)



Source: Macrobond, ING

Three scenarios for the eurozone economy

Eurozone: Three scenarios

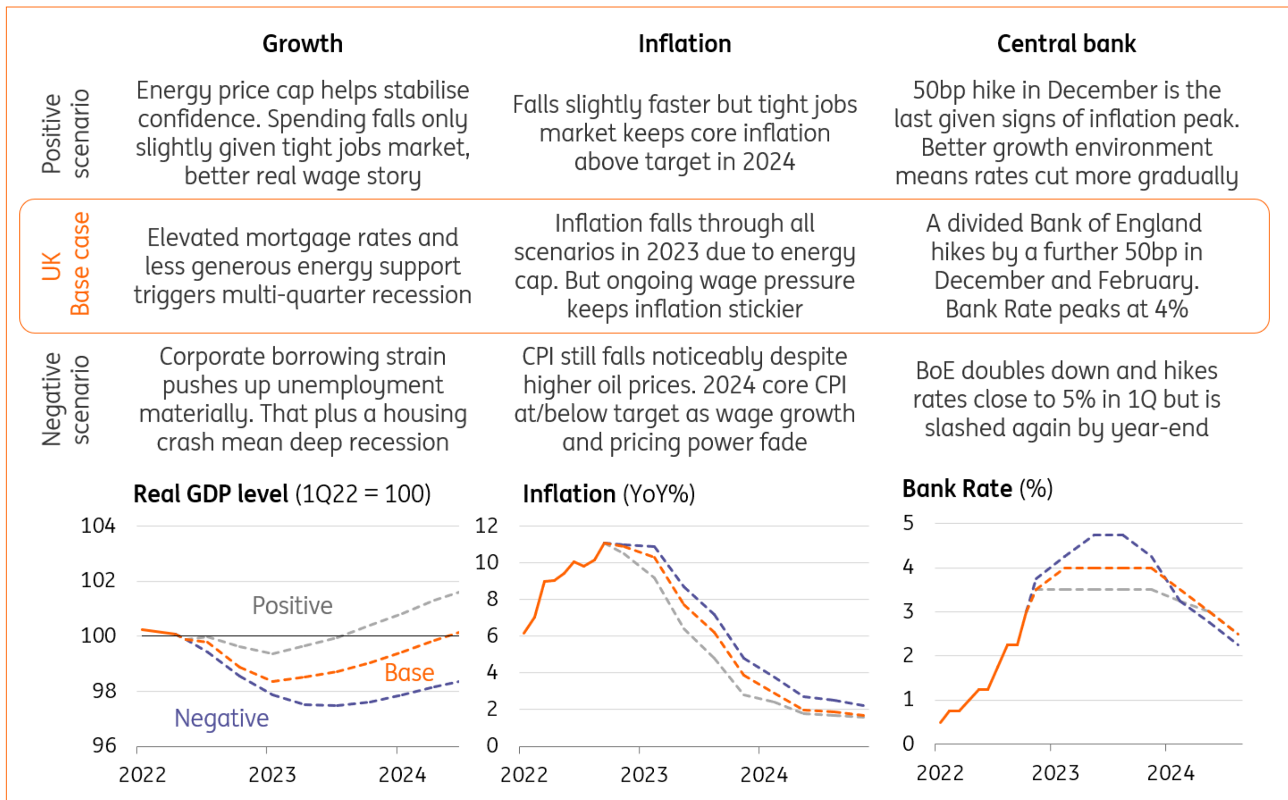


	Growth	Inflation	Central bank
Positive scenario	Fiscal stimulus more than sufficient. Warm weather reduces uncertainty and energy costs, aiding growth	Falls more quickly as negative energy base effects kick in earlier. At 2% target by end of 2023	ECB hikes refi rate to 3.25% by spring 2023 but cuts it in 2024 by a total of 75bp
Eurozone Base case	Europe avoids energy rationing, but fiscal stimulus only partly offsets impact of high prices. Economic downturn begins	Inflation averages 10.2% in 4Q. Stays above the ECB's target until mid-2024	ECB adds 100 bp of extra tightening over the next three meetings and keeps rates stable thereafter in 2023
Negative scenario	War escalation, gas rationing and Covid delays in Asia lead to deep recession. Financial instability adds to challenge	Inflation in double-digits through much of 2023, on higher energy prices and fresh Covid-related disruptions	Stops tightening monetary policy after December and cuts rates by 25bp in Feb. New euro crisis forces ECB to intervene to contain spreads

Source: Macrobond, ING

Three scenarios for the UK economy

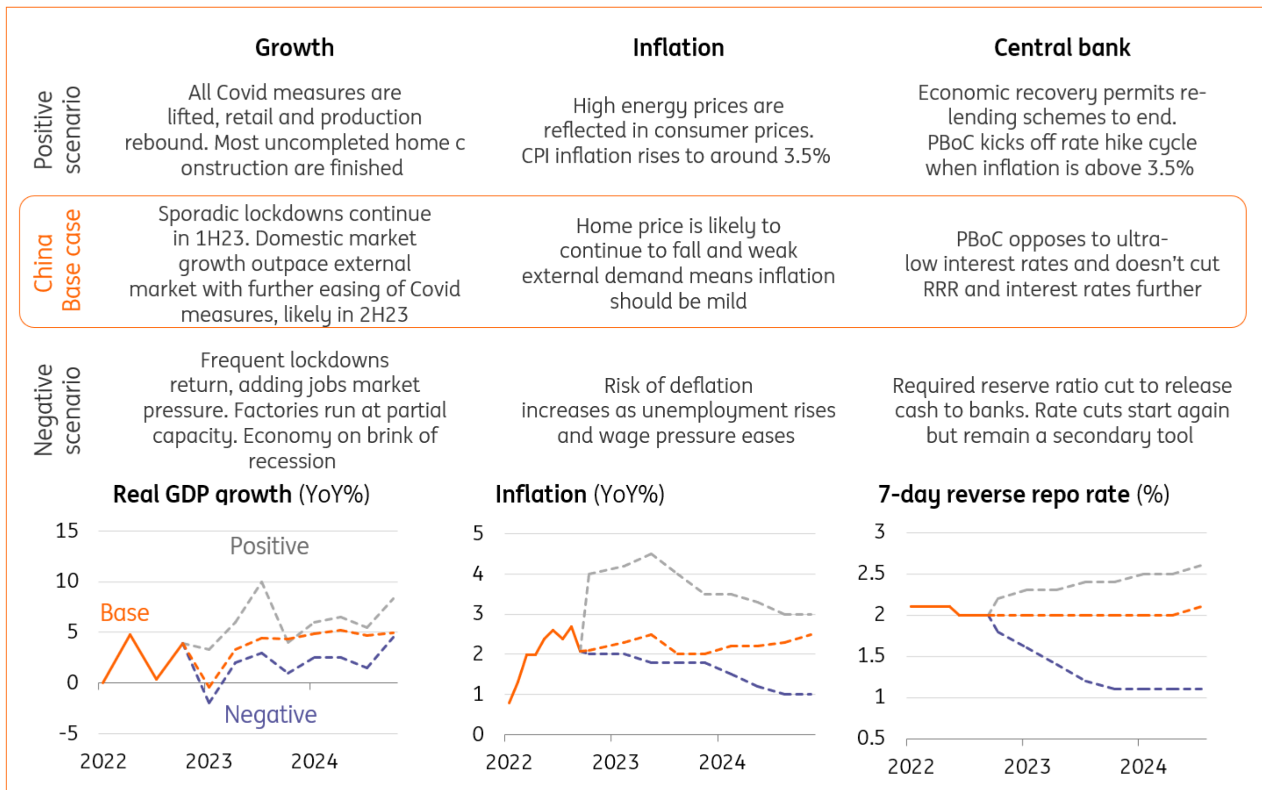
United Kingdom: Three scenarios



	Growth	Inflation	Central bank
Positive scenario	Energy price cap helps stabilise confidence. Spending falls only slightly given tight jobs market, better real wage story	Falls slightly faster but tight jobs market keeps core inflation above target in 2024	50bp hike in December is the last given signs of inflation peak. Better growth environment means rates cut more gradually
UK Base case	Elevated mortgage rates and less generous energy support triggers multi-quarter recession	Inflation falls through all scenarios in 2023 due to energy cap. But ongoing wage pressure keeps inflation stickier	A divided Bank of England hikes by a further 50bp in December and February. Bank Rate peaks at 4%
Negative scenario	Corporate borrowing strain pushes up unemployment materially. That plus a housing crash mean deep recession	CPI still falls noticeably despite higher oil prices. 2024 core CPI at/below target as wage growth and pricing power fade	BoE doubles down and hikes rates close to 5% in 1Q but is slashed again by year-end

Source: Macrobond, ING

Three scenarios for China's economy



Source: Macrobond, ING

Our call on inflation

Inflation – it's complicated. And it has dominated headlines for the past two years. Here's what we think is going to happen next

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Industrial unrest has been increasing as workers demand higher wages to match inflation. 'For our wages' reads this banner at a recent protest in France

A complicated story

The drivers behind inflation have been discussed extensively. Lockdowns and reopenings, supply chain frictions, the war in Ukraine and an energy crisis pushed up headline inflation in most industrialised economies into double-digit levels this year. While inflation in Europe is still mainly driven by higher energy, commodity and food prices, it's become much more domestically driven in the US.

At the end of the year, headline inflation in the States had started to come down significantly, and it seemed to have approached its peak in the eurozone. The big question for 2023 is whether headline inflation will retreat further and, if it does, how fast will the fall be? As we've seen over the past couple of years, the inflation outlook varies between regions.

The long road towards lower inflation

Generally speaking, manufacturing firms across developed markets are reporting lower orders and rapidly rising inventory levels. Coupled with lower input prices for many commodities and also shipping, this points not only to lower inflation but also potentially to outright price falls in some durable goods categories; we already see that with used cars. That's consistent with history, too: Goods inflation, particularly consumer durables, tends to be more volatile, but trends are also less persistent than services inflation. Just as goods price inflation surprised higher during Covid, it also has the potential to do the same on the downside.

In the US, the latest ex-food and energy inflation readings are undershooting expectations, with some evidence that weakening corporate pricing power is spreading as businesses become more cautious about the outlook and see their inventory levels rise. However, Federal Reserve officials have signalled concern about services excluding housing (around 25% of the inflation basket) with the latest strong wage data set to

keep them cautious. We believe that the high share of shelter and used cars in the inflation measure (more than 40% of the basket) could push down headline inflation faster than many policymakers currently expect. After all, they reflect assets, so there is greater scope for outright price falls than for services.

In the eurozone, however, headline inflation could prove to be a bit stickier, certainly if our house view is correct and gas prices stay high into winter 2023. Also, the pass-through from higher wholesale gas prices to consumers comes in waves and is likely to continue far into next year. As a consequence, headline inflation will just gradually come down and will only reach the ECB's 2% target in 2024.

Labour markets pose more of a conundrum but are crucial for the outlook for core inflation. While there's little doubt hiring appetite is weakening as recession sets in - and that will continue - structural labour shortages suggest firms have an incentive to 'hoard' staff more than in past recessions. Given that demographics are less favourable in Europe than in the US, labour hoarding could be more accentuated in Europe. That suggests wage growth may also not slow as much. In any case, let's not forget that wage growth is one of the most lagging indicators and even with a looming recession, wage negotiations at the start of 2023 will still be highly impacted by the inflation developments of the past two years and less by the looming recession. Remarkably, the UK faces a unique situation of an uptrend in the proportion of adults neither employed nor actively seeking a job, a situation exacerbated by healthcare problems.

Longer-term factors likely to push up inflation again

Our base case scenario remains that inflation in the developed economies will return to around 2% in 2024. However, this is no reason for relief and could be a very short-lived experience. In the longer term, structural shifts in the global economy are likely to push up costs and hence inflation. Deglobalisation - the restructuring of supply chains but also new trade barriers - presents new costs for corporates. Climate change and the transition to net zero will also initially push up costs for energy and commodities and will lead to more volatile inflation over the coming years.

While 2022 saw higher gas prices due to the Ukraine war, those prices were already volatile in 2021, which was partly linked to periods of poor renewables' output. Until advances in energy storage become more widespread, the switch to zero-carbon electricity - and the associated volatility in output - implies periods of more volatile European power prices. Extreme weather also points to more volatility linked to supply chain pinch-points, as we saw with the drought-affected river Rhine in the summer. Demographic change, already leaving its mark on labour markets, will only grow and add to upside pressure on wages unless jobs are automated.

Against this background of gradually declining but structurally higher inflation, the key question is what central banks will do if core inflation doesn't return fully to target over the next 12 to 18 months. One option would be to keep policy rates high or higher for longer. The other option could be to become more flexible once inflation falls much lower. But it does suggest a return to consistently below-neutral interest rates is less likely in the medium-term.

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Our 3 calls for commodities

This year has been extraordinary for commodity markets. Supply risks led to increased volatility and elevated prices. However, demand concerns have taken the driving seat as we approach year-end. Next year is set to be another year plagued by uncertainty, [with plenty of volatility](#)

We believe that the oil market will tighten over the course of 2023

1 Tighter oil market

There is still plenty of uncertainty over Russian oil supply given the EU's ban on Russian crude oil and refined products. However, we believe that Russian supply will fall significantly early next year – in the region of 1.8MMbbls/d year-on-year in the first quarter. This supply loss coupled with continued OPEC+ supply cuts suggests that the oil market will tighten over the course of 2023. US supply growth will not be able to fill the gap, with US producers showing a lot more capital discipline. As a result, we expect ICE Brent to average US$104/bbl next year.

2 European natural gas prices to remain elevated

This winter appears as though it will be more manageable for Europe due to th late start to the heating season. This left European natural gas storage virtually full in mid-November. However, 2023 will be a tough year for the European natural gas market. It is unlikely the region will be able to build storage at the same pace as seen in 2022. Annual Russian gas flows will fall in the region of 60% YoY, even if flows remain at similar levels to what they are currently. Unfortunately, the liquefied natural gas (LNG) market will not be able to fully offset losses. Therefore, demand destruction will need to continue to ensure adequate supply for the 2023/24 winter. In order to see this demand destruction, prices will have to remain at elevated levels. We forecast TTF to average €175/MWh over 2023.

3 Demand woes take centre stage for aluminium

Aluminium prices have been highly volatile this year due to the Russia-Ukraine war, logistical issues, increasing recessionary fears and the Covid-19 pandemic. Looking ahead to the first quarter of next year, the risk for aluminium prices will be mainly to the downside, with the prolonged war in Ukraine, rising energy prices, low gas availability, high inflation and weakening downstream demand all adding to the bearish outlook for the lightweight metal. In the short-term, the market's focus will remain on the bigger macroeconomic and demand-side problems, with prices expected to fall further to $2,150/t in the first quarter of 2023. We believe a recovery in price should start in the second quarter, although any recovery is likely to be slow.

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Our 3 calls for central banks

Global central banks are facing unprecedented challenges. Here's our focus on the main ones

As central banks continue to grapple with high inflation, interest rate hikes will continue in early 2023 – albeit at a

Developed markets: Our calls at a glance

Developed Markets

Central bank	Call
Federal Reserve	50bp hikes in December and February before slowing inflation and recession prompt rate cuts from 2H 2023
European Central Bank	50bp rate hikes in December and another 50bp in Q1. Balance sheet reduction will replace rate hikes.
Bank of England	50bp rate hikes in December and February. Rate cuts likely to start in 2024, after the Fed
Bank of Japan	No policy change expected throughout 2024
Swiss National Bank	50bp rate hikes in December and another 50bp in March 2023, then a long pause
Bank of Canada	Low conviction call for a final 25bp hike in 1Q 2023. Lower peak than the Fed and a later rate cut story, starting 4Q23
Reserve Bank of Australia	RBA to keep to its 25bp per meeting until rates peak out at 3.6%. No longer a data dependent policy
Riksbank	50bp in February, possibly a final 25bp hike in April. Rate cuts to start already in 4Q23
Norges Bank	Another 50bp of total hikes, reaching a peak rate of 3.0%. But risks skewed to more aggressive tightening

Source: ING

Central and Eastern Europe/EMEA: Our calls at a glance

EMEA

Central bank	Call
National Bank of Hungary	A reversal of the "whatever it takes" hawkish stance might start only in 1Q23, cutting the 18% effective marginal rate
Czech National Bank	Hiking cycle closed, first rate cut likely in 2Q23 including end of FX interventions
National Bank of Romania	Tightening cycle is essentially over, more accommodative liquidity conditions could be the next policy choice
Central Bank of Turkey	Policy rate to remain flat until elections but maintain focus on selective credit policy and 'Liraisation' strategy
National Bank of Poland	NBP effectively ended hikes. De facto target is slow disinflation, GDP soft landing. Policy mix should tighten in 24 to bring CPI to de jure target

Source: ING

Asia (ex Japan): Our calls at a glance

Asia

People's Bank of China
Stay put in 2023 and keeping re-lending program for SMEs and uncompleted home construction

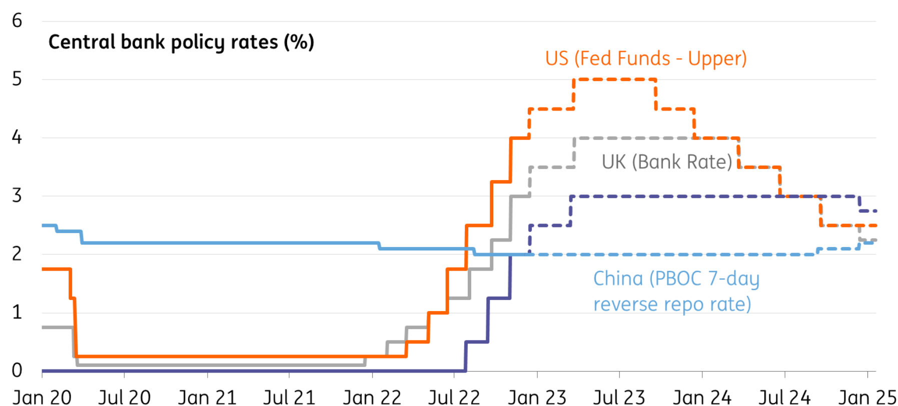
Reserve Bank of India
Another 25bp hike at the 7 Dec meeting, and also at the 8 Feb meeting, but RBI getting close to peak policy rates

Bank Indonesia
Rate hikes at 22 Dec meeting through to 1Q but with inflation likely past peak we could see a pause by 2Q 2023

Bank of Korea
End its hiking cycle with a 25bp hike in February, then rate cuts likely to begin in 2H23

Source: ING

Central banks: Our forecasts



Source: Macrobond, ING

Federal Reserve

After 375bp of rate hikes since March, including four consecutive 75bp moves, the Federal Reserve has concluded that it is now time to move in smaller increments. Nonetheless, the market doubts the Fed's intent and the recent falls in Treasury yields and the dollar are undermining the central bank's efforts to defeat inflation. Officials have been trying to convince the market that the ultimate/terminal interest rate will be above where they had signalled in September, but this is falling on deaf ears. The market is focused on soft inflation readings, coupled with a sense that recession is around the corner. While we agree that the second half of 2023 will be about rate cuts, we think there is the risk of a more aggressive response to inflation in the near term, with upside potential to our call for 50bp rate hikes in December and February. We could even see the Fed consider a faster run down of its balance sheet in an effort to re-steepen the Treasury yield curve at a higher level.

European Central Bank

Eurozone inflation is close to its peak, unless energy prices surge again next year, but the road towards the ECB's 2% target will be long and bumpy. The pass-through of wholesale gas prices, as well as still high selling price expectations, suggest that there is still inflationary pressure in the pipeline. It could take until 2024 before inflation has returned to 2%. For the ECB, this means that its job is not done, yet. At the same time, the looming recession, the risk of a subdued recovery and increasing government debt bring the ECB closer to the point at which rate hikes become overly restrictive. As a consequence, we expect the ECB to bring the deposit rate to a maximum of 2.5% in the first quarter of 2023. The reduction of the balance sheet, a.k.a reducing the ECB's bond portfolio, could become the ECB's main policy instrument to fight inflation.

Bank of England

The BoE may have hiked by 75bp in November but it made it abundantly clear that this was likely to be a one-off, and that investors were overestimating future tightening. Admittedly, recent data has been slightly hawkish, and the committee is alive to the risk that services/wage inflation may only fall gradually despite the forthcoming recession. But the Chancellor's Autumn Budget probably did just about enough to assuage the BoE's concerns about fiscal and monetary policy working at cross purposes. While much of the fiscal pain was delayed to future years, the government still scaled back energy support for households next year. We expect 50bp rate hikes in both December and February, marking a peak Bank Rate of 4%. With labour shortages unlikely to disappear next year, and wage growth therefore likely to stay more elevated than in past recessions, we suspect the BoE's first rate cut may not come until 2024, and after the Federal Reserve.

People's Bank of China

The PBoC cut the reserve requirement ratio (RRR) by 0.25 percentage points, effective in December, following a cut in April. There were also two 10bp cuts in the 7D reverse repo policy rate and 1Y Medium Lending Facility (MLF) rate back in January and August this year. The loosening of monetary policy has been mild relative to the slow rate of growth, which averaged 3.0% over the first three quarters of 2022. We believe that Covid measures are more likely to ease in 2023. But external demand could be weaker compared to 2022. Overall, growth in the domestic market should outpace the potential contraction of exports. Still, inflation should be absent in China. As such, the PBoC may choose to stay on hold next year as the central bank has hesitated to lower the 7D interest rate to near the 1% level to avoid falling into a liquidity trap. We do not expect the PBoC to cut the RRR or interest rates in 2023. That said, the re-lending programme for specific targets, e.g. SMEs and unfinished home projects, should continue at least in the first half of 2023.

Our 3 calls for trade and supply chains

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Global trade will continue to slow in 2023 amid economic headwinds. At the same time, trade patterns are changing and supply frictions persist in a volatile and more protectionist world. But transport costs of most overseas trade will be lower

Global trade is set to continue to come down from its pre-pandemic highs. Shutterstock

1 World trade will hardly grow as consumer demand falters

Global trade entered the slow lane at the end of 2022 and will continue to face headwinds in the new year. The push from industrial production will be weaker, while consumer product trade will slump following the surge seen during the Covid-19 pandemic. Inventories of products such as furniture, toys and accessories have piled up in the US and EU with consumers shifting back their spending to services. A reverse "bullwhip effect" of adapting high stock levels to lower consumer demand across the supply chain created an adverse overreaction after the summer of 2022, which will gradually normalise in the new year. Things will therefore look less gloomy than autumn figures on container throughput suggest. Nevertheless, 2023 will still look bleak for containerised trade (consumer products) which is normally a growth centre. In liquid bulk (liquefied natural gas, oil products, chemicals) and some dry bulk categories (grain) we still expect stronger trade development, but overall world merchandise trade growth is expected to be limited to only 1%, compared to a ten-year average of 2-3%.

2 Frictions in supply chains persist despite resolving logistics bottlenecks

Supply chains are expected to remain unbalanced in 2023, due to shifting trade patterns (because of sanctions on Russia and geopolitical tensions) and ongoing mismatches in supply chains for chips but also for other components, parts, as well as raw materials. Logistical bottlenecks started to subside in 2022 with the clearing of congestion at the US port LA-Long beach a turning point. But the recovery of schedule reliability will take us far into 2023 and this also holds for the normalisation of overseas lead times. Supply chains will also remain fragile during 2023 as Chinese Covid-19 policies are still unpredictable (potentially also leading to longer Chinese New Year closings), the war in Ukraine and related sanctions continue to impact trade, and strikes among the stretched workforce still pose a higher risk in a still inflationary environment.

3 Lower transport costs for overseas container trade, but not in tanker shipping

After spiking at the start of 2022, container spot rates have plummeted since the summer almost returning to pre-pandemic levels on major trade lanes just before the start of the new year. Container liners will try to manage excess capacity by blanking sailings, with the cost base of carriers being higher than pre-pandemic, but blocked capacity is gradually being released and a flood of incoming new build capacity will add to the downward pressure on freight rates in 2023. On the liquid bulk side of global trade, it's a different story. The ban on Russian oil and the imposed cap for carrying and insuring Russian oil has impacted trade patterns and led to longer sailing routes. This has resulted in inefficiencies, and the rush to replace piped Russian gas will also continue to push up liquefied natural gas (LNG) tanker rates in 2023.

Our 3 calls for sectors

Business decisions will be shaped by the response to the energy crisis, weakening consumer demand and commitments to reduce carbon emissions in 2023

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Energy-intensive sectors are coming under increasing pressure

1 Policy response to energy crisis will shape business decisions

Energy markets and the European policy response to the energy crisis will continue to weigh heavily on companies' investment decisions in 2023. Many governments (such as those in France, Germany and the Netherlands) have vowed to provide financial compensation to companies well into 2023. This offers some relief and buys firms time to adapt. Adapting will be necessary as European energy prices are expected to remain higher in the years ahead compared to regions such as the US and the Middle East. Lower-cost (fossil) energy in these regions will convince some companies to shift investments, with an additional incentive provided by the US Inflation Reduction Act.

As a result, there will be increased pressure on the production of energy-intensive outputs with low-added value in Europe, such as ammonia, metals and glass. This can be a painful process, especially in areas where such activities are a cornerstone of the local economy. Exactly how painful depends heavily on how far EU policymakers are willing to go with their support, as well as the ability of companies to partially re-invent themselves. We expect discussions about backing energy-intensive sectors to continue in 2023, but there will also likely be more questions raised in Europe about the role of high-tech manufacturing activities that are less energy intensive as a key driver for future growth.

2 Resilience of demand put to the test

We aren't anticipating any swift improvements in the outlook for business-to-consumer sectors, as one-third of the global economy could be in a recession in 2023. There will be trade-offs to make for many households as higher expenses for energy, food and fuel take up a bigger part of the budget and leave less money to spend on discretionary products and services.

In food retail, discounters are gaining market share, and this also trickles down to suppliers. Meanwhile, many non-food retailers are experiencing pressure on sales

volumes as consumers show little appetite to make major purchases. As a result, we've seen warehouses and distribution centres in both the EU and the US fill up. These trends also affect companies that ship goods. For leisure providers, 2023 is likely to provide a reality check after a post-Covid spending boom. Output in sectors like accommodation and aviation will still fall short of pre-Covid levels in developed economies.

3 Pressure set to continue for corporates to do more on carbon reduction

Some companies have now defined pathways towards becoming 'net zero' and the next steps for reducing emissions – but this is still far from commonplace. During COP27, a UN expert group stated that "one-third of the world's largest publicly-traded businesses have made net zero commitments, and only half of those show how their targets are embedded in their corporate strategy".

External pressure from customers and non-governmental organisations will drive more companies to make commitments or adjust their current targets, which also helps investors and other stakeholders to separate the wheat from the chaff with corporate sustainability reports and targets. However, plans for such commitments will likely be met with resistance within companies, as targets often attract criticism from shareholders or green campaigners. In both cases, this can pose a litigation risk, which may deter some decision-makers from making public commitments. On balance, however, we still expect the number of companies with carbon reduction targets to grow in 2023.

Our 3 calls for global politics

Geopolitics continue to be an important driver for financial markets and the global economy. Predicting future geopolitical moves is always a bit of a fool's game but here are three developments to watch out for

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The Russian President, Vladimir Putin's next moves on Ukraine will continue to dominate the international agenda

1 The war in Ukraine goes on

It's not nearly a year since Russia invaded Ukraine, and the biggest geopolitical story of the year will continue to dominate the news and economic agenda in 2023. It's still a conventional military conflict, but the range of potential future paths is wide, whether that be a ceasefire or a nuclear escalation; neither of those seems highly likely at the moment. There is, of course, much condemnation of Russia's actions. But there's no global alignment on the conflict, so next year will be a real test of commitment by the G7 group of countries and the NATO military alliance as to how it continues to support Ukraine both militarily and financially. Russia will continue to seek more economic cooperation with former Soviet 'CIS' countries, 'BRICS' nations, such as China and India, and OPEC.

The conflict will continue to impact global economies, not least with the reformatting of global energy-supply chains, the risks to the agriculture market, higher inflation, changed capital flows, altered bilateral imports and exports, along with increased defence spending. Let's also not forget the shifting regional role of the US dollar, the euro and other currencies given their continued sanction 'weaponisation'.

2 Risk of more territorial claims

The war in Ukraine shows us, yet again, that aggressive foreign policy and even a regional military conflict can sometimes be used by national elites as a way of distracting their people from domestic political and economic issues. One of the biggest potential flashpoints is China and Taiwan. But let's not forget that disputes such as those between Turkey and Northern Cyprus, and Azerbaijan and Armenia over Nagorno Karabakh continue to bubble away. Taiwan could become more of a focus for financial markets next year, although any moves here are highly unlikely.

Turkey is set to hold presidential and parliamentary elections in June. Current economic issues, including the depreciation of the lira and extremely high inflation, have already

forced the government to be more active on the foreign policy front as we saw in its attempts to moderate the Russia-Ukraine and EU talks.

3 On the lookout for more political unrest

We saw unusual and potentially serious cases of civil unrest in both Iran and China towards the end of 2022. The exact triggers for the protests were different but were broadly related to human rights. They drew global attention, of course, because of the great personal risk the participants were taking. Those demonstrations are perhaps reminiscent of the 'Arab Spring' pro-democracy protests in 2010. Those came just a couple of years after the Global Financial Crisis. Right now, the world is battling with high inflation and particularly high food costs. There are enough examples throughout history where economic crises and sharp hits to disposable income have triggered unrest and that will be high on people's minds in 2023.

Our 3 calls for the US

We should see a swifter fall in US inflation than elsewhere given the composition of the country's inflation basket. Recession will accelerate inflation's slide and allow the Federal Reserve to respond with rate cuts before 2023 is out

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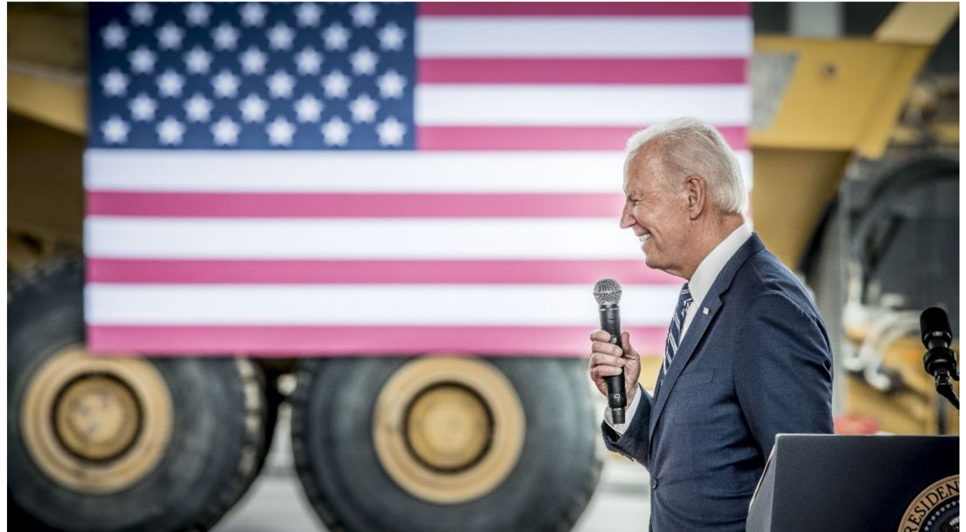

US President Joe Biden at a recent factory visit in an effort to show his economic plans are creating jobs

1 Recession risks mount as business pulls back

While the household sector is holding up well right now, we are fearful that the story will not nearly be as positive in the first half of 2023. The housing market downturn, triggered by rapid increases in mortgage borrowing costs, will hurt the construction sector, which accounts for around 4% of GDP. This will have ripple through effects on key retail activities such as household furniture, furnishing, household appliances and building supplies.

The slower global backdrop will hit the manufacturing and service sectors, with the Conference Board's US CEO confidence index already at the lowest level since the depths of the Global Financial Crisis 13 years ago. This is likely to mean the jobs market and the outlook for business capital expenditure will deteriorate markedly over the next couple of quarters. While the US entered a technical recession in the first half of 2022, this was tied to legacy supply chain issues which led to volatility in trade and inventories. Recession will feel much more "real" this time around.

2 Inflation set to hit 2%

Corporate pricing power already appears to be waning based on survey evidence, especially from the National Federation of Independent Businesses. The deteriorating activity story will help dampen price and wage pressures further. The composition of the US inflation basket, which is heavily skewed towards housing and vehicles – accounting for over 40% by weight - is also important for our call that inflation will hit 2% by the end of the year.

Given these reflect asset valuations, there is greater scope for these key components to fall in price, which allows inflation to drop far more quickly relative to countries that have inflation baskets more heavily weighted towards services. Inflation will be much stickier for those countries, given that wages account for the bulk of the input cost.

3 Fed will respond early and fast with rate cuts

Recent falls in Treasury yields and the dollar, coupled with tighter credit spreads, are undermining the Federal Reserve's efforts to control inflation. Consequently, with the Fed continuing to suggest the risk of doing too little outweighs the risk of doing too much in this battle, they appear prepared to accept a recession to ensure inflation is defeated. Given this situation, there is some upside risk to our forecast of 100bp of rate hikes from here. But given the prospect of recession and sharply lower inflation, the Fed will be in a position to cut interest rates in the second half of the year.

Remember as well that the Fed has a dual mandate, which includes maximising employment. This, together with the fact it has an "average" inflation target, offers the US central bank greater flexibility to respond with stimulus versus most others.

Our 3 calls for the eurozone

After a mild winter recession, the eurozone is likely to see a very subdued recovery, while inflation is bound to end in 2023 above 3%. Meanwhile, the pressure to return to some form of fiscal orthodoxy might create tensions both within and between eurozone member states

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The festive lights on the Champs-Elysees in Paris will give way to more gloom for people in the eurozone in 2023

1 A shallow recession, followed by an even shallower recovery

The winter recession that we forecasted might turn out to be a bit milder, supported by somewhat lower energy prices and significant fiscal stimulus. On top of that, a number of sectors, like construction, still have huge order backlogs, which guarantees them sufficient activity in the short run. However, the very factors that prevent a deep recession might also restrain the recovery. Indeed, budgetary support to cope with high energy prices is likely to decrease in the second half of next year, while energy is bound to remain expensive.

At the same time, the European Central Bank's (ECB's) monetary tightening will constrain the more interest rate-sensitive sectors in 2023 and the energy supply could become critical again in the winter of 2023/24. All in all, because of the very subdued recovery, GDP growth is still likely to print a negative figure for the whole of next year.

2 Inflation will fall, but the 2% goal is not yet in sight

November 2022 marked the first time in 17 months that inflation fell, on the back of lower energy inflation. We think this trend will continue but not necessarily every single month. Even though energy prices are unlikely to fall below 2022's levels, the year-on-year comparison will be less punitive than in 2022. However, core inflation is likely to be stickier. The start of the year might see important price increases on the back of inflation indexation and energy price pass-through.

Higher wage-induced costs will also keep some upward pressure on services prices. We agree that dwindling demand and high inventories will slow the month-on-month increases in core prices over the course of the year. But even then, December 2023 is still likely to see both headline and core inflation above 3%.

3 A difficult return to budgetary orthodoxy

The multitude of shocks over the last few years have forced European governments to deliver quasi-permanent fiscal support, leading to a significant deterioration of public finances. The subdued recovery could increase pressure on governments to step up fiscal stimulus further, which in turn could bring back debt sustainability concerns. However, as the general escape clause is unlikely to be activated again for 2024, budgets for 2024 should present more restrictive fiscal policies. A clear contradiction. This will get even more complicated as another reform – the Stability and Growth Pact – is on the European agenda for 2023.

The European Commission's proposal to build in more flexibility and practice a more tailor-made and country-specific approach makes sense but will be considered as a relaxation of the rules by Northern member states. We expect fiscal tensions at both the national and European levels.

Our 3 calls for the eurozone's big three

All of the eurozone big three – Germany, France and Italy – will experience a recession next year, but the strength of each economic downturn will differ

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Italy, Germany and France are sliding into recession amid persistently high inflation and energy prices

1 Germany: The long transition

The war in Ukraine has been an unprecedented game-changer for the German economy. Currently fighting with a recession on the back of high energy prices, the economy will continue to face a long list of structural challenges over the next years, including the energy transition, changes to globalisation, supply chain frictions, digitalisation, an ageing society and the modernisation of Germany's infrastructure. These will cause a loss of international competitiveness but also an opportunity for high-scale investments. In the short run, the former will outweigh the latter. As a consequence, the recovery after the winter recession will only be subdued and there is a high risk of a double dip next year if the energy transition hasn't been achieved. We doubt that the government can then repeat the fiscal stimulus efforts it announced this year.

2 France: Faltering but not falling

The outlook for France in 2023 will be characterised by a marked slowdown in the economy and higher inflation than in 2022. Changes to the tariff shield, which was implemented by the government to freeze gas prices amid rising costs, mean energy bills will rise by 15% in 2023 compared to 4% in 2022, leading to a sharp rise in inflation. As many more general price revisions can only take place once a year, food and service inflation is expected to rise sharply in the first quarter. As a result, HICP inflation is forecast to approach 6.5% on average over 2023, higher than the 6% recorded in 2022. Economic activity will remain depressed next year due to weakening sentiment, high energy prices impacting industrial production, rising interest rates, and declining global growth. Accommodative fiscal policy should prevent a sharp recession, though not entirely, and the recovery in the second half of the year will be weak. We expect GDP to contract slightly, by -0.1%, in 2023.

3 Italy: Temporarily investing in credibility capital

The new Meloni government has so far adopted a prudent approach to fiscal policies, preferring continuity over disruption. The draft budget, still under discussion, is a case in point. It prioritises tackling the energy price emergency with a piecemeal approach (it is funded in deficit until the first quarter of next year), limiting outlays for other items such as pensions, the reduction of the tax wedge and the flat tax. Crucially, it does so while already targeting a sizeable adjustment in 2023, when the Stability and Growth Pact (SGP) will still be suspended. In the year of the SGP's reform, accumulating political credits will be essential in order to have a say in the bargaining process. Such credibility capital might also help to manage possible issues related to the difficult implementation of the increasingly relevant investment part of the recovery and resilience plan. Given such a potentially high payoff, we believe the government will try to stick to prudence at least over 1H23, accepting in the process the collateral damage of a soft recession, which might be over in the second quarter of 2023.

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Our 3 calls for the UK

A recession looks virtually inevitable in the UK but the jobs market could prove more resilient than in past downturns. Inflation should begin to fall more noticeably from the spring

British Prime Minister, Rishi Sunak, pictured with his wife Akshata Murty, will be hoping for less political turbulence this year

1 A recession looks virtually inevitable

We now expect a cumulative hit to GDP of 1.7%, with a trough next summer. Both hospitality and retail are being impacted as consumers rein in spending, and less generous energy support next year points to further weakness in these areas.

History also offers clues; in the 1990s and 2008 recessions, construction and (in the latter case) manufacturing took a fair share of the hit, and there are some parallels this time. A weaker housing market and high interest rates pose an issue for the former sector, while falling new orders, high inventory and elevated energy costs are a constraint on the latter.

Still, our forecasts are a tad more optimistic than the Office for Budget Responsibility and the Bank of England's, which can be partly explained by our expectation that monetary policy will be less tight than markets expect (Bank Rate peaks at 4%).

2 Jobs market to stay more resilient than in past recessions

With a recession looming, it’s hard to see how the jobs market can stay this tight. An unemployment rate of 3.5% looks like a trough. Equally, worker shortages are proving much more persistent than expected and so far there are few signs of overt weakness other than a modest reduction in vacancy numbers.

Those shortages are partly linked to higher rates of long-term sickness, which has drawn workers out of predominantly lower-paid consumer service roles. The UK is unique in seeing rates of inactive workers increase – most countries have seen a resumed downtrend post-Covid. This is partly linked to healthcare delays – and waiting lists are expected to continue growing – so we expect this trend to continue. Reduced numbers of EU workers in the UK labour market have also amplified shortages, albeit non-EU employment has increased dramatically.

So while we expect the unemployment rate to drift higher – we suspect towards the 4.5% area next year – there is a stronger incentive than usual for firms to "hoard" labour.

3 Inflation unlikely to get back to target in 2023

It looks like 11.1% in October marked the UK's inflation peak, though we're unlikely to see the headline rate drop out of double digits until the spring. There are compelling reasons to expect inflation to fall thereafter, especially for durable goods, where Covid-19 price pressures are cooling rapidly on lower commodity and shipping prices, weaker consumer demand and rising inventory. But with wage growth likely to prove a little stickier in the face of ongoing skill shortages, services inflation is expected to slow more gradually. We think inflation will end the year around 4% before heading more-or-less back to target in 2024.

Our 3 calls for the Netherlands

The Netherlands has probably seen inflation peak; growth next year will be driven by large increases in government spending

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Government spending will be the guiding light for growth in the Netherlands next year. Pictured: an art installation in Amsterdam

1 Government spending main driver of economic growth in 2023

While investment is expected to decline, household consumption is barely growing and exports are expanding less than usual, additional government expenditure will be the main driver of Dutch GDP growth in 2023. The ambitious coalition agreement should give an estimated net expenditure boost of 2.2% growth for next year. A weakening of the business cycle, therefore, coincides with a shift in activity to the public sector.

On top of the many government plans comes a sizeable package of support measures to help people with the energy crisis. The energy price cap is potentially the largest piece of expenditure in this package. Its size remains highly uncertain given that we don't know where energy prices will sit. Recent government estimates are assuming somewhat lower energy prices than we're seeing now but the extra spending could still account for 1% of GDP. So government spending will be the driving force for GDP growth next year and other similar support packages throughout Europe will also help lift the Dutch economy.

If you'd prefer to read our thoughts in Dutch, click here.

2 Unemployment increases are set to remain small

The Dutch economy is forecast to grow by 0.4% in 2022 in our base case, after an expansion of 4.2% in 2021. We forecast negative growth for the last quarter of 2022 and the first of 2023, and moderate growth thereafter. This implies a short and shallow recession that does not translate into high unemployment. Despite the meagre growth outlook, we expect the unemployment rate to rise to just above 4% in 2023. We expect that a lot of firms will try to hang onto their personnel, given the short duration and mildness of the recession and the fact that all sectors recently faced a great deal of strain in the labour market.

3 Consumer price inflation falls significantly, but remains high

HICP headline inflation seems to have reached its peak in September 2022, but at a forecast of 4.8%, it's set to remain quite high throughout next year. The pipeline still contains cost price increases due to earlier peaks in purchasing prices of things like raw materials, transportation and energy. Higher labour costs will also continue to drive inflation up. Rents and the tobacco tax also contribute considerably to the prices consumers will pay in 2023.

At the start of the year, a number of government support measures expire, such as the temporary reduction of the energy tax, which will have an upward effect on the inflation rate. The new energy price cap will, however, lower the inflation coming from both electricity and gas. This cap is temporary and its expiration at the start of 2024 will result in higher inflation then. And while much of the pipeline inflation should have worked through in 2024, the rate will still remain relatively higher than usual.

Our 3 calls for eurozone real estate

Eurozone real estate is set for a correction on higher rates

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New homes under construction in Rotterdam, the Netherlands

1 Expect a housing market correction in 2023

Eurozone housing markets saw dramatic price rises over the course of the pandemic, though there are major differences between countries. Overall, prices have increased by 20% since the fourth quarter of 2019. Interest rates have, of course, been rising rapidly. And this will be the main driver of housing market activity next year, and we have already started to see a peak in prices in some of the larger eurozone markets.

As this rate hike cycle from the European Central Bank is particularly aggressive, the housing market is likely to see a prolonged slowdown. However, long-term interest rates seem to have peaked earlier this year and as such, we do expect prices to stabilise at the end of next year.

2 Don't expect a freefall in prices

A number of mitigating factors will dampen the housing market decline and the drop in sales and prices is therefore expected to be limited. Firstly, we expect the unemployment rate to be only modestly affected by the recession this winter. That stabilises incomes and reduces the risk of forced sales. Secondly, in many countries, more people have moved to longer-term fixed-rate mortgage contracts, reducing the direct effect of interest rate swings on homeowners' mortgage costs. Lastly, many countries still face housing shortages to some degree, which also has a moderating effect on the size of the correction. At the moment, we expect prices in the eurozone to correct by about 5-10% on average over the course of the year. This would still leave prices well above the pre-pandemic level.

3 Supply remains the bottleneck for green renovation in 2023

The green transformation in the housing market is in full swing at the moment. Regulatory drivers and government investment are pulling in that direction and now we

see that high energy prices are adding to insulation drives from consumers as well. Demand for renovating homes is so large that fulfilling demand will prove challenging in 2023. Construction companies in the eurozone not only lack the material to fill orders, but there is also a structural labour shortage.

Looking ahead, we do not expect to see a significant easing in the situation next year. Despite the strong appetite and need to transform the housing market, the transition should be more dragged out than demand and investment plans would suggest. Because of impaired supply, we also expect differences in price developments between new and existing houses to occur, with new houses experiencing upward pressure on prices from higher building costs.

Our 3 calls for Central and Eastern Europe

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After an unprecedented wave of monetary tightening in Central and Eastern Europe, we expect the region to start normalising monetary conditions. Although headline inflation will slow, core inflation is proving more persistent, and that poses a major dilemma for central banks

Who'll win the race to start cutting rates in the CEE region? Pictured: A woman rides a charging bike to light a Christmas tree in Budapest

1 The timing of central bank interest rate cuts

Central banks in the CEE region were essentially the first globally to start a rate hiking cycle and have delivered massive monetary tightening this year, often also through the FX channel. So the number one question next year will be how long central banks are willing to hold interest rates at record high levels and when we can expect the first rate cuts and the end of extraordinary measures. You can divide the CEE region into two camps. First, the race for the first interest rate cut, which we see between the Czech National Bank and the National Bank of Hungary, which we believe will take place in the second quarter.

On the one hand, the CNB was the first central bank to raise rates, so it may be the first to cut them. On the other, NBH has been forced to raise interest rates well above its regional peers, so it has the most room to normalise monetary policy. In the second camp are the National Bank of Poland and the National Bank of Romania. In both cases, the question is whether we will see additional rate hikes next year, but our baseline assumes that the hiking cycle is over. The NBR could well come up with the first rate cut at the end of the year, while we think the NBP will hold rates at current levels for longer.

2 Persistence of core inflation despite slowdown in headline numbers

Although the theme of high inflation is a global one, CEE is leading the way for two reasons. Firstly, while inflation in the eurozone has touched 10% Year-on-Year, we're talking about levels in the range of 16-23% in CEE. Secondly, the inflation story is not just focused on energy prices but affects the overall consumer basket. While core inflation in the eurozone is half the headline number, in Central and Eastern Europe, core is only slightly slower than the headline in most cases. That's due partly to the record-tight labour market, the convergence of economies and the differing composition of the consumer basket.

The second big question for us is: how fast will inflation slow? It is core inflation that has shown a surprise to the upside in recent months and that remains our baseline scenario for next year. It will be very difficult for central banks to find a way through this minefield of seemingly slowing headline inflation with resistant core inflation hiding the inflationary essence of the CEE region, which was here with us even before the energy crisis and even before the Covid years.

3 Tight labour market despite recession

For next year, our baseline scenario is a shallow recession or, at best, economic stagnation across the region. However, we also expect the unemployment rate to rise only symbolically while wage growth remains in double digits in most cases, but of course, it's still negative in real terms. Labour shortages are one of the main barriers to growth in the region, and the migration crisis, which has boosted labour supply in Poland and the Czech Republic, in particular, has not changed this.

In addition, governments across the region are playing a strong role here, still actively supporting households in the midst of the energy crisis. One channel is the minimum wage hikes we see across the region supporting the mentioned strong wage growth, which is one of the reasons for the persistence of core inflation and underlines the dilemma central banks will face in 2023.

Our 3 calls for China

The outlook for China's economy next year will depend on when Covid measures are eased and international borders are reopened. Recession in the US and Europe are additional hurdles, while fiscal spending could provide some support

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Xi Jinping, general secretary of the Communist Party of China - 30 November 2022

1 Covid measures will ease only gradually in 1H23, easing further in 2H23, timing of full reopening is uncertain

There are likely downside risks associated with the higher number of Covid cases, which have become more widespread across the country in the fourth quarter. We expect this pattern to continue at least until the first quarter of next year. Even if some local governments relax Covid measures, the high number of cases will affect both retail and production adversely.

The timing of a further relaxation of Covid measures is important to the forecasts. We expect the government to gradually shift the focus away from the number of cases in order to avoid a further economic slump. A significant relaxation of Covid measures could happen in the second half of the year after gradual, piecemeal easing in the first quarter. A full reopening may only happen when the government is confident that Covid cases will no longer put pressure on the hospital system. This is more likely to be an event for 2024 than 2023. The economy should see faster growth in 2024 and 2025 when China reopens, construction of unfinished homes has been completed, and external demand recovers slightly.

2 External demand will be weaker in 2023 due to recession in the US and Europe

The US and Europe have been the number two and three export destinations for China. Though not a new stress to the economy, external demand should deteriorate as the US and Europe are likely to be in recession in the first half of next year. According to our forecasts, the timing of the recession will not overlap with the peak export season of the fourth quarter. But whether export demand can recover after the recession is still in question. China's trade with ASEAN - which is the number one export destination for China - and the rest of Asia also depends on the consumer market in the US and Europe. As such, both exports and imports should see an annual contraction in the first half of 2023. As China recovers, and the US and Europe emerge from recession around the

second half of the year, China's trade should show some momentum. Import growth should be stronger than exports as the economy rebounds from easier Covid measures in the second half.

3 Challenge of technology advancement means record high fiscal deficit

The US CHIPS Act has imposed bans on semiconductors and other items being shipped to China. This has pushed the Chinese government to invest in its own technological advancement. Together with the private sector, China is going to increase spending on R&D to develop high tech, especially in the area of semiconductor chip design and manufacturing. It will then move further into producing its own semiconductor machinery. This should be a long journey and it could be difficult to beat the ever-moving advancement of technology. The level of difficulty here implies that the Chinese government will need to support this R&D process. Up to October 2022, the fiscal deficit to GDP had been around 7%, which was higher than the historic high (data goes back to Dec 1995) of 6.2% in 4Q20. The fiscal deficit to GDP should increase to 8% in 2023 even if there is less spending on Covid tests and quarantines, with about one-third of this money going to support high-tech development. Overall government debt, including local government financial vehicles, should increase to 137% of GDP in 2023 from 129% in 2022.

Our 3 calls for Asia

Inflation in Asia will peak at the end of 2022, and while we're unlikely to see any significant recovery in the region's economies next year, currencies and risk assets should return to growth

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Inflation has started to ease in Indonesia (Jakarta is pictured) as it has in other Asian countries

1 Inflation will peak at the end of 2022 or early 2023

Inflation will peak at the end of 2022 or early 2023 for most economies of the region and begin to come down fairly rapidly for many. The main reason for this is that while we are not looking for prices to drop back for energy and food commodities, which make up a large proportion of the CPI basket for many Asian economies, we aren't forecasting a large sequential increase in these prices either. That, and the fact that wages across the region have typically lagged inflation rates, mean the spending power of consumers has been reduced.

There are one or two exceptions to this, where some governments have given pay rises to public sector workers to offset the cost of living increase. But this may end up prolonging the inflation spike, and require the central bank to tighten more forcefully. For the majority, however, we are looking at real spending power reductions, which will snuff out the 2022 inflation peak.

2 Growth in 2023 will be slower than in 2022

The cumulative drag from tighter monetary policy and weaker spending power will be mostly borne in 2023, as consumers offset the initial tightening with decreased savings, and the lagged effects of earlier monetary policy tightening take time to play out across the economy. But the seeds of recovery could be planted in 2023, as inflation drops and reduces the drag this has on real spending power, and as central banks react to policy rates being left higher than inflation as the inflation tide recedes, and gradually start the unwinding process. We also anticipate some improvement in local demand from China, albeit fairly marginal, and certainly don't expect it to be even weaker by the end of 2023 than it is right now.

3 The region's currencies and risk assets should return to growth

Yes, earnings will be under pressure from the reduced sales volumes and tighter margins that are likely to still characterise the real economy. But prospects of some monetary

easing over the latter part of the year should provide markets with a boost to sentiment. As sentiment improves and currencies strengthen again, this should also help to squeeze out residual inflation pressures, in a virtuous circle of improvement. There is a limit to this though – we don't expect interest rates to drop back to pandemic lows, but instead to settle at a level a little above inflation, to return to small positive "real" policy interest rates, representing a return to "policy as normal" rather than the extremes of the last few years.

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Our 3 calls for FX

After a clean dollar bull trend since the summer of 2021, the story for FX markets in 2023 becomes a little murkier. Our baseline view is that central banks tightening into recessions will keep the dollar supported a little longer than most expect. A broader decline may not emerge until the second half of next year and even then, EUR/USD may struggle to rally

The dollar should stay supported in the first half of next year. Shutterstock

1 Less trend, more volatility

The main conclusion we drew in our 2023 FX Outlook was that a repeat of a dominant dollar trend looks unlikely next year. Even though the Federal Reserve may be cutting rates in the second half of next year, we doubt the investment in Europe or Asia will be strong enough to draw funds out of dollar deposits in a sustained manner. At the same time, central banks withdrawing liquidity into a recession look set to exacerbate thinning liquidity conditions. Fewer FX trends and more volatility is our conclusion here.

2 Defensive currencies favoured

While it is tempting to argue that some heavily hit European or Asian currencies are due a substantial re-rating next year, we believe such a conclusion is premature. European currencies will struggle with a German economy re-orienting itself to a new world order, while it also seems too early to expect the Chinese renminbi to lead the Asian FX complex substantially higher. Instead, a weak growth environment and a clear drop in bond yields should see defensive currencies like the Japanese yen start to outperform. Here we could see USD/JPY trading well under 130 by late 2023.

3 Local stories to trigger greater differentiation

Given our call for EUR/USD to demonstrate less trending behaviour, there will be more scope for differentiation in local currencies next year. In Europe, for example, we look for out-performance of the Swiss franc (a hawkish Swiss National Bank) and the Hungarian forint (better relations with the EU), while sterling (external deficits) and the Polish zloty (electoral uncertainty) may well underperform. In Asia, we like the Korean won on the back of Korean government bonds' potential inclusion in a key sovereign bond index, and in the Americas, we favour the Mexican peso for its high carry-to-risk ratio.

Our 3 calls for rates

2023 is shaping up to be a year of turning points, as market rates peak out and drop, and curves re-steepen as future cuts are contemplated, especially in the US

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The US 2/10yr Treasury curve is currently heavily inverted

1 US 10yr to hit 3% and Euro 10yr swap to hit 2.5%

Market rates are projected to fall significantly in 2023. We think the US 10yr yield can fall from 4% to 3%, and the eurozone 10yr swap rate can fall from 3% to 2.5%. Note that our call is complicated by our view that these 10yr rates rise first, compared to where they are now, likely over the beginning of the year. The central rationale for the peak in market rates and subsequent falls is likely heights in Federal Reserve and ECB official rates in the first quarter.

2 Eurozone curve to steepen by less than the US curve

Compared with the ECB, the bigger falls projected for US market rates in 2023 reflect a higher probability for subsequent Fed cuts. This should correlate with a relative steepening of the US curve versus the eurozone one. This is a classic box strategy where the UD curve steepens out, and the eurozone's steepens less.

3 US curve to dis-invert

The US 2/10yr Treasury curve is currently heavily inverted, to the tune of -70bp. As a call for 2023, we look for the curve to dis-invert completely. This reflects our view that sees the Fed cutting rates by the second half of 2023 to help cushion the economy once inflation has been tamed. Once we get to some three months before an actual projected cut, the 2yr yield can collapse lower to match the 10yr yield, and actual Fed cuts should correlate with the 2yr trading through the 10yr (classic positive curve).

ING global forecasts

	2022					2023					2024					2025				
	1Q22	2Q22	3Q22	4Q22	FY	1Q23	2Q23	3Q23	4Q23	FY	1Q24	2Q24	3Q24	4Q24	FY	1Q25	2Q25	3Q25	4Q25	FY
United States																				
GDP (% QoQ, ann)	-1.6	-0.6	2.9	2.1	**2.0**	-0.9	-2.3	-0.6	1.4	**0.1**	2.7	2.6	2.3	2.2	**1.6**	2.0	2.0	2.0	2.0	**2.0**
CPI headline (% YoY)	8.0	8.6	8.3	7.4	**8.1**	5.9	3.8	2.9	2.2	**3.7**	1.7	1.8	2.1	1.8	**1.9**	2.0	2.2	2.2	2.0	**2.1**
Federal funds (%, eop)	0.50	1.75	3.25	4.50	**4.50**	5.00	5.00	4.50	4.00	**4.00**	3.50	3.00	2.50	2.50	**2.50**	2.50	2.75	3.00	3.00	**3.00**
3-month interest rate (%, eop)	0.65	2.1	3.5	4.6	**4.6**	4.9	4.75	4.3	3.75	**3.75**	3.25	2.75	2.4	2.45	**2.45**	2.5	2.7	2.9	2.9	**2.9**
10-year interest rate (%, eop)	2.40	3.00	3.75	3.75	**3.75**	4.00	3.75	3.25	3.00	**3.00**	3.00	3.25	3.25	3.50	**3.50**	3.50	3.75	3.75	4.00	**4.00**
Fiscal balance (% of GDP)					**-4.2**					**-4.7**					**-3.9**					**-3.4**
Gross public debt / GDP					**99.9**					**100.9**					**101.3**					**100.6**
Eurozone																				
GDP (% QoQ, ann)	2.7	3.1	0.8	-1.6	**3.2**	-2.1	0.2	0.9	0.7	**-0.3**	0.8	1.5	1.8	1.4	**1.1**	1.4	1.4	1.4	1.4	**1.4**
CPI headline (% YoY)	6.0	8.0	9.3	10.2	**8.4**	8.4	6.4	4.9	3.7	**6.0**	2.9	2.6	2.0	1.5	**2.3**	1.8	1.9	2.1	2.1	**2.0**
Refi minimum bid rate (%, eop)	0.00	0.00	1.25	2.50	**2.50**	3.00	3.00	3.00	3.00	**3.00**	3.00	3.00	3.00	2.75	**2.75**	2.50	2.50	2.50	2.50	**2.50**
3-month interest rate (%, eop)	-0.45	-0.35	1.17	2.20	**1.90**	2.70	2.60	2.60	2.60	**2.60**	2.60	2.70	2.70	2.50	**2.50**	2.30	2.40	2.50	2.50	**2.50**
10-year interest rate (%, eop)	0.60	1.40	2.10	1.90	**1.90**	2.00	1.80	1.70	1.80	**1.80**	1.90	2.00	2.20	2.20	**2.20**	2.20	2.30	2.40	2.50	**2.50**
Fiscal balance (% of GDP)					**-4.5**					**-4.6**					**-3.5**					**-3.4**
Gross public debt/GDP					**98.7**					**98.4**					**96.2**					**96.2**
Japan																				
GDP (% QoQ, ann)	0.2	4.6	-1.2	3.2	**1.5**	0.4	0.4	0.8	0.8	**1.1**	1.2	1.2	1.2	1.2	**1.0**	1.6	1.6	1.6	1.6	**1.5**
CPI headline (% YoY)	0.9	2.4	2.9	3.8	**2.5**	3.5	2.8	2.1	0.8	**2.3**	0.6	0.6	0.9	1.4	**0.9**	1.6	1.8	1.8	1.8	**1.8**
Interest Rate on Excess Reserves (%)	-0.10	-0.10	-0.10	-0.10	**-0.10**	-0.10	-0.10	-0.10	-0.10	**-0.10**	-0.10	-0.10	-0.10	-0.10	**-0.10**	0.00	0.00	0.00	0.00	**0.00**
3-month interest rate (%, eop)	0.00	-0.04	-0.01	-0.01	**-0.01**	-0.01	-0.01	-0.01	-0.01	**-0.01**	-0.01	-0.01	-0.01	-0.01	**-0.01**	0.10	0.10	0.10	0.10	**0.10**
10-year interest rate (%, eop)	0.25	0.20	0.25	0.25	**0.25**	0.25	0.25	0.20	0.20	**0.20**	0.25	0.25	0.25	0.25	**0.25**	0.30	0.30	0.30	0.30	**0.30**
Fiscal balance (% of GDP)					**-7**					**-7**					**-6**					**-6**
Gross public debt/GDP					**270.0**					**260.0**					**260.0**					**260.0**
China																				
GDP (% YoY)	4.8	0.4	3.9	-0.4	**2.1**	3.4	4.4	4.4	4.9	**4.3**	5.2	4.7	5.0	5.1	**5.0**	4.7	5.4	5.2	5.2	**5.1**
CPI headline (% YoY)	1.1	2.3	2.5	2.1	**2.0**	2.3	2.5	2.0	2.0	**2.2**	2.2	2.2	2.3	2.5	**2.3**	2.5	2.8	3.1	3.4	**3.0**
PBOC 7-day reverse repo rate (% eop)	2.10	2.10	2.00	2.00	**2.00**	2.00	2.00	2.00	2.00	**2.00**	2.00	2.00	2.10	2.20	**2.20**	2.30	2.40	2.50	2.60	**2.60**
3M SHIBOR (% eop)	2.38	2.20	1.65	2.20	**2.20**	2.00	2.10	2.20	2.30	**2.30**	2.40	2.50	2.55	2.60	**2.60**	2.70	2.80	2.85	2.95	**2.95**
10-year T-bond yield (%, eop)	2.80	2.75	2.75	2.95	**2.95**	2.95	3.1	3.2	3.35	**3.35**	3.45	3.55	3.65	3.80	**3.80**	3.90	4.00	4.15	4.25	**4.25**
Fiscal balance (% of GDP)					**-8.0**					**-8.0**					**-6**					**-4**
Public debt (% of GDP), incl. local govt.					**129.0**					**137.0**					**142.0**					**143.0**
UK																				
GDP (% QoQ, ann)	2.8	0.9	-0.7	-0.5	**4.4**	-3.5	-2.1	0.6	0.8	**-1.3**	1.4	1.6	1.6	1.6	**1.0**	1.6	1.6	1.6	1.6	**1.6**
CPI headline (% YoY)	6.2	9.2	10.0	10.9	**9.1**	10.3	7.7	6.2	3.9	**7.1**	2.9	2.0	1.9	1.7	**2.1**	2.0	1.6	1.8	2.1	**1.9**
BoE official bank rate (%, eop)	0.75	1.25	2.25	3.50	**3.50**	4.00	4.00	4.00	4.00	**4.00**	3.50	3.00	2.50	2.25	**2.25**	2.25	2.25	2.25	2.25	**2.25**
3-month interest rate (%, eop)	2.70	2.70	3.35	3.75	**3.75**	4.00	4.00	4.00	3.95	**3.95**	3.45	2.95	2.45	2.20	**2.20**	2.20	2.20	2.20	2.20	**2.25**
10-year interest rate (%, eop)	2.50	2.25	4.10	3.20	**3.20**	3.30	3.20	3.10	3.10	**3.10**	2.90	2.80	2.80	2.80	**2.80**	2.90	3.00	3.00	3.00	**3.00**
Fiscal balance (% of GDP)					**4.0**					**5.2**					**3.0**					**2.5**
Gross public debt/GDP					**97.5**					**98.1**					**98.1**					**97.7**
EUR/USD (eop)	1.11	1.05	0.97	1.02	**1.02**	0.98	1.00	1.00	1.00	**1.00**	1.02	1.05	1.08	1.10	**1.10**	1.10	1.10	1.10	1.10	**1.10**
USD/JPY (eop)	122	132	145	138	**138**	140	138	135	130	**140**	128	128	125	125	**125**	125	125	125	125	**125**
USD/CNY (eop)	6.34	6.69	7.11	7.22	**7.22**	7.35	7.25	7.18	7.13	**7.13**	7.1	7.00	6.85	7.05	**7.05**	7	6.95	7.20	7.12	**7.12**
EUR/GBP (eop)	0.84	0.86	0.88	.87	**.87**	.89	.88	.88	0.88	**0.88**	0.88	0.88	0.88	0.88	**0.88**	0.88	0.88	0.88	0.88	**0.88**
ICE Brent -US$/bbl (average)	98	112	98	94	**100**	100	100	105	110	**104**	98	90	88	83	**90**	73	75	78	75	**75**

GDP forecasts are rounded to the nearest whole/half number, given the large magnitude and uncertainty surrounding our estimates
Source: ING forecasts

GDP forecasts

%YoY	4Q22F	1Q23F	2Q23F	3Q23F	4Q23F	2022F	2023F	2024F	2025F
World (USD)	1.4	1.2	1.1	1.5	2.1	2.9	1.9	3.1	3.4
US	0.3	0.2	-0.1	-0.9	-0.7	1.9	-0.4	1.7	2.0
Japan	1.8	1.8	1.1	0.8	0.6	1.6	1.1	1.0	1.5
Germany	0.6	-1.3	-1.3	-1.8	-1.9	1.7	-1.5	0.5	1.8
France	0.1	0.0	-0.5	-0.5	0.0	2.5	-0.3	1.1	1.4
UK	0.2	-1.3	-1.8	-1.1	-0.6	0.2	-1.2	1.1	1.5
Italy	1.1	0.6	-0.2	-0.3	0.7	3.6	0.2	1.6	1.7
Canada	2.3	1.0	-0.3	-0.6	-0.6	3.3	-0.1	1.7	2.2
Australia	3.3	3.3	3.0	2.7	2.7	4.2	3.0	2.7	3.0
Eurozone	0.8	-0.5	-1.1	-1.1	0.0	3.1	-0.7	1.3	1.4
Austria	0.7	-1.4	-2.3	-1.6	1.5	4.7	-0.9	1.9	2.0
Spain	1.0	0.9	0.4	0.2	0.9	4.3	0.3	1.8	2.1
Netherlands	2.1	1.8	-0.2	0.6	1.7	4.2	0.9	2.1	1.8
Belgium	0.4	-0.5	-0.7	-0.5	0.2	2.4	-0.4	1.2	1.5
Ireland	9.1	2.8	1.2	1.0	1.2	9.4	1.5	1.8	2.3
Greece	2.2	-0.9	-1.6	0.0	1.7	5.5	-0.2	2.0	2.2
Portugal	1.6	-1.0	-0.8	0.0	1.0	5.9	-0.2	1.7	2.4
Switzerland	0.6	0.1	-0.1	0.0	0.5	2.0	0.1	1.2	1.4
Sweden	1.3	0.5	-0.5	-0.9	-0.1	3.1	-0.3	1.2	1.5
Norway	0.0	0.5	0.1	0.8	1.2	2.7	0.6	1.6	2.0
Bulgaria	1.5	0.8	0.8	1.8	2.6	3.0	1.6	3.3	3.0
Croatia	4.9	2.3	1.1	1.8	2.6	6.4	1.9	2.9	2.5
Czech Republic	-0.4	-0.9	0.0	1.9	3.9	2.4	1.2	3.8	2.5
Hungary	-0.2	-1.5	-2.0	1.5	3.7	4.5	0.4	3.4	3.5
Poland	0.0	-1.0	2.1	2.3	2.5	4.1	1.5	3.3	3.5
Romania	6.5	1.5	0.3	2.1	3.0	6.5	1.8	3.7	3.5
Turkey	1.3	-2.6	3.0	3.9	4.8	5.0	2.5	4.0	4.0
Serbia	0.2	1.3	1.6	3.9	3.5	2.3	2.9	3.9	3.7
Russia	-13.0	-15.0	-8.0	-2.0	5.0	-5.0	-5.0	-2.0	0.0
Kazakhstan	3.0	3.5	4.0	4.1	4.1	2.8	3.8	3.5	3.0
Azerbaijan	2.5	2.5	2.8	3.2	3.4	4.8	3.0	2.5	2.5
China	4.2	4.0	7.0	5.1	5.2	3.3	5.3	5.1	5.5
India	2.5	6.5	-3.9	3	3.2	6.3	6.8	8	7.5
Indonesia	4.9	4.2	4.1	4.6	4.5	5.2	4.4	4.7	4.5
Korea	1.3	0.2	0.3	0.4	1.4	2.6	0.6	2.3	2.3
Philippines	3.2	3.1	4.2	4.8	4.9	5.9	4.4	5.0	5.2
Singapore	3.0	3.3	3.1	3.2	3.4	3.5	3.4	3.3	3.0
Taiwan	2.1	2.4	2.0	3.8	4.3	3.2	3.1	4.9	4.6

Source: ING estimates

CPI Forecasts (pa)

%YoY	4Q22F	1Q23F	2Q23F	3Q23F	4Q23F	2022F	2023F	2024F	2025F
World (USD)	8.2	6.7	4.2	4.6	4.0	6.2	5.2	3.1	3.1
US	7.4	5.9	3.8	2.9	2.2	8.1	3.7	1.9	2.1
Japan	3.8	3.5	2.8	2.1	0.8	2.5	2.3	0.9	1.8
Germany	11.5	9.7	7.1	6.1	3.2	8.8	6.5	2.1	2.1
France	7.2	7.5	1.0	6.2	5.2	6.0	6.5	3.8	2.5
UK	10.9	10.3	7.7	6.2	3.9	9.1	7.1	2.1	1.9
Italy	12.5	10.5	8.1	5.3	1.8	8.7	6.4	2.1	2.1
Canada	7.0	5.6	3.0	2.5	2.2	6.9	3.3	1.9	2.2
Australia	6.9	5.6	4.8	3.5	3.4	6.4	4.3	2.8	2.4
Eurozone	10.2	8.4	6.4	4.9	3.7	8.4	6.0	2.3	2.0
Austria	11.0	9.3	7.2	4.5	3.3	8.5	6.1	2.1	2.0
Spain	6.9	6.2	5.2	4.3	3.4	8.5	4.8	2.3	2.1
Netherlands	13.6	7.3	6.9	3.6	1.8	11.8	4.8	4.2	0.6
Belgium									
Ireland	9.1	8.2	6.1	4.1	2.6	8.1	5.3	2.1	2.3
Greece	9.5	8.2	5.0	3.2	3.5	9.5	5.0	2.2	2.1
Portugal	9.8	7.7	5.9	4.3	2.8	7.8	5.2	2.9	2.0
Switzerland	3.0	2.9	2.6	2.6	2.2	2.8	2.4	1.5	1.5
Sweden	8.9	7.8	5.8	4.2	3.3	7.9	4.9	2.1	1.8
Norway	6.7	6.4	4.8	3.7	3.1	5.8	4.5	2.5	2.0
Bulgaria	16.7	14.1	9.9	8.8	8.3	15.2	10.2	6.4	3.2
Croatia	12.6	10.8	6.6	4.6	3.7	10.6	6.4	3.9	2.4
Czech Republic	15.5	11.3	9.5	7.1	8.5	15.0	10.2	5.5	2.0
Hungary	23.3	22.5	18.8	11.6	8.3	14.4	16.7	5.6	3.2
Poland	17.2	17.9	14.2	12.0	10.4	14.3	14.5	7.5	5.0
Romania	16.3	13.8	10.6	9.4	7.8	13.7	11.0	5.2	3.5
Turkey	68.0	47.4	38.0	38.6	40.0	68.0	40.0	20.0	15.0
Serbia	14.7	13.8	11.4	8.3	5.6	11.8	9.7	5.6	4.0
Russia	12.0	4.1	3.9	5.2	5.5	13.8	5.7	5.4	5.5
Kazakhstan	20.4	17.0	12.8	9.1	7.7	14.6	13.4	7.5	6.8
Azerbaijan	15.4	13.3	11.2	7.6	4.8	13.8	10.5	5.0	4.6
China	2.1	2.3	2.5	2.0	2.0	2.0	2.2	2.3	3.0
India	6.6	6.3	5	5.4	5.4	6.8	5.5	4.4	4
Indonesia	6.0	5.5	5.1	4.2	4.1	4.4	4.6	3.5	4.0
Korea	5.2	4.4	2.9	2.3	2.6	5.1	3.0	2.0	2.2
Philippines	7.5	7.2	5.6	4.9	3.9	5.7	5.4	3.9	4.0
Singapore	6.5	6.0	5.8	5.5	4.8	6.1	5.6	3.5	3.0
Taiwan	2.4	2.3	2.0	2.0	2.2	2.9	2.1	2.2	2.8

*Singapore core inflation
Source: ING estimates

Oil Forecasts (avg)

($/bbl)	4Q22F	1Q23F	2Q23F	3Q23F	4Q23F	2022F	2023F	2024F	2025F
Brent	94.0	100.0	100.0	105.0	110.0	100.0	104.0	90.0	75.0

Source: ING estimates

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