ECO EMERGING

3rd Quarter 2022

July 2022

EDITORIAL

ECONOMIC RESEARCH

BNP PARIBAS

The bank
for a changing
world

EDITORIAL

FROM ONE SHOCK TO ANOTHER

Emerging countries have recently faced a series of unexpected and severe shocks that will significantly dampen their economic performance in 2022. Global inflation has increased due to rising commodity prices and world supply disruptions resulting from the conflict in Ukraine. The lockdowns in China's industrial regions during the spring have aggravated supply problems and further worsened the global economic outlook. Moreover, monetary policies have tightened in most countries, while external financing conditions have also deteriorated due to the weakening in global investor sentiment and US monetary policy tightening. Emerging markets have already faced a bout of large capital outflows since the beginning of the year. In this context, the emerging borrowers most exposed to potential payment difficulties include speculative-grade sovereign entities in countries currently posting both weak public finances and widening current account imbalances. They are not so many facing this situation.

MULTIPLE HEADWINDS ON ECONOMIC GROWTH

Over the past four months, Emerging Markets (EMs) have faced a new series of severe shocks, which were not predicted at the start of the year. First, global demand and world supply chains have been hit by two major and very different blows, including the war in Ukraine since late February and stringent lockdowns that disrupted activity in industrial regions in China from March to May. Moreover, global inflation pressures have increased rapidly, driven by supply disruptions and soaring prices of energy and agricultural commodities, which were already high and increasing before the war. In turn, most central banks have started to tighten monetary policies in spite of the deterioration of the economic growth outlook. Finally, fast tightening in US monetary policy and weaker market sentiment have led to the deterioration of external financial conditions for EM borrowers and to significant foreign portfolio investment outflows.

As a result, economic growth in EMs will be slower than expected in 2022. One of the main downward real GDP growth revisions recently has affected our forecast of China's economic growth. As a matter of fact, China's economic activity slowed in Q1 2022, probably contracted in Q2 2022, and should recover only gradually in the short term. Moreover, downside risks remain high. In particular, the health situation remains uncertain and the authorities maintain a tough COVID strategy; private consumption will struggle to recover because of the slack in the labour market; and the contraction continues in the real estate sector. China's economic policy mix is increasingly expansionary, with the authorities implementing gradual and targeted support measures rather than a vast stimulus plan. Monetary policy and credit conditions have been eased gradually since Q4 2021, but the effectiveness of monetary policy easing on economic activity has been impaired by weak credit demand.

TIGHTENING IN EXTERNAL FINANCIAL CONDITIONS

The impact of recent foreign portfolio investment outflows on EMs' external liquidity is not yet a matter of concern, even if central banks' forex reserves have weakened in most EMs (notably Turkey), including in many commodity exporters. The impact on exchange rates and borrowing costs is significant as well, but less negative than expected, given the magnitude of the reversal in portfolio inflows in light of past experiences.

Regarding the impact on external borrowing costs, the shock has reinforced the dichotomy between investment-grade and speculative-grade sovereign borrowers. As for domestic borrowing costs, the picture is much less binary and more reassuring to some extent as, except for a few countries, real government bond yields are unchanged or even lower now than at end-2019.

For investment-grade sovereign borrowers, the real interest rate on debt will remain below the real GDP growth expected in 2022. The debt burden may therefore ease despite the rise in the debt-to-GDP ratio. By contrast, for countries whose public finances were already structurally fragile before the COVID-19 crisis and for which the current account deficit will worsen as a result of the rise in commodity prices, the cost of external financing has reached a dissuasive, or even prohibitive, level. The refinancing of external debt will necessarily require the support of international financial institutions or official bilateral creditors in order to avoid a sovereign default. Among the main emerging and developing countries, Tunisia and Pakistan are currently in this dire situation. Countries that will only have to bear a heavier debt burden include South Africa and Brazil. Egypt is between these two categories.

The COVID-19 crisis has not entailed a major surge in debt of the non-financial private sector, contrary to public debt. The strongest rise in corporate and/or household debt has been registered in countries posting a high level of development and/or good macroeconomic fundamentals. Regarding foreign-currency indebtedness, corporates' external debt has actually decreased, or increased marginally for a large number of EMs since end-2019. However, tensions on exchange rates and interest rates may weaken corporates' capacity to support higher indebtedness.

Article completed on 5 July 2022

François Faure
francois.faure@bnpparibas.com

Christine PELTIER
christine.peltier@bnpparibas.com

CHINA

A DIFFICULT SPRING TIME

Economic activity contracted in April and May 2022 as a result of severe mobility restrictions imposed in industrial regions such as Shanghai. Since late May, these restrictions have been gradually lifted, and activity has begun to bounce back. However, downside risks to economic growth remain high. The authorities therefore continue to ease their policy mix cautiously. On the fiscal front, support measures remain focused on infrastructure projects and aid to enterprises. On the monetary front, interest rates have been cut since the beginning of the year, and targeted lending programmes have been extended. However, the effectiveness of the central bank's action is reduced by the weak demand for credit. Moreover, the international environment and the risks of capital outflows could limit its room for manoeuvre.

Economic activity contracted in April and May 2022 because of the resurgence of the Covid-19 epidemic and the severe mobility restrictions imposed across major industrial and port regions such as Shanghai. Since late May, these restrictions have been gradually (but not completely) lifted, and activity has begun to recover. Industrial production bounced back (increasing by 0.7% year-on-year in May), thanks in particular to the recovery of exports. Activity in services continued to contract in May (-5.1% y/y), since it was affected more severely by the spring lockdowns, and for a longer period (chart 1). Retail sales volumes also continued to fall in May (-9% y/y). Meanwhile, investment growth accelerated, driven by infrastructure projects.

NUMEROUS CONSTRAINTS ON ECONOMIC GROWTH

Economic growth should recover in the short term, but downside risks remain high. Firstly, the health situation remains uncertain and the authorities are set to maintain a zero-Covid strategy at least until the end of the year (even though local governments were sent directives at the start of June with a view to lowering the risk of excessive restrictions). The threat of further lockdowns should continue to weigh on confidence and demand from households and corporates.

Moreover, private consumption will suffer as a result of the slack in the labour market. The unemployment rate rose from 5.1% at the end of 2021 to 6.1% in April 2022, falling back to 5.9% in May. It is higher for migrant workers (6.2% in May), as well as in the 31 major Chinese cities (6.9% in May). More worryingly, the unemployment rate for young people aged 16 to 24 reached a record high in May, standing at 18.4% vs. 14.3% in December 2021. And the situation could deteriorate further during the summer when new graduates are set to enter the labour market.

Real income growth is likely to be affected by the weak labour market conditions. Meanwhile, the negative effect of rising consumer prices on household purchasing power is expected to be moderate. The CPI only increased by 2.1% y/y in April and May. Core inflation is low (0.9%) owing to sluggish domestic demand, while rises in food and energy prices remain limited despite global tensions, as a result of the continued fall in meat prices and partial controls on grain and energy prices.

Furthermore, the crisis in the property and construction sectors continues, hampering employment, investment and the consumption of durable goods. For example, newly-started projects and property transactions collapsed by 40% and 32% y/y, respectively, in May, and by 31% and 24% over the first five months of 2022 compared to the same period in 2021. Measures have been introduced to encourage transactions and help property developers complete projects already off the ground. Yet, the authorities are maintaining their objectives to bring down housing costs and deleverage developers.

FORECASTS

	2019	2020	2021	2022e	2023e
Real GDP growth, %	6.0	2.2	8.1	3.7	5.7
Inflation, CPI, year average, %	2.9	2.5	0.9	2.3	2.7
Official budget balance / GDP, %	-2.8	-3.7	-3.1	-2.8	-3.0
Official general government debt / GDP, %	38.6	45.9	47.0	50.3	52.0
Current account balance / GDP, %	0.7	1.7	1.8	0.8	0.9
External debt / GDP, %	14.5	16.3	15.5	16.5	15.8
Forex reserves, USD bn	3 108	3 217	3 250	3 220	3 240
Forex reserves, in months of imports	14.9	16.2	12.6	10.8	10.0

E: ESTIMATIONS ET PRÉVISIONS

TABLE 1 SOURCE : BNP PARIBAS RECHERCHE ECONOMIQUE GROUPE

CHINA: RESTARTING

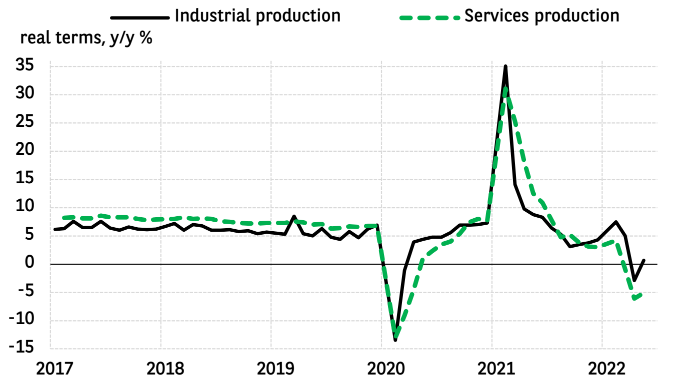

CHART 1 SOURCE: NBS, BNP PARIBAS

Finally, export growth rebounded in May (up 16.8% y/y vs. 3.7% in April) and should strengthen in the short term thanks to a reduction in logistics problems. However, China's export sector is unlikely to be the same powerful driver of growth in 2022 as it was in 2021, given the slowdown in global demand growth. In its April World Economic Outlook, the IMF predicted that global trade volumes will grow by 5% in 2022 and 4.4% in 2023, compared with 10% in 2021.

FISCAL SUPPORT FOCUSED ON ENTERPRISES

In order to counteract the multiple constraints on economic growth, the authorities continue to ease their policy mix. They have maintained a relatively cautious strategy in recent months, supporting the economy through a gradual process of easing and targeted actions, rather than with wide-ranging stimulus packages.

On the fiscal front, support measures have been gradually implemented since the last quarter of 2021. They essentially consist of new investments in infrastructure projects (most often undertaken by local governments) as well as aid to enterprises. In particular, this aid includes measures aimed at supporting SMEs and the manufacturing sector through tax cuts, subsidies and the deferred payment of social security contributions.

One of the few measures designed to support private consumption is the cut in tax on the purchase of private cars, which was included in the new package of measures announced in late May. Some provinces have also made cash payments to households (in digital yuan in some cases such as Shenzhen), but the total amount of these is small.

Local governments may find it increasingly difficult to finance stimulus measures. Since the beginning of this year, they have been faced with a drop in both their tax revenue and land sales proceeds. For the time being, however, China's central government has not increased their authorised bond issuance quotas for 2022[1]. On the contrary, Beijing seems to be putting pressure on local governments to contain their debt growth by better managing their accounts and containing current spending.

« Direct » debt held by local governments (i.e. explicitly budgeted) already increased from 21.6% of GDP at the end of 2019 to 27.6% at the end of Q1 2022 – whereas central government debt stands at just 20% of GDP. Moreover, to this direct debt can also be added the « indirect » debt associated with local government financing vehicles, which the IMF estimates at approximately 45% of GDP. The fragility of local government finances explains the cautious fiscal support policy.

DEMAND FOR CREDIT REMAINS WEAK

Interest rates on loans and money market rates have decreased since December 2021[2]. However, the central bank's scope to reduce rates further is reduced in the current global context, not so much because of local inflationary pressures but because of the risk of capital outflows. In fact, China suffered a loss of investor confidence and large portfolio investment outflows in March 2022, contributing to fall in the yuan's exchange rate after more than 18 months of appreciation (chart 2). In the short term, the central bank should seek to avoid a repetition of such episodes of instability and encourage foreign capital inflows in spite of the tightening of the US Federal Reserve's policy.

In addition, the authorities are making extensive use of credit policy instruments such as loan quotas for banks and targeted lending programmes. These programmes notably aim to support SMEs, rural areas and the sectors that have been hit by the Covid crisis. Moreover, the conditions for mortgage loans and short-term financing of property developers have been slightly eased.

CHINA: EXCHANGE RATE ADJUSTMENT

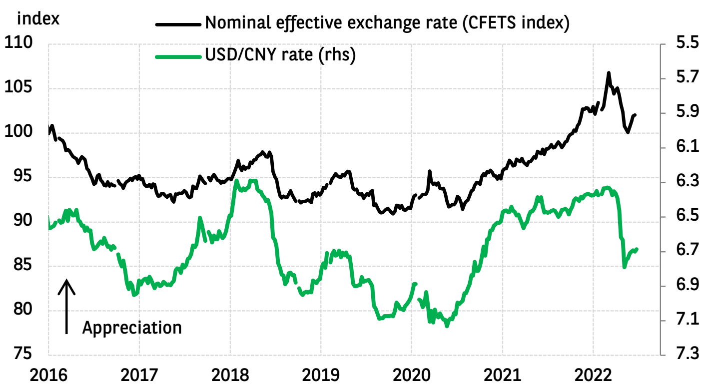

CHART 2 SOURCE: CHINA FOREIGN EXCHANGE TRADING CENTER, CEIC

However, the effectiveness of monetary and credit policy is constrained by the weak demand for loans in the currently uncertain economic environment. Growth in total credit to the economy (social financing) has actually barely recovered in the last six months. It went up from 10.3% y/y in nominal terms in December 2021 to 10.5% in May 2022, mainly driven by the acceleration of bond issues.

Article completed on 27 June 2022

Christine PELTIER
christine.peltier@bnpparibas.com

1 In the 2022 budget, the Ministry of Finance authorised local governments to issue RMB 3,650 bn of new «special» bonds and RMB 720 bn of new «general» bonds. Therefore, the total amount of new bond debt forecast for 2022 is estimated at 3.6% of GDP, a drop from the level in 2020 (4.5% of GDP) and 2021 (3.8%).
2 Since December 2021, the prime rate on 1-year loans has declined from 3.85% to 3.7%, the prime rate on 5-year loans from 4.65% to 4.45%, and the 1-year MLF rate from 2.95% to 2.85%. The 7-day repo rate has fallen faster since March, declining from a monthly average of 2.16% in December to 2.09% in March 2022 and 1.64% in June.

CHANGE OF POLICY MIX

At the end of the 2021/2022 fiscal year, India's real GDP exceeded its pre-crisis level, and economic activity indicators were positive in April and May 2022. Activity has been supported by a recovery in domestic demand and dynamic exports. Faced with rising inflation and downward pressure on the rupee (due to capital outflows and a widening trade deficit), the monetary authorities raised their policy rates in May and June – further increases are expected. Conversely, fiscal policy is more expansionary than anticipated. Multilateral institutions and India's Central Bank have revised their growth forecasts downwards (between 6.9% and 7.5% for the 2022/2023 fiscal year vs. 8.7% in the previous year). However, the public debt-to-GDP ratio should continue to decline thanks to the sharp rise in nominal GDP. The country is taking advantage of the embargo imposed by the US and EU on Russian oil imports to try to reduce its energy bill.

REAL GDP AT ITS PRE-CRISIS LEVEL

In fiscal year (FY) 2021/2022 that ended on 31 March 2022, real GDP growth stood at 8.7% and exceeded its pre-crisis level by 1.5%.

In the fourth quarter of FY 2021/2022 (i.e. January-March 2022), the resurgence of Covid cases and the introduction of new local restrictions in January and February led to a slight economic growth slowdown compared to the previous quarter. Between March and May, economic activity picked up again in both manufacturing and services. Business confidence remained positive in May with a PMI well above 50, and the production capacity utilisation rate in industry, though still short of the long-term average, exceeded the level it reached at the end of 2019. Growth in bank credit to both industry and services accelerated – especially loans to small and medium-sized enterprises, which were still benefiting from a favourable monetary environment. Average weighted interest rates on new loans stood at 7.5% in April 2022 (down 60 basis points compared to April 2021), while inflation, excluding energy and food, reached 7% at the same time.

Furthermore, the consumer confidence index continued its uninterrupted recovery until May from its low point in July 2021 (it remains below its pre-crisis level). In addition, the prospect of a normal monsoon, government support for farmers and an increase in minimum prices for « Kharif crops » (monsoon harvests) are all favourable factors for rural household consumption.

Nevertheless, economic growth prospects for FY 2022/2023 have been revised downwards by international organisations (OECD and World Bank) and by India's Central Bank, the Reserve Bank of India (RBI). The RBI now predicts growth of 7.2%, and projections from the OECD and World Bank are 6.9% and 7.5% respectively. Indeed, rising inflationary pressures and tighter monetary policy should bear down on domestic demand.

TIGHTER MONETARY POLICY AND FISCAL SUPPORT

In May, retail prices rose by 7% year-on-year (y/y). This rate was above the RBI's target of 4% ± 2 percentage points (pp) for the fourth consecutive month. As a result, the Central Bank brought its accommodating monetary policy to an end; it increased its policy rates by 90 basis points (bps) in May and June, bringing the repo rate to 4.9%. Furthermore, it raised the banks' reserve requirements ratio by 50 bps to 4.5% in order to reduce excess liquidity in the banking sector. Further rate rises are expected following the next monetary policy committee meeting in August. The RBI expects inflation to remain above 7% from July to September, slowing down from October to sit at an average of 6.7% over the current fiscal year.

FORECASTS

	2019	2020	2021	2022e	2023e
Real GDP growth, % (1)	4.2	-6.6	8.7	7.1	6.1
Inflation, CPI, year average, % (1)	4.8	6.1	5.5	6.7	5.5
General Gov. Balance / GDP, % (1)	-7.3	-13.7	-10.4	-10.2	-8.5
General Gov. Debt / GDP, % (1)	73.7	84.0	83.6	82.5	82.4
Current account balance / GDP, % (1)	-0.9	0.9	-1.5	-3.8	-3.1
External debt / GDP, % (1)	19.9	21.6	19.7	19.4	18.7
Forex reserves, USD bn	457	580	633	570	590
Forex reserves, in months of imports	7.7	11.0	9.1	8.0	8.3

TABLE 1

(1) Fiscal year from April 1st of year n to March 31st of year n+1
e: ESTIMATE & FORECASTS
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

INDIA: CPI AND INTEREST RATES

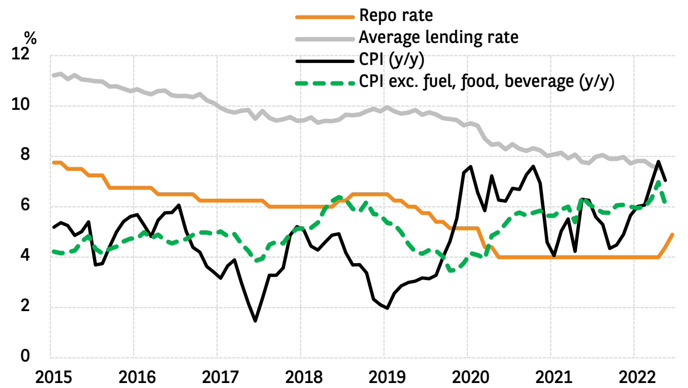

CHART 1 SOURCE: CEIC, RBI

Although this tighter monetary policy will weigh on domestic demand, it will not be enough to curb inflationary pressures that are generated by supply constraints. However, the rise in interest rates should help to shore up the rupee, and thus contain imported inflation.

In these circumstances, and in addition to the ban on wheat exports, the government adopted several budgetary measures during May in order to contain the rise in domestic prices. However, these adjustments will delay the ongoing consolidation of public finances (in FY 2021/2022, the fiscal base rose by 1.4 pp to 11.4% of GDP compared with the pre-pandemic level) as the measures introduced will weigh on both spending (up 0.7% of GDP) and revenue (down 0.7% of GDP).

To contain the rise in energy prices, the government reduced excise duty on imports of gas oil and diesel by Rs8 and Rs6 per litre respectively, largely offsetting the rise in prices of Rs10 per litre in March and April. All customs duties on coal imports were also lifted. Finally, the government increased subsidies for 90 million of the most vulnerable households to help them cope with rising gas prices (particularly gas used for household cooking).

In addition, the government doubled the amount of subsidies on fertilisers (up 0.4% of GDP) in order to limit cost increases for future harvests. The grain distribution programme for households covered by the National Food Security Act was extended until September 2022, increasing the cost of food subsidies by almost 40% compared to the initial budget (up 0.3% of GDP).

Therefore, the government's forecast of a reduction in the budget deficit from 6.7% of GDP in FY 2021/2022 to 6.4% of GDP for the current fiscal year appears optimistic, even though the increase in inflationary pressures will generate a greater increase than expected in nominal GDP. The general government debt-to-GDP ratio is expected to continue to fall gradually, while remaining above 82%.

The structure of government spending will become less favourable. The share of rigid spending (made up in particular of subsidies and interest payments on debt) is set to increase to 38%, and the government could be forced to limit infrastructure spending to rein in budgetary slippage. The rise in yields of the government's 10-year bonds (up 100 bps over the last 12 months to reach 7.4% at the end of June) will increase the interest debt burden. Interest payments stood at 36.5% of government revenue in FY 2021/2022 despite inflationary pressures (deflated by the core CPI, the yields of the government's 10-year bonds in real terms remain below their pre-crisis level but are now above the levels recorded in 2020 and 2021).

EXTERNAL ACCOUNTS UNDER PRESSURE…

In the first quarter of the 2022 calendar year, the current account deficit fell by 1.6 pp compared with the previous quarter, reaching only 1.5% of GDP on an annualised basis, despite the rise in the oil bill. The sharp increase in exports compensated for a growth in imports caused by the increase in commodity prices. At the same time, the current account deficit was fully covered by FDI inflows (which increased). However, external account pressures remained high due to large capital outflows, which reached 1.7% of GDP. Due to its strong dependence on oil imports, India was one of the Asian countries most penalised by the recent episode of distrust on the part of foreign investors.

Pressures on external accounts heightened in April and May, and financial indicators (portfolio investments, forex reserves, exchange rates) suggest that this trend continued in June. The trade deficit increased by more than 20% in April and May compared with the first quarter. The rise in US policy rates favoured the repatriation of part of the capital invested in Asia to financial centres regarded as less risky.

Tensions on the rupee remained relatively contained over the first six months of the year (down 5.1% against the dollar) thanks to FX interventions by the RBI. Although down, foreign exchange reserves (USD 590 billion in mid-June 2022) remained at very comfortable levels. They covered 1.9 times the country's short-term financing needs in mid-June 2022.

INDIA: CURRENT ACCOUNT BALANCE AND CAPITAL INFLOWS

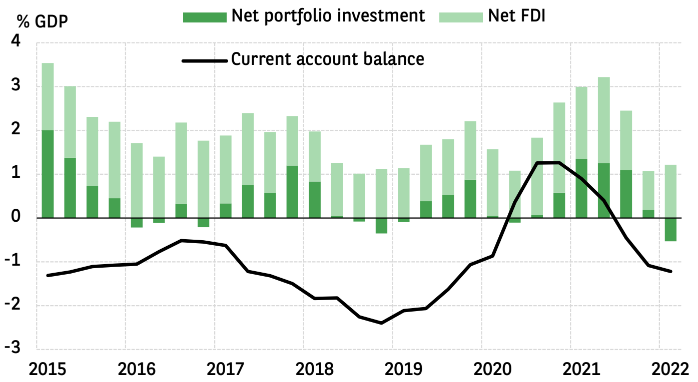

CHART 2

SOURCE: CEIC, RBI

… DESPITE PREFERENTIAL PRICES ON RUSSIAN OIL IMPORTS

To contain the impact of rising international oil prices on its domestic economy, the Indian government has stepped up its efforts to replace crude oil imports from Saudi Arabia and the United Arab Emirates with Russian oil. This restructuring of oil imports happened much faster than one could have imagined. In April 2022, Russia became India's fourth largest oil supplier, whereas it was the ninth largest in 2021. Imports of crude oil from Russia accounted for 8.3% of India's total imports compared to just 0.9% for the whole of 2021, according to data published by the Indian Ministry of Commerce. The gap between the price of a barrel of Brent and the price of Russian Urals oil (USD 35 on average in May) was sufficient to offset the additional cost incurred by insurance and the transportation of oil from Russia. Moreover, this process of replacement accelerated in May, with volumes imported from Russia up by 230% compared with April, although Iraq and Saudi Arabia remain India's leading oil suppliers. Despite this strategy, India's oil bill remains very high. Between December 2021 and April 2022, the price of a ton of imported crude oil increased by 36.8% vs an increase of 43% in the price of Brent.

Article completed on 1 July 2022

Johanna MELKA

johanna.melka@bnpparibas.com

SOUTH KOREA

POSITIVE OVERALL

Korea's solid macroeconomic fundamentals have made it one of the countries that has best withstood the COVID-19 pandemic. Economic growth prospects remain relatively positive. The new government, in office since May, spelled out its intention to continue the reforms begun during the previous administration, and, in particular, aims to increase research and development expenditure. Household debt rose rapidly in 2021 and is high, but the macro-prudential measures put in place by the authorities seem to be bearing fruit: the rise in debt has slowed and financial stability risks are contained.

A CHALLENGING EXTERNAL ENVIRONMENT

Korea has weathered the COVID-19 pandemic well. In 2020, real GDP fell by less than 1%. Despite several waves of infection, the effectiveness of the policies put in place (including the vaccination campaign) meant the economic recovery was not hampered and the country's financial stability was maintained. Real GDP returned to its Q4 2019 level from Q1 2021, rising 4.1% in 2021. The medium-term outlook remains favourable.

However, economic growth is expected to slow in 2022. It reached 2.9% year-on-year (y/y) in Q1 compared with 4.2% in the previous quarter: exports continued to grow vigorously (7.3% y/y in Q1 2022, after 7.9% y/y in Q4 2021), driven by global demand for semiconductors. Private consumption, on the other hand, lagged behind, hamstrung by new restrictions (4.3% y/y in Q1 2022, after 6.2% y/y in Q4 2021).

As the international environment deteriorated, activity slowed further in Q2 2022 and inflation continued to accelerate. The new export orders index fell sharply in April and, by the beginning of July, it was still below the level seen in March. Exports have slowed (increasing by 13.2% y/y after 18.4% y/y in Q1) and the manufacturing PMI fell during the quarter. Inflation reached 5.4% y/y in May, the highest rate in more than a decade.

Firstly, lockdowns imposed in China in the spring as part of its "zero covid" policy weighed on Korean exports and production (by disrupting the supply of intermediate goods). Secondly, although the direct consequences of the war in Ukraine are modest for Korea (trade and financial links with the two countries are limited, and energy dependence on Russia is low), the indirect consequences of the conflict weigh on growth. Slowing global demand is slowing exports and, above all, rising energy and agricultural commodity prices are contributing to higher Korean inflation and are slowing the growth of private consumption and investment.

SLOWER THAN EXPECTED FISCAL CONSOLIDATION

Since 2020, the authorities have benefited from their significant fiscal leeway to massively support the economy. In total, support measures represented almost 10% of GDP over the past two years, and the IMF estimates that other measures, for an amount that is also close to 10% of GDP, have been financed off-budget.

The resurgence of the pandemic in Q1 and inflation pressures has prompted the government to twice announce further support measures since the beginning of 2022 for a total amount close to 5% of GDP. The targets in terms of fiscal consolidation have therefore been revised downwards: the deficit is now expected to stand at 3.3% of GDP in 2022 (after 4.4% in 2021) compared with 2.5% previously. However, slower economic growth and persistent inflation pressures lead us to believe that further support measures will be announced in Q3. We expect a slightly lower deficit, but above 4% of GDP in 2022.

FORECASTS

	2019	2020	2021	2022e	2023e
Real GDP growth (%)	1.8	-0.9	4.0	2.7	2.1
Inflation, CPI, year average (%)	0.4	0.4	2.5	4.6	2.6
Gen. gov. balance / GDP (%)	-0.6	-5.8	-4.4	-4.2	-4.5
Gen. gov. debt / GDP (%)	39.5	44.0	47.4	49.8	52.1
Current account balance / GDP (%)	3.6	4.6	4.9	2.8	2.5
External debt / GDP (%)	28.4	30.1	31.8	30.8	29.8
Forex reserves (USD bn)	404	408	463	450	465
Forex reserves, in months of imports	7.5	7.5	7.3	6.9	7.4

TABLE 1

e: ESTIMATE & FORECASTS
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

SOUTH KOREA: CONTRIBUTION TO REAL GDP GROWTH

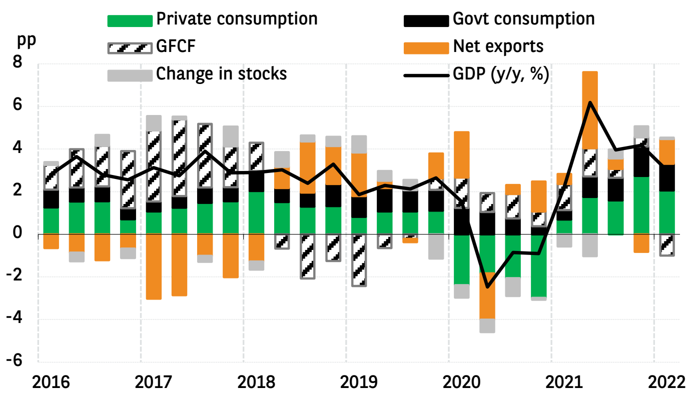

CHART 1

SOURCE: CENTRAL BANK

CONTINUATION OF THE KOREAN NEW DEAL

For the time being, the increase in the price of neon (a noble gas, over 70% of which is produced in Ukraine, that is involved in the semiconductor manufacturing process and whose price tripled year-on-year in Q1 2022) has not really had a direct effect on semiconductor production. Korean companies have used their existing inventories and have benefited from the strategy of diversifying imports and increasing local production, which has been in place for several years.

That said, in the very short term, Russia and Ukraine remain the main producers of raw materials needed for semiconductor production. Disruptions in the electronic and technological value chains are therefore weighing on Korean growth prospects.

In the medium term, Korean growth should continue to be driven by increased investment and production capacity in the semiconductor sector. The Korean New Deal (a large set of measures adopted in July 2020, intended, among other things, to improve the country's energy transition and, above all, "digitalisation") had already made it possible to increase incentives to invest in this sector, and the new President, Yoon Seok-youl (of the conservative "People Power Party" and elected at the beginning of March), plans to continue this development strategy. Among the 110 proposals in his roadmap, unveiled at the beginning of May when he entered office, are the continuation of the investment strategy and the strengthening of innovation capacities included in the Korean New Deal. The focus will be on public-private partnerships, creating highly skilled jobs and increasing domestic production of high value-added manufactured products. The government also announced its intention to fund research and development programmes to increase domestic production of krypton and xenon.

HOUSEHOLD DEBT STABILISED AT A HIGH LEVEL

Faced with inflation pressures, the Central Bank began its tightening cycle from August 2021. The main policy rate has been raised five times since then to 1.75% (by a total of 125 basis points). Inflation pressures are expected to persist in the short term but be transitory: average inflation is expected to be 4.6% in 2022. Further rate hikes are expected this year.

At the same time, the combination of a very limited housing supply and historically low interest rates have pushed up house prices. At a national level, the property price index has risen by more than 19% in 2021, and by more than 30% since the beginning of 2020. Similarly, household debt has risen rapidly, reaching 105% of GDP in Q1 2022, compared with 95% in Q4 2019.

That said, growth in household debt seems to have stabilised over the last two quarters. The measures taken by the government to stabilise the housing market (in particular, by increasing the supply of available housing) seem to have paid off. Household credit growth slowed sharply in Q1 2022 (to 5% year-on-year, after having increased by almost 10% on average between Q4 2020 and Q4 2021), and the new government has set itself the target of keeping growth in household debt at under 5% for 2022, then gradually reducing the gap between the growth rate of household debt and that of nominal GDP.

However, the risks associated with household financial stability remain contained: according to a study by the Central Bank, household debt levels are not high enough to restrict consumption. The debt structure is also favourable: a very large majority of borrowers are "high-income borrowers", for which the loan-to-value ratio (LTV ratio) is low.

Article completed on 1 July 2022

Hélène DROUOT
helene.drouot@bnpparibas.com

SOUTH KOREA: HOUSEHOLD DEBT

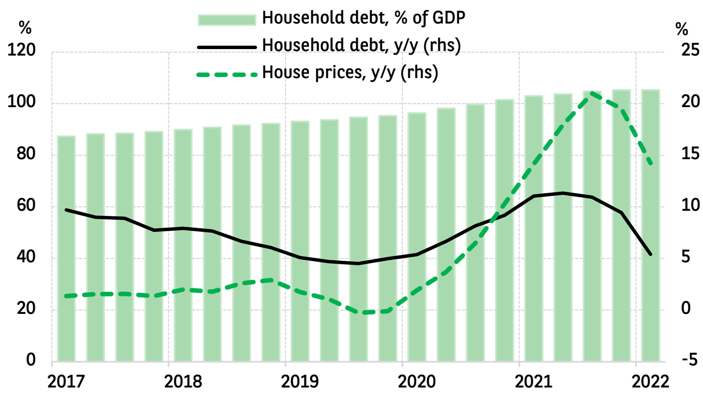

CHART 2 SOURCE: CENTRAL BANK

TAIWAN

ROBUST

The Taiwanese economy has been very resilient to the multiple external shocks of the past two years. The export sector has benefited greatly from the rise in global demand for high-tech goods. In addition, domestic demand has benefited from fiscal support and an accommodative monetary policy. In 2022, economic growth is constrained by many factors (the wave of Omicron in the spring, supply disruptions linked to the chaotic situation in China, rising inflation and monetary policy tightening, and a less favourable international environment). The economic growth slowdown may lead only to a limited deterioration in the quality of bank loans. Nevertheless, the real estate sector, after a sharp rise in prices since 2019, could see a correction.

The Taiwanese economy has once again proven its ability to withstand shocks over the past two years. Despite the Covid-19 pandemic, real GDP growth reached 3.4% in 2020, then jumped to 6.6% in 2021. External accounts, which were already very strong before the health crisis, have strengthened, and public finances have barely deteriorated.

In addition, medium-term growth prospects have improved compared to what they were at the end of the 2010s, thanks to government measures aimed at boosting the economy's competitiveness, an increase in the investment rate, and a solid potential for export expansion. However, in 2022, economic activity is likely to suffer from the consequences of the new waves of Covid-19 that have just hit the island and neighbouring countries, as well as from the deterioration of the international environment.

FORECASTS

	2019	2020	2021	2022e	2023e
Real GDP growth, %	3.1	3.4	6.6	3.5	3.0
Inflation, CPI, year average, %	0.6	-0.2	1.8	3.2	2.0
General government balance / GDP (%)	0.1	-1.0	-0.2	-1.0	-1.0
General government debt / GDP (%)	32.7	32.3	30.2	29.3	28.9
Current account balance / GDP, %	10.6	14.2	14.8	12.0	13.0
External debt / GDP, %	30.2	28.4	27.6	26.6	26.4
Forex reserves, USD bn	478	530	548	550	570
Forex reserves, in months of imports	17.4	20.8	16.2	13.9	13.5

TABLE 1

e: ESTIMATE & FORECASTS
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

A STRONG RECOVERY IN 2021

In 2021, Taiwan's economic growth was driven by the sharp rise in industrial production and exports, accommodative monetary and fiscal policies, and the continued expansion of private investment. The latter was broad-based, with new investments favouring, in particular, industrial machinery and equipment, the expansion of the 5G network, and the transport and green energy sectors. Total investment rose 15.4% in real terms in 2021 and, by Q4 2021, was 19% above its pre-crisis level in Q4 2019.

The export sector has benefited greatly from the sharp rise in global demand for high-tech goods over the past two years. In particular, semiconductor companies (including Taiwan Semiconductor Manufacturing Co., the world's largest electronic chip manufacturer) have been able to increase production and sales amid a global shortage. In 2021, net foreign trade accounted for about a third of real GDP growth (chart 1). Total export receipts (in USD) grew by almost 30%, allowing Taiwan to continue to generate significant trade and current account surpluses (11.4% and 14.8% of GDP, respectively, in 2021).

The recovery in household demand has been much more subdued, despite government support measures. Private consumption fell by 2.5% in 2020 and did not increase in 2021 (-0.3%). It was kept back by the various waves of Covid-19 and the continuation of stringent mobility restrictions (the strictest lockdowns took place in the summer of 2021), which severely weakened household confidence. The absence of tourists has also had an impact on activity in the services sector for two years.

TAIWAN: ECONOMIC GROWTH SUPPORTED BY EXPORTS AND INVESTMENT

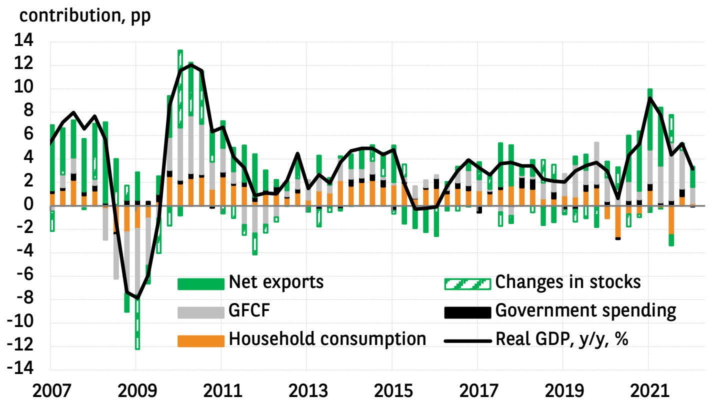

CHART 2

SOURCE: DGBAS, CEIC

MULTIPLE OBSTACLES IN 2022

The pandemic curve deteriorated again in spring 2022. The number of new Covid-19 cases skyrocketed in April and May, peaking at more than 80,000 cases per day in the last week of May (for a total population of 24 million). This wave, linked to the Omicron variant, partly resulted from the gradual abandonment of the zero-Covid strategy that had been followed by the authorities. This has been permitted by the improvement in the population's vaccine coverage (from 68% at the end of 2021 to 82% at the beginning of July, with 73% having also received a booster). Despite this change in strategy, mobility indicators fell in April-May, which weighed on activity, and retail sales in particular. Mobility indicators have improved gradually since the beginning of June, and private consumption should strengthen over the summer.

However, other obstacles are hampering economic growth, which is projected at 3.5% in 2022 as a whole. Real GDP growth slowed in Q1 2022 (+1.1% q/q compared to 2.4% q/q in Q4 2021) and could be negative in Q2 (q/q). It would only recover moderately in the second half of the year, against a backdrop of slowing global demand, rising inflation pressures and monetary tightening. Fiscal policy should, however, continue to support activity.

Taiwanese industry and exports were directly affected by the consequences of lockdowns in Shanghai and other Chinese industrial regions. Disruptions in goods transportation and value chains and the contraction in Chinese demand led to a slowdown in manufacturing production (+5.1% y/y in May 2022 compared to 9.2% in December 2021) and exports (+12.5% y/y in May compared to 23.3% in December). China accounts for around 30% of Taiwan's exports (and Hong Kong another 14%) and 22% of its imports.

Industry supply problems have started to ease with the (partial) lifting of mobility restrictions in China, but the Taiwanese export sector will remain held back in the short term by weakening global demand. The manufacturing PMI fell below 50 in June 2022 (to 49.8), for the first time since June 2020. In particular, it was affected by the drop (to 47.9) in the "new export orders" sub-component.

Indeed, given its high degree of trade openness and dependence on exports, the Taiwanese economy is exposed to the indirect repercussions of the war in Ukraine and its effects on global trade, value chains and commodity prices. The direct consequences of the conflict are very small, since the island's trade with Russia and Ukraine is extremely limited.

Finally, Taiwan has faced significant capital outflows since the beginning of the year: in addition to the withdrawal of portfolio investments felt by a majority of emerging markets, it has suffered from renewed concerns about tensions prevailing in the Taiwan Strait. The impact on financial variables has been significant (the Taiwanese dollar depreciated by more than 7% against the US dollar during H1 2022, and the main index of the Taipei stock exchange fell by almost 20%), but Taiwan's external liquidity position has remained intact and extremely robust.

MONETARY TIGHTENING IN PROGRESS

Consumer price inflation (CPI) has been rising for several months (+3.4% year-on-year in May 2022 compared to 2.6% in December 2021), mainly driven by the rise in food prices – which make up 24.8% of the CPI index and increased by 7.4% y/y in May (compared to 4.2% in December). Core inflation is barely accelerating (+1.7% y/y in May compared to 1.6% in December) and CPI inflation is not excessive. It is, however, at its highest level since 2008, and inflation expectations continue to deteriorate.

As a result, and like many other central banks, the Taiwanese monetary authorities have begun a tightening cycle. The main key rate, which had been kept at a historic low of 1.125% since the Covid-19 shock at the beginning of 2020, was raised to 1.375% in March and to 1.5% in June. Further hikes are expected from monetary policy committees over the next two quarters.

Lending rates have also increased as a result (chart 2), and growth in bank credit should slow in the short term. Growth in bank credit to the private sector has gradually strengthened since 2016, including over the last two years (growth in real terms reached 5.9% y/y in April-May 2022 compared to 3.9% in 2019). Bank credit to the private

TAIWAN: MONETARY POLICY TIGHTENING

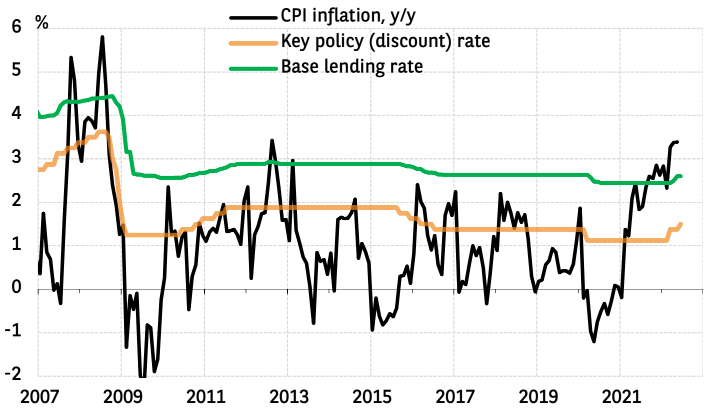

CHART 2

SOURCE: DGBAS, CBRC, CEIC

sector represented almost 160% of GDP in 2021, a relatively high level, and was distributed evenly between corporates and households. The tightening of lending conditions and the slowdown in activity could lead to a deterioration in the quality of the lending portfolio in the banking sector. In particular, the large exposure of banks to the real estate sector (around 40% of total loans) is a source of vulnerability, especially since prices, which rose sharply between Q4 2019 and Q1 2022 (+27%), could see a correction. Nevertheless, credit risks should remain largely under control. Firstly, the banking sector as a whole is robust, well capitalised and liquid. Secondly, the average quality of bank loans is very good, the result of prudent risk management policies (the average non-performing loan ratio is very low, at less than 0.2% since August 2021). Finally, the authorities have introduced macro-prudential measures since the end of 2020, which, in particular, have helped to limit speculative transactions on the property market and contain households' mortgage debt servicing burden.

Article completed on 5 July 2022

Christine PELTIER
christine.peltier@bnpparibas.com

TURKEY

ON THE RAZOR'S EDGE

The economic situation in Turkey offers striking contrasts between (i) sustained growth until Q1 2022 and stubbornly huge inflation, (ii) much greater confidence among companies than among households, (iii) a primary budget surplus and a deteriorating current account deficit due to the surge in the price of energy, and (iv) domestic borrowing conditions for the State at an unprecedented negative real rate despite massive outflows from portfolio investments. Economic policy still combines a deliberately accommodative monetary policy and a competitive exchange rate to stimulate investment, exports and import substitution. The government will now use fiscal leverage to mitigate the economic cost of inflation and is multiplying ad hoc measures to stabilise, unsuccessfully so far, foreign exchange reserves.

The Turkish economy has so far shown remarkable resilience to the multiple external shocks (commodity price boom, a slowdown in the eurozone, monetary tightening in the United States and war in Ukraine) and to the inflation and financial pressures that companies and households are facing. The former are adapting quite well to this difficult context. However, the latter are suffering more and more. Monetary authorities maintain a very accommodative monetary policy despite the acceleration of inflation and are multiplying ad hoc measures to stabilise external liquidity, which continues to dwindle. At the same time, the government will use fiscal firepower to compensate the population's loss of purchasing power before the presidential and parliamentary elections planned for June 2023, at the latest.

A VERY MIXED ECONOMIC SITUATION

Between Q4 2021 and Q1 2022, which covers the financial shock of autumn 2021 and the external shocks of winter 2022, economic growth held up well, with real GDP up 3.2% compared to the previous six months. In Q1 2022, GDP growth (+1.2% Q/Q) was even more balanced, supported by investment and a positive contribution from net external trade. By contrast, household consumption contracted and general government current expenditure was stable. This illustrates the contrast between the economic situation being perceived and experienced by companies compared to households.

For corporates, the confidence surveys by the Central Bank (CBRT) have shown deterioration since February, but the level of confidence remained high until June. In particular, opinion on export order books remained very significantly above the historical average (2020–2021 excluded). Until the start of this year, corporates had indicated a strengthening of their competitive position on external markets, particularly in Europe. More strikingly, opinion on investment and employment intentions continued to improve until June. Regarding investment, confidence is even at an all-time high. At the same time, commercial credit has accelerated very strongly since Q3 2021, reflecting the likely increase in working capital requirements linked to the rise in commodity prices and inventory financing as well as investment dynamics.

Conversely, consumer confidence has been deteriorating continuously since October 2021, reaching a record low in April/May. Yet the labour market situation has improved. Employment was 7% higher than it was at the end of 2019 and the unemployment rate has fallen to 11.3% in April compared with 13.4% at the end of 2019 (without a drop in the working population). The main reason was households' loss of purchasing power due to the acceleration of inflation (+5.1% per month on average between February and June 2022 after 12% on average in December-January, bringing the year-on-year rise in consumer prices to 78.6% in June). On average between Q4 2021 and Q1 2022, real wages were down 6% compared to their average level between Q2 2021 and Q3 2021, despite the 50% hike in the minimum wage on 1st January. The increase in household credit (+36% year-on-year at the end of June) is almost half that of commercial credit (+70%). However, credit card debt and general purpose loans, which are generally used to deal with unforeseen expenses, or even to make it through to the end of a difficult month, have picked up again sharply since April. In short, inflation is exacerbating household budgetary constraints.

FORECASTS

	2019	2020	2021	2022e	2023e
Real GDP growth, %	0.9	1.8	11.0	3.5	3.0
Inflation, CPI, year average, %	15.2	12.1	19.6	71.0	40.0
Gen. Gov. balance / GDP, %	-2.9	-3.5	-2.7	-3.9	-3.6
Gen. Gov. debt / GDP, %	30.8	35.9	38.1	40.0	39.5
Current account balance / GDP, %	0.7	-5.0	-1.7	-5.5	-3.0
External debt / GDP, %	54.6	60.1	54.0	59.0	51.0
Forex reserves, USD bn	77.1	49.0	72.5	55.0	65.0
Forex reserves, in months of imports	4.1	2.6	3.0	2.2	2.4

TABLE 1 e: ESTIMATE & FORECASTS
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

TURKEY: BUSINESS & CONSUMER CONFIDENCE

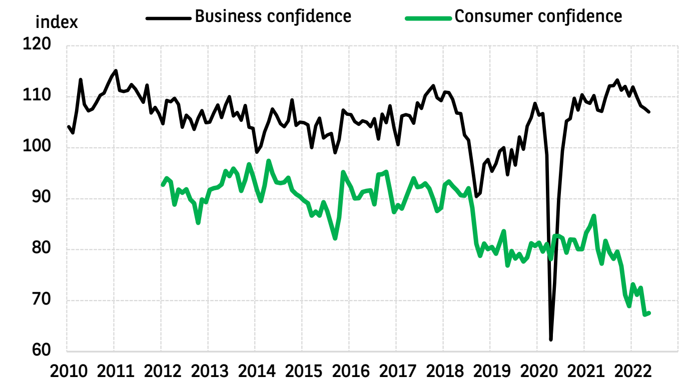

CHART 1 SOURCE: CENTRAL BANK, TURKSTAT

BUDGET SUPPORT

The inflation burden suffered by the population has pushed the government to introduce an additional budget of TRL 880 billion for extra expenditure, i.e. USD 50 billion (around 6.5% of 2021 GDP). Most of the extra expenditure is on staff expenses, social transfers and subsidies for coal and gas importers in order to limit the rise in energy prices. The revised budget nevertheless foresees an unchanged deficit of around TRL 280 billion, or just 2.5% of GDP forecast for 2022 thanks to an upward revision of tax revenues. In fact, over the first 5 months of the year, tax income increased by 25% in real terms. On average since the beginning of the year, the budget deficit has thus reduced to 2% of GDP with a primary surplus of 0.6% of GDP. However, the deficit does not take into account the potential cost of the fx-protected lira deposit scheme introduced in November 2021[1]. At the current exchange rate, this cost is in the region of 0.5% of GDP[2] and could increase to 1% if the depreciation of the lira reaches 30% over the year.

Interest payments are stable at 2.6% of GDP. They have increased by only 0.3 percentage points since the end of 2019 while the debt ratio has increased from 30% to 38% of GDP. The debt burden could even reduce as yields on 10-year government bonds, which had stretched from 17% to 25% between the end of September 2021 and the end of March 2022, have since fallen slightly below 20%. In real terms (based on underlying inflation), the cost of borrowing in local currency for the State is dramatically negative (-30%) while it was still slightly positive in 2020–2021. If the exchange rate were to strengthen again, the debt ratio would reduce automatically and considerably, as the proportion of foreign-currency debt is 68%. The success of budgetary support, which is part of the government's macroeconomic strategy (negative real interest rates, competitive real exchange rates), therefore depends closely on the evolution of external accounts.

DWINDLING EXTERNAL LIQUIDITY

Unsurprisingly, the current account deficit and the trade balance have widened since the beginning of the year. The 12-month cumulative current account deficit reached USD 26 billion in April and the trade deficit reached USD 71 billion in May. This deterioration is only the result of the ballooning energy bill and net gold purchases. Excluding oil and gold, by contrast, the current account surplus widened, reaching almost USD 40 billion in April, reflecting the improvement in corporates' competitiveness on both external and domestic markets. However, the CBRT's international reserves continued to dwindle to USD 101.9 billion at the end of June 2022 compared to USD 128.5 billion at the end of November[3], as a result of the widening of the current account deficit but also strong portfolio investment outflows[4]. But, for the time being, corporates and banks are not experiencing any external refinancing difficulties (the rollover rate of medium- and long-term debt for non-financial enterprises remains well above 100% and that of banks remains between 90% and 95%).

In an attempt to curb the haemorrhage of foreign exchange reserves, the monetary and banking regulatory authorities have introduced new measures since the start of the year which strengthen or complement those taken at the end of 2021[5]. The ones aiming to rapidly support dollar liquidity are deliberately coercive[6]. Others are macro-prudential measures aiming at structurally improve the external balance[7].

Since the beginning of June, the lira has stabilised at around 17 TRL to 1 USD. However, this stabilization remains precarious because restoring financial stability via the rebalancing of external accounts is presently being counteracted by (i) the rise in commodity prices which fuels the inflation spiral, (ii) the accelerated tightening of US monetary policy which generates general distrust among investors towards emerging countries, and (iii) the specific distrust of the economic policy being followed in Turkey.

Article completed on 27 June 2022

François FAURE
françois.faure@bnpparibas.com

1 See Eco Emerging Editorial, January 2022. Around 14% of deposits, equivalent to around USD 50 billion, are covered by this mechanism.
2 In practice, the mechanism compensates depositors when the depreciation rate exceeds the policy rate rate (14%), which has been the case since the lira's depreciation by 17% against the US dollar since the end of 2021.
3 On 26/06, international reserves were USD 101 bn, including 41.6 bn in gold and 60.3 bn in foreign currency, which include the equivalent of approximately USD 53 bn of swap lines with Qatar and China.
4 USD 11 bn between October and April based on (exhaustive) balance of payments data and at least 3 bn more in May-June based on CBRT data from non-residents' transactions in the domestic bond and equity markets.
5 See Eco Emerging Editorial, January 2022.
6 Increase in the export income repatriation rate from 25% to 40%, ban on access to new bank loans for companies with foreign currency cash exceeding the equivalent of USD 300k or representing more than 10% of assets or annual turnover.
7 Increase in risk weights of TL commercial loans in the calculation of risk weighted average assets, selective increase in the reserve requirement ratio on bank loans to businesses, and central bank credit provision for long-term investment projects that support efficient production areas or promote import substitution.

HUNGARY

GEARING TOWARDS BUDGET CONSOLIDATION

Economic growth remained very dynamic until the first quarter of this year. Strong wages growth and significant government measures to back up purchasing power over this period have supported consumer spending. Inflation rose sharply in recent months but remained lower compared to other Central European countries, due to a price cap on certain food and energy related goods. Economic growth is expected to slow down significantly in 2023, owing to the deterioration in the international environment, monetary and fiscal tightening from H2 2022. The temporary suspension of European funds presents a serious challenge given that budget and current account deficits have increased and external liquidity has eroded.

DOMESTIC DEMAND IS HOLDING UP WELL

The macroeconomic consequences of the war in Ukraine are not yet reflected in growth figures in Q1 2022. Economic activity continued to grow, by 2.1% q/q after 2.2% and 1.1% respectively in the previous quarters. It was primarily driven by strong domestic demand, currently at 7% above its pre-Covid level. The strong performance in terms of consumption (retail sales up by 9.2% compared to January 2020) can be explained by new supportive measures implemented by the government, ahead of the legislative elections last April. These included bonuses, income tax cuts, or the payment of an additional month's pension. Other government measures aimed at supporting households' purchasing power included a temporary freeze on 1) prices of energy and certain food items and 2) mortgage rates. Similarly, the moratorium on loan repayments has been extended until December 2022. Furthermore, the average salary increase over the past few months has been higher than inflation, thus has contributed to support the purchasing power of household incomes against a background of rising inflation (10.8% year-on-year in May). Contrary to expectations, investment remained strong in the first quarter with an increase of 4.4% in Q1 2022 following 0.2% q/q and 2.1% q/q respectively in Q4 2021 and Q3 2021. Net exports, on the other hand, were a drag on activity.

Economic indicators suggest a slowdown in activity over the next few quarters. Retail sales excluding vehicles appear to have peaked in March. Industrial production has also weakened since March, probably due to supply disruptions and rising costs for intermediate goods and raw materials. In May, the drop in new orders and the increase of delivery times, reflected by the underlying manufacturing PMI indices, suggest that the decline in industrial activity could continue over the short term. As a result, investment could suffer in coming quarters. The uncertainties related to the war in Ukraine are weighing on business confidence and will undoubtedly lead to the postponement of projects. Similarly, the recent introduction of a tax on windfall corporate profits in certain sectors could have a negative impact on investment decisions.

In terms of foreign trade, exports have increased at a slower pace in recent months while imports have remained high. Hungary's direct exposure to Russia in terms of exports is very low, at 2.1% of GDP, but the indirect effect through trade relationship with EU is significant. In contrast, Hungary is heavily dependent on Russia for its energy supply (50% of energy imports). At the present time, the EU embargo on Russian oil imports does not apply to Hungary, Slovakia and the Czech Republic.

The expected slowdown in activity over the next few months will nonetheless have a limited impact on growth in 2022 due to the significant carry-over effects in the first quarter, currently at 5%. Real GDP growth is likely to remain very strong at 6% this year. In contrast, it is expected to slow significantly to 2.9% in 2023 due to inflation remaining at high levels and slowing activity in the advanced countries.

FORECASTS

	2019	2020	2021	2022e	2023e
Real GDP growth, %	4.6	-4.7	7.1	6.0	2.9
Inflation, CPI, year average, %	3.3	3.3	5.2	11.0	10.0
Gen. Gov. balance / GDP (%)	-2.1	-8.0	-6.7	-5.4	-3.7
Gen. Gov. debt / GDP (%)	63.9	77.6	74.4	72.2	69.9
Current account balance / GDP, %	-0.7	-1.0	-2.9	-3.9	-3.0
External debt / GDP, %	84.4	89.0	82.3	75.8	68.0
Forex reserves, EUR bn	28.4	33.7	38.4	37.1	35.8
Forex reserves, in months of imports	3.0	3.8	3.7	3.2	3.0

TABLE 1

e: ESTIMATE & FORECASTS
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

HUNGARY: INDUSTRIAL PRODUCTION AND RETAIL SALES

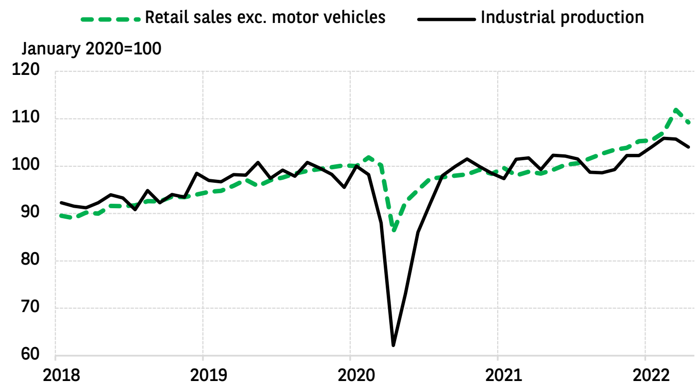

CHART 1

SOURCE: HUNGARIAN CENTRAL STATISTICAL OFFICE, BNP PARIBAS

MONETARY TIGHTENING TO COMBAT INFLATION

Central European countries (CECs) have been experiencing a sharp rise in consumer prices since end 2021, exacerbated by the war in Ukraine. The rate of inflation is higher than European Union's average and other emerging countries in Asia and Latin America. In Hungary, it has been at its highest since 2001 (+10.7% year-on-year in May) and well above the Central Bank's target of 3%. However, inflation is relatively lower than other CECs owing to a temporary freeze on commodity and energy prices, initially until June and then extended until 1st October.

Food and transport were the main contributors to inflation at 4.3 points and 1.9 points respectively in May. But core inflation (+9.1% year-on-year in May) also picked up significantly, reflecting all production costs, including wages. Inflation could reach an average of 11% in 2022 and remain at high levels in 2023 due to high wage pressures.

Monetary tightening that began in June 2021 was gradual at first. The pace then has gained momentum since the beginning of this year, bringing the benchmark rate to 7.75% end of June, a cumulative of 715 bps since this cycle began. This tightening is all the more justified as the forint has depreciated by 8.6% against the euro since the end of 2021 and foreign exchange reserves have fallen significantly. The import coverage ratio was low at 3.7 months at the end of 2021, even if the floating exchange rate regime and EU membership limit the liquidity risks. Monetary tightening is likely to continue in the coming months. It is however worth noting that monetary policy is not really restrictive, as the real interest rate calculated in relation to the policy rate or the 5 or 10-year bond rate still remains negative.

HUNGARY : CONTRIBUTION OF PRINCIPAL COMPONENTS TO INFLATION

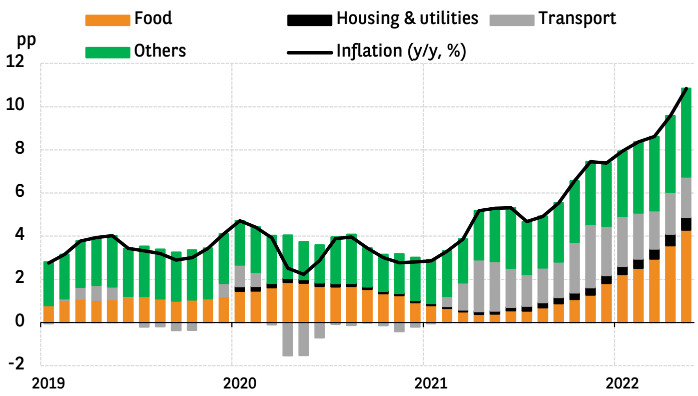

CHART 2 SOURCE: EUROSTAT, BNP PARIBAS

TEMPORARY SUSPENSION OF EUROPEAN FUNDS

Hungary has been temporarily suspended from obtaining European funds under the Recovery and Resilience Plan, worth EUR 7.2 billion in subsidies over the period 2021-2023. EU's decision to block these funds prevents the country from having access to an important source of financing for balancing the budget and the current account.

Budget deficit is likely to exceed the official target of 4.9% this year. Over the first five months of the year, the deficit has already reached HUF 2879 billion, or 4.6% of GDP. Besides, funding costs have increased significantly due to monetary tightening and markets' overreaction in the context of the current geopolitical situation. The average yield on 5-year bonds has reached 5.62% in June, an increase of 212 bps compared to January 2022. Against this backdrop, the recent measures announced by the government should contribute to contain the deterioration in the public accounts. Expenditure (including public investment) is expected to be reduced in the second half of 2022. In addition, a tax on companies' windfall profits may be applied temporarily in order to support government revenues. The government debt-to-GDP ratio is expected to decline on high nominal growth but this ratio should remain above 70% in 2022.

The current account balance was structurally in surplus until 2019. It turned into deficit in 2020-2021. In 2021, the widening of the current account deficit was mainly attributed to the pronounced slump in the trade balance. The income balance, structurally in deficit, also worsened last year. Furthermore, the balance of services, in surplus, has not yet returned to its pre-Covid level. The fall in income from tourism partly explains this situation. Travel component in the balance of services was at HUF 803 billion at the end of 2021 compared to 1,324 billion at the end of 2019, or only 61% of its pre-Covid level.

This year, the current account deficit will widen due to higher energy bills and weaker exports. The trade balance stands at EUR -1,544 million cumulatively over the first 4 months of the year compared with a trade surplus of EUR 2,920 million over the same period last year. Next year, we still expect a current account deficit due to a more marked economic slowdown in Hungary's main trading partners alongside with energy prices remaining at high levels.

Article completed on 30 June 2022

Cynthia KALASOPATAN ANTOINE
cynthia.kalasopatanantoine@bnpparibas.com

CZECH REPUBLIC

WEAK CONSUMPTION

The last two quarters have been marked by slower growth in economic activity. This is mainly attributed to weaker levels of consumer spending. Furthermore, the country is still very exposed to supply chain disruptions in the automotive sector to a great extent, which adversely impacts both industrial activity and exports. The expected slowdown in the global economy in 2022 will also affect growth given the country's high exposure to trade. Inflation has probably not yet peaked, which means that monetary tightening is likely to continue in the short term.

SOFT CONSUMPTION IS WEIGHING ON GROWTH

In Q1 2022, real GDP growth reached 0.9% q/q versus 0.8% q/q in Q4 2021 and 1.7% q/q in Q3 2021. Consumer spending contracted over the last two quarters. The sharp rise in the inflation rate resulted in a loss of purchasing power for households despite government measures (energy price cap, increase in pensions and an allowance of 5,000 Czech crowns (200 euros) per child, subject to income criteria). The most affected segments were vehicles, capital goods and food products. Retail sales indices for these sectors are still below their pre-Covid levels. IT and communication equipment was the only sector whereby demand has continued to be very dynamic since the start of the year (+16.9% above pre-Covid levels in April).

Consumer spending is likely to remain subdued in the coming months. However, its future trajectory will depend on saving dynamics. In 2021, households have already drawn on savings accumulated during the Covid crisis without however returning to 2019 levels. The savings rate fell to 15.2% last year after rising sharply to 21.6% in 2020. It was 13.3% in 2019.

TOWARDS A WEAKER SUPPORT FROM INVESTMENT AND EXPORTS

First quarter growth was supported by investment and net exports, with respective contributions of 1.2 points and 0.6 points. However, both engines of growth may dampen in the short term.

Exports will undoubtedly be less dynamic in the coming months. Over the recent period, new export orders fell significantly, judging by the underlying manufacturing PMI index. As the country has a high exposure to foreign trade, it will be adversely affected by the slowdown in demand from the EU, the main trading partner, including Germany, which alone accounts for 32% of total exports. By contrast, the consequences of the Russian-Ukrainian conflict should have only a very limited impact on exports to Russia. They account for only 2.3% of total exports.

Investment may be dragged down by supply constraints and the squeeze on margins resulting from rising production costs. Similarly, the uncertainties caused by the geopolitical situation will result in the postponement of investment projects.

Ultimately, we expect a slowdown in activity to 2.9% in 2022 and 2.4% in 2023, down from 3.3% in 2021.

SUPPLY SHOCKS IN INDUSTRY

Industrial activity returned to its pre-Covid level at the end of 2020, but has made little progress since then, mainly due to supply disruptions. More recently, these have been exacerbated by the lockdowns in China, leading to plant closures at the start of the year. The war in Ukraine is also feeding through supply shocks.

The automotive sector, which plays an important role in the economy (22% of value added in manufacturing activity and 20% of total exports), was significantly impacted. Reflecting these constraints, car production in volume terms fell by 14% in total from January to April compared to the same period last year. Sales of vehicles abroad have also been struggling to gain momentum since 2019. This pattern is comparable to that of most countries in the region, which are also highly exposed to the automotive sector.

FORECASTS

	2019	2020	2021	2022e	2023e
Real GDP growth, %	3.0	-5.8	3.3	2.9	2.4
Inflation, CPI, year average, %	2.6	3.3	3.3	14.7	8.4
Gen. Gov. balance / GDP (%)	0.3	-5.8	-5.9	-4.4	-3.5
Gen. Gov. debt / GDP (%)	30.3	38.1	41.9	39.9	39.4
Current account balance / GDP, %	0.3	2.0	-0.9	-1.2	-0.7
External debt / GDP, %	76.5	76.5	75.3	64.6	59.0
Forex reserves, EUR bn	133.4	135.4	153.3	158.9	164.4
Forex reserves, in months of imports	10.4	11.7	11.1	9.4	9.4

e: ESTIMATE & FORECASTS

TABLE 1 SOURCE: BNP PARIBAS ECONOMIC RESEARCH

CZECH REPUBLIC: CONTRIBUTION TO GDP GROWTH

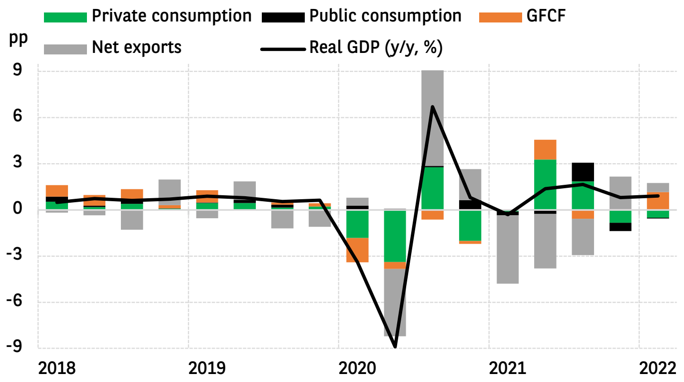

CHART 1 SOURCE: EUROSTAT, BNP PARIBAS

MONETARY TIGHTENING

Since last autumn, central banks in the countries of the region have been implementing a round of monetary tightening to curb inflation. In the Czech Republic, the key benchmark rate has been raised by 675 basis points (bps) since April 2021 to 7%. The appointment of the new governor, Aleš Michl, viewed as more dovish compared to the members of the Monetary Board, should however not affect the current tightening judging by the size of the last policy rate hike (+125 bps).

Inflationary pressures have intensified in recent months. The Harmonised Index of Consumer Prices (HICP) rose by 15.2% year-on-year in May. Food and energy items added 3.7 points and 4.3 points respectively. Supply disruptions also contributed to the rise in durable goods' prices. Inflationary pressures may ease in 2023 as a result of a relative easing of both agricultural and energy commodity prices and supply constraints. Furthermore, the wage-price spiral remains contained for the time being, given that salaries are rising at a slower pace than inflation. Nonetheless, the rate of inflation is likely to be well above the Central Bank's target of 1–3%.

LIMITED DETERIORATION IN PUBLIC AND EXTERNAL ACCOUNTS

The current account balance turned negative in 2021 at -0.9% of GDP. This can be explained by a sharp drop in the trade surplus to EUR 2.8 billion last year compared to EUR 10.6 billion in 2020. The trade balance was insufficient to compensate for the structural deficit in the income balance, which amounted to EUR 9.1 billion. As for the services account, it remained close to its four-year average at a surplus of EUR 4.3 billion.

The current account deficit is likely to persist over the next two years due to an increase in energy costs and a slowdown in exports. Energy imports from Russia are relatively high, at 42% of the total. This dependence is significant in terms of gas supply (71% of imports). For the time being, the Czech Republic, Hungary and Slovakia have obtained an exemption from the EU embargo on Russian oil imports.

Nevertheless, FDI flows and funds from the EU will still largely finance external needs, and foreign exchange reserves will likely increase. These will cover 9.4 months of imports in 2022, a very comfortable ratio.

The consolidation of the public finances will probably be delayed again this year. In this scenario, the budget deficit would remain high over the short term. The authorities anticipate a deficit of 4.5% of GDP for 2022 compared to the initial predictions of 3.3% last February. This revision aims to take account of the new government support measures. In addition to those in favour of households, guarantees on SME borrowings and deadlines for VAT payments are aimed at supporting businesses. Government debt would remain close to 40% of GDP by 2023, or about 10 points above 2019 level.

Importantly, the government's debt service burden will increase due to the rise in 5-year or 10-year rates on the local bond market. However, compared to revenues which have steadily increased over the past 10 years, the increase is likely to remain limited.

Article completed on 30 June 2022

Cynthia KALASOPATAN ANTOINE
cynthia.kalasopatanantoine@bnpparibas.com

CZECH REPUBLIC: INDUSTRIAL PRODUCTION AND VEHICLES PRODUCTION

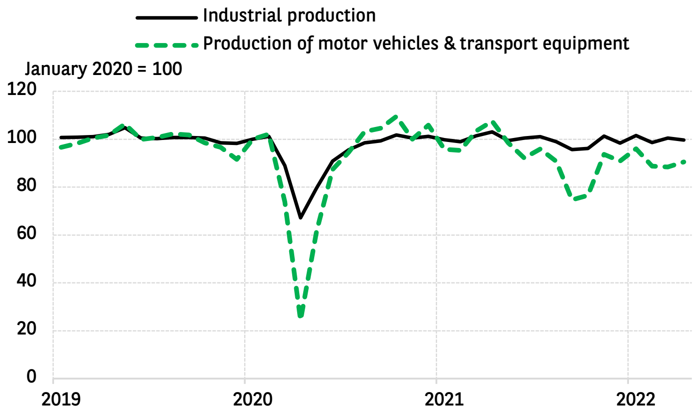

CHART 2 SOURCE: EUROSTAT, BNP PARIBAS

BRAZIL

A DIFFICULT CALIBRATION OF THE POLICY MIX

Economic activity held up well in the first half of the year, but a slowdown in GDP growth is coming and expected to intensify over the second semester. The recovery of the labour market continues. However, the retreat of unemployment has come at the cost of a temporary drop in productivity. Inflation, which has registered double digits growth over the past nine months, is spreading more widely throughout the economy. Looking forward, monetary policy could be increasingly constrained by the announcement of new fiscal support. The latter coupled with the continued weakening of the main fiscal rule could weigh on risk premia and inflation expectations. The enthusiasm that prevailed earlier in the year for Brazilian assets is losing steam.

RESILIENT ECONOMIC ACTIVITY IN THE FIRST SEMESTER

Economic activity in Q1 held up better than expected considering the effects of the Omicron variant and the plunge in confidence. Real GDP increased by +1% q/q and +1.7% y/y. On the supply side, growth was driven by the service sector. Agriculture and livestock, on the other hand, experienced a decline in output in large parts due to the retreat of soybean and rice production. Output levels in industry virtually stagnated but showed some positive surprises. The manufacturing and construction sectors – despite being confronted with supply-side constraints and rising interest rates – managed to increase production ; these positive prints were however offset by the decline in output in the mining sector (third consecutive quarter of decline). On the expenditure side, external demand and household consumption were the main drivers of growth. On the other hand, investment fell sharply.

Available data for Q2 shows some signs of deceleration but overall depicts a story of continued economic resilience (expansion in April and May of the composite PMI, recovery in business confidence, progression of industrial production in May, resilient trade balance). This solid performance is in line with the positive developments in the labour market. Significant job creations in civil construction and more importantly in services have enabled unemployment to fall below the 10% mark in May (the lowest print since January 2016). The favourable dynamics in the labour market have however come alongside a temporary drop in labour productivity (value added has increased less than the addition of new workers to the economy). According to Bradesco, the good performance of the labour market could be explained by the fact that companies are taking advantage of the greater ease of hiring (a consequence of the labour reform of 2016) and the drop – since the pandemic – of unit labour costs in real terms, to allocate more workers than equipment to production.

Activity is expected to lose steam in the second half of the year (delayed effects of monetary policy, global deceleration, deterioration in Brazil's terms of trade despite the high level of agricultural commodity prices). The rise in Covid-19 cases and the risk of a diesel shortage (linked to global inventory problems) could also weigh on activity and household confidence – already shaken by the decline in purchasing power and the erosion of precautionary savings. However, these negative factors could be offset by restocking initiatives in industry and the government's latest stimulus efforts (income transfers and tax cuts).

FORECASTS

	2019	2020	2021	2022e	2023e
Real GDP growth, %	1.2	-3.9	4.6	1.5	0.0
Inflation, CPI, year average, %	3.7	3.2	8.3	11	7.1
Fiscal balance / GDP, %	-5.8	-13.2	-4.4	-7.0	-7.6
Gross public debt / GDP, %	74	88	82	80	82
Current account balance / GDP, %	-3.5	-1.7	-1.8	0.4	-0.8
External debt / GDP, %	37	45	43	40	38
Forex reserves, USD bn	357	356	362	356	350
Forex reserves, in months of imports	16	19	16	15	15

e: ESTIMATE & FORECASTS

TABLE 1 SOURCE: BNP PARIBAS ECONOMIC RESEARCH

BRAZIL: CONTRIBUTIONS TO QUARTERLY GDP GROWTH

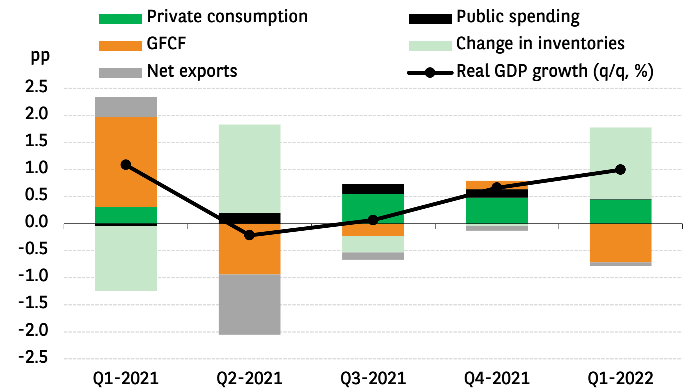

CHART 1 SOURCE: IBGE, BNP PARIBAS

INFLATION : THE POLICY-MIX PUT TO TEST

Inflation, despite a slight retreat in May, remains high (11.7% y/y) and continues to spread throughout the economy. The easing in the price of certain raw materials observed since the beginning of June and the tax cuts recently announced by the government could help to tame down the most volatile components of inflation in the short term[1]. However,

1 According to private sector estimates, government tax cuts could lower inflation by as much as 200 bps by the end of 2022. However, as these cuts expire in 2023, they are expected to have an inverse effect on the evolution of prices.

the process of disinflation is projected to be slow. It will be constrained by i/ generalized indexation practices, ii/ rising wage pressures in the private sector and iii/ the broad-based diffusion of price increases throughout the economy (72% of items in the consumer basket, excluding food items, saw their price increase in May, including in services which have experienced an acceleration in recent months).

Throughout the year and as the general election looms (October 2022), the authorities have become increasingly concerned with the rise in food insecurity and the threat of social tensions. Limited wage increases within the civil service[2] have already led to strikes (including within the Central Bank which halted the release of data and other reports several months ago). With that in mind, the authorities have unveiled several support packages. Measures (non-targeted at first), amouting to some BRL 150 bn (1.7% of GDP) were deployed in March to support households' purchasing power (e.g. authorization of early withdrawals from FGTS accounts – a severance indemnity fund for employees, early payment of certain retirement benefits, etc.). The government also announced a reduction in taxes linked to production (in particular to limit the rise in the price of imported inputs for the agricultural sector). The government more recently proposed tax cuts on fuel, electricity and telecommunications[3] (the cost of which is estimated at some BRL 17 bn, around 0.2% of GDP).

At the end of June, the authorities also proposed a string of new targeted initiatives destined to : i/ expand the list of beneficiaries of the *Auxilio Brasil* program (formerly *Bolsa Familia*) by some 1.6 million people as well as increase monthly transfers by 50% to BRL 600 per month, ii/ allow the elderly to benefit from free transportation, and iii/ increase once again the value of aid provided to truck drivers[4]. The cost of the support package is estimated at some BRL 40 bn (0.45% of GDP). But it could swell further as Congress has already proposed additional transfers for taxis and small farmers. The operation is expected to be financed primarily through privatization receipts linked to the sale of Electrobras as well as the payment of dividends by Petrobras. To enact the spending though, the government needs to first get approval of its constitutional amendment in Congress. This would allow to exclude the new expenditures from the spending cap — the country's main fiscal rule. The proliferation of fiscal measures (some of which are permanent) coupled with the erosion of the budgetary institutional framework (e.g. revision of the rules for calculating the spending cap in 2021, submission of recent constitutional amendment on the basis of a "state of emergency") could eventually weigh on financing conditions through a rise in real long rates (the latter are already almost twice as high as they were following the vote of the pension reform at the end of 2019).

The recently announced fiscal support package could impact the Central Bank (BCB)'s decision to tamper its actions going forward. In its last meeting in June, the BCB started slowing down the pace of monetary tightening. It raised its key rate (Selic) by 50 basis points (bps) to 13.25%. Since it started its hiking cycle, it was its first rise below the 75 bps mark (in 11 meetings). The tightening is expected to continue in the short term but the current situation could force the BCB to maintain its key rate at a high level for longer than initially expected. It is as least likely to do so, as long as inflation expectations for 2024 do not converge towards the target (3%).

BRAZIL: USD/BRL AND STOCK MARKET

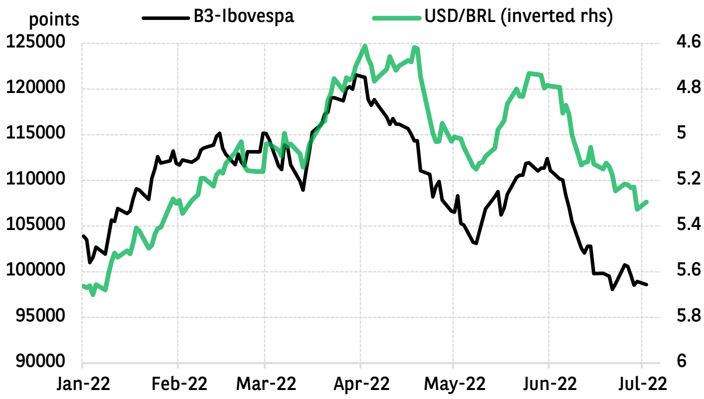

CHART 2 SOURCE: MACROBOND

COOLER WINDGUSTS ACROSS MARKETS

The collateral impact of US monetary tightening on capital flows has not spared Brazil. Despite the relative attractiveness of the Brazilian market (appealing valuations in the equity market, prime candidate for carry trade, undervaluation of the BRL, relative decline in sovereign risk, low current account deficit), the country has been subject – like many other emerging markets – to capital outflows since April. In early July, the main stock market index fell below its level from January (-5%). In a context of rising interest rates and increased risk aversion, many local investors have been turning their attention to less risky but still attractive asset classes (such as local government bonds). The real (which had outperformed its emerging market peers with gains of nearly 23% since the start of the year) has also weakened since late April. Markets at the moment seem less concerned with the October general election. However, this situation is likely to change as the month of August rolls around (start of televised debates, use of television advertisements, circulation of electoral programs). At that point, Brazilian assets are likely to reflect more closely the projected management of public finances over the next mandate.

Article completed on 6 July 2022

Salim HAMMAD
salim.hammad@bnpparibas.com

2 The law prohibits the government from granting wage increases higher than inflation in an election year.
3 Suspension until the end of the year of federal taxes (PIS, Cofins, Cide) on gasoline and ethanol. The Federal State would also reimburse the States for the loss of income associated with capping the rate of the value-added tax (ICMS) (which is normally at the discretion of the States) linked to so-called essential products and services such as gas for cooking, diesel or transportation.
4 Up to BRL 1000 per month. 750,000 truck drivers had already benefited since October 2021 from aid worth BRL 400. Since the national trucker strike in 2018, the price of diesel has more than doubled.

PERU

FROM ONE POLITICAL CRISIS TO ANOTHER

Peruvian GDP returned to its pre-crisis level thanks to the strong upturn in activity recorded in 2021. However, the country's capacity to rebound further is limited and short-to-medium-term growth prospects are moderate. Firstly, inflation pressures are weighing on private consumption and disruptions in the value chains are hampering the export sector. Secondly, the continuing political crisis is dampening the investment outlook. In addition, public finances have deteriorated over the past two years. It is not so much the level of debt, which is still moderate, but its composition which is worrying and is making the country more vulnerable to changes in investor sentiment.

SIGNIFICANT GROWTH SLOWDOWN

After a rebound of more than 13% in 2021, one of the highest growth rates in the region, activity is expected to slow very sharply in 2022 and 2023, to around 3% on average. The gradual withdrawal of pandemic-related support measures (monetary and fiscal), inflation pressures and social movements will weigh on domestic demand. At the same time, slowing global demand, deteriorating terms of trade (mainly due to geopolitical shocks), supply disruptions and value-chain disruptions are slowing exports.

Furthermore, inflation pressures have intensified since mid-2021 and have accelerated significantly since the beginning of 2022 (to 8.8% year-on-year in May). Although trade links with Ukraine and Russia are very limited, the impact of the war in Ukraine on commodity prices is significant for price increases in Peru. The Central Bank reacted quickly and increased its key rate by 525 basis points since July 2021 (to 5.5% at the end of June 2022). Inflation pressures are expected to persist at least in the coming months: disruptions in value chains will, at least in the short term, continue to put pressure on prices, and, above all, energy and commodity prices should remain stubbornly high. On average, inflation is expected to reach 7.0% in 2022 and we expect further rate hikes in the short term.

FORECASTS

	2019	2020	2021	2022e	2023e
Real GDP growth, %	2.2	-12.0	13.3	3.2	2.9
Inflation, CPI, year average, %	2.1	1.8	4.0	7.0	3.5
Central Gov. balance / GDP (%)	-3.0	-8.3	-2.8	-2.6	-2.6
Public debt / GDP (%)	26.8	35.4	36.1	35.8	35.4
Current account balance / GDP, %	-1.5	0.7	-2.8	-1.3	-1.3
External debt / GDP, %	34.7	44.7	41.2	42.4	41.7
Forex reserves, USD bn	68.4	71.5	76.6	81.8	82.9
Forex reserves, in months of imports	19.4	25.1	16.2	15.6	15.8

TABLE 1 e: ESTIMATE & FORECASTS
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

PERU: MONTHLY ACTIVITY INDEX

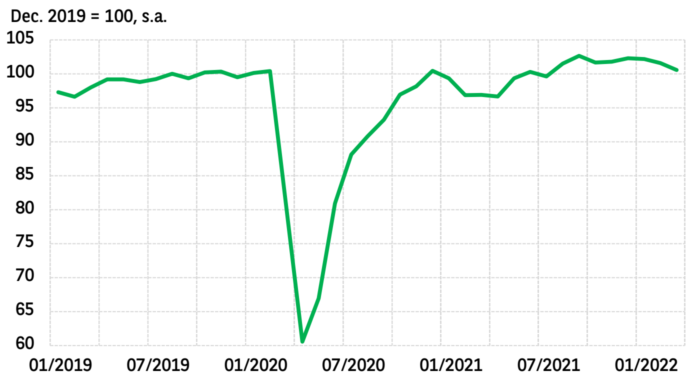

CHART 1 SOURCE: CENTRAL RESERVE BANK OF PERU, BNP PARIBAS

STRUCTURAL WEAKNESSES

Activity returned to the level seen in December 2019 (i.e. before the start of the COVID-19 pandemic) but is struggling to surpass it (Chart 1).

The economy's capacity to rebound is constrained. The country's structural weaknesses in terms of governance gradually worsened during the previous administration (2016–2021), as illustrated by parliament's distrust of the government and the increase in the number of corruption scandals. During that period, four presidents (three in November 2020), two parliaments and a large number of governments succeeded each other. The number of economic and social reforms put in place by the government has fallen sharply (compared to the previous decade) and growth (GDP grew by barely 3% per year on average between 2015 and 2019 compared to 5% between 2011 and 2015) and investment (whose share of GDP represented 21% of GDP between 2016 and 2019 compared to 24.3% of GDP between 2011 and 2015) has slowed significantly.

In addition, the massive support from the authorities from the start of the pandemic was not enough to prevent the deterioration of several social indicators (e.g. the poverty rate) and the labour market. According to the IMF, the very strict lockdowns imposed by the authorities (and prolonged school closures) will have negative effects on the accumulation of human capital and, therefore, on potential growth. The IMF now estimates that Peruvian potential growth is around 3%, while it was slightly above 3.5% before the crisis.

POLITICAL CRISIS: NO SHORT-TERM SOLUTION

In the short term, the political climate could deteriorate even further. Only 37 (out of 130) members of the assembly belong to the same party as President Castillo (who was elected in April 2021) and coalitions are fragile. In less than a year (the term began at the end of July), there have been numerous government reshuffles and the President has already avoided two impeachment proceedings.

If Pédro Castillo completes his mandate (in 2026), the relationship between parliament and the government will remain tense and the risk of impeachment proceedings multiplying is high. Conversely, if the President is removed, or if he resigns, new elections could lead to an even more pronounced polarisation of political life. Parliament is likely to remain fragmented, with no overwhelming majority, which will not improve governance and the ability to lead reforms.

Since last January, tensions have crystallised around the presidential plan to rewrite the constitution (influenced by the ongoing process in Chile). After a first proposal, rejected by parliament, Congress enacted a law which required members to approve any potential public referendum. The aim of this new law is to minimise the possibility of a new proposal being presented. At the end of April, however, the President submitted to parliament a new proposal for a referendum (which would be held on 2 October) concerning a new constitution. Although it is unlikely to be adopted, the bill is currently under discussion in parliament.

DETERIORATING PUBLIC FINANCES

For the moment, the economy is showing no sign of major imbalance and it has not proved possible to implement the most radical (and most costly) reforms envisaged by the government. However, the prolonged political crisis is likely to continue to weigh on the investment outlook (domestic and foreign). Above all, the President is unlikely to succeed in implementing the extensive tax reform he had committed to.

New populist measures are to be feared, further delaying the consolidation of public finances. Inflation pressures (the rate of inflation, which has continued to rise since mid-2021, reached 8.8% year-on-year in May) and numerous social movements in April have already led Congress and the government to provide further support measures. Congress allowed employees to draw on their pension savings. In April, the President announced a 10% increase in the minimum wage, as well as several support measures aimed at offsetting the effects of inflation: increases in fuel price subsidies and exemptions from certain taxes on essential goods, representing 0.3% of GDP. After a sharp reduction in 2021, the deficit is expected to shrink very slightly in 2022 (the increase in copper prices, and therefore government income, will offset the increase in expenditure associated with the support measures).

The risk associated with slipping public finances has increased over the last year. Although it is still at a moderate level, debt has increased sharply over the past two years, from 25% of GDP at the end of 2019 to 35% of GDP at the end of 2021).

However, it is not so much the level of debt but its deteriorating profile that is worrying: the increase in the deficit and the authorisation given to employees to draw on their retirement savings has resulted in an increased use of external financing. The debt is now 50% denominated in foreign currencies, and 50% owned by non-residents (each of the two indicators represented less than 30% of the total in 2019), which increases the country's vulnerability in the event of turmoil on the financial markets. Moody's and Fitch downgraded the country's sovereign rating in September-October 2021, and Fitch downgraded its rating in March 2022.

Article completed 1 July 2022

Hélène DROUOT
helene.drouot@bnpparibas.com

PERU: PUBLIC DEBT

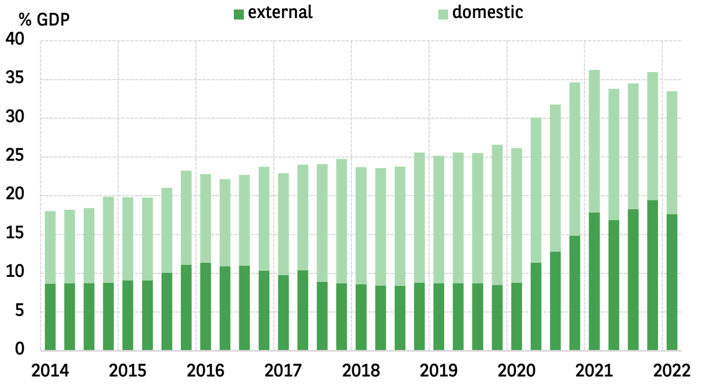

CHART 2 SOURCE: CENTRAL RESERVE BANK OF PERU, BNP PARIBAS

SAUDI ARABIA

FISCAL REFORM IS ONGOING

The economic recovery should be sustained in 2022 due to the sharp increase in hydrocarbon production following the OPEC+ agreements and due to stronger growth in household consumption. The current oil trend is favourable to public finances, while the process of fiscal consolidation and revenue diversification is expected to continue. It has already led to a significant reduction in the fiscal breakeven oil price and therefore less exposure to oil market volatility. In the meantime, tensions have emerged on the interbank market and have required an injection of liquidity by the central bank. The fast growth in bank lending and less pro-cyclical management of budget surpluses have forced banks to use external resources, and therefore to reduce their net external assets, in order to finance their activity.

STRONG REBOUND IN ACTIVITY

Economic growth is expected to reach 7.4% in 2022, mainly thanks to the increase in oil production. After a year of near stability in 2021 (+0.2%), the gradual increase in production quotas agreed by OPEC+ (OPEC member countries and Russia) should lead oil GDP (around 40% of total GDP) to grow by 14% in 2022. The increase in hydrocarbon production is also driven by the need to at least partially compensate for the reduction in Russian production. As a producer with most of the spare production capacity in the cartel, Saudi Arabia is the main contributor to the increase in production quotas.

Non-oil GDP is expected to grow by around 3.7% in 2022, driven mainly by household consumption. It is benefiting from the improving labour market and moderate inflation pressure. The unemployment rate has been steadily falling since 2020 and reached 10.1% of the labour force in Q1 2022. There has been a significant increase in women's employment since the implementation of favourable policies. Women's participation in the labour force grew from 19% in 2017 to 36% in 2021. Furthermore, the end of travel restrictions linked to the pandemic and the economic recovery in non-oil sectors should support the return of expatriates (the number of which had fallen by 4.6% in 2021). The increase in household credit (+17% year-on-year in December 2021) also drives private consumption.

The role of public expenditure in economic growth is changing. The government wants to reduce its very pro-cyclical nature, which has tended to favour overheating of the economy during periods of high oil incomes. Thus, despite favourable oil market and therefore rising budgetary income, budgetary expenditure should only rise moderately.

From a sector-based perspective, activity should be driven by services (particularly leisure, in the broad sense) and construction, supported by the Vision 2030 development programme, which aims to diversify the economy and develop infrastructure.

In 2023, economic growth should reach 3.3%, given the small increase in oil production (+2.2%). Non-oil growth is expected to strengthen to 4.1%.

FORECASTS

	2019	2020	2021	2022e	2023e
Real GDP growth, %	0.4	-4.1	3.3	7.4	3.3
Inflation, CPI, year average, %	-1.2	3.4	3.1	2.7	1.7
Central. Gov. balance / GDP (%)	-4.5	-11.2	-0.8	10.8	8.5
Central. Gov. debt / GDP (%)	23	32	30	25	24
Current account balance / GDP (%)	4.8	-3.2	6.8	14.3	9.2
External debt / GDP (%)	24	30	37	30	31
Forex reserves (USD bn)	500	454	456	539	582
Forex reserves, in months of imports	27	30	27	26	26

TABLE 1

e: ESTIMATE & FORECASTS
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

SAUDI ARABIA: FISCAL BALANCE

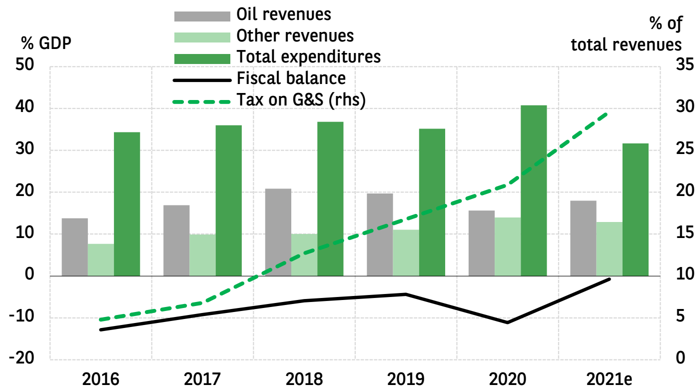

CHART 1

SOURCE: MINISTRY OF FINANCE, BNP PARIBAS

MODERATE INFLATION

Like most Gulf countries, inflation pressures should remain moderate in 2022. Consumer price inflation has stabilised at an annual rate of 2.2% in May 2022. Food prices were the main driver of inflation (+4.6% in May), while energy prices were virtually stable (+0.15%) thanks to continued government subsidies. In June 2021, the government introduced a cap on the increase in gasoline prices; it has borne the cost of any rise since then (the price of Brent rose by around 45% during this period). Rents (21% of the price index) have risen since March but only very slightly (+0.5% in May). More generally, the appreciation of the US dollar (to which the riyal is pegged) against major currencies is an important factor in moderating inflation.

FISCAL SURPLUSES AND REFORMS

In 2022, the Saudi public finances are expected to post their first surplus since 2013. Changes in the global oil market between 2015 and 2019 and the impact of the pandemic on activity in 2020 have weighed heavily on oil budget revenues. The budget deficit averaged

9.9% of GDP between 2015 and 2020. After an almost balanced budget in 2021, the increase in oil income should lead to a surplus of 10.8% of GDP in 2022. Assuming oil prices remain high in 2023, the surplus is expected to reach 8.5% of GDP.

The difficult period from 2015 to 2020 had a positive impact on public finances by forcing the government to take measures of fiscal consolidation and revenue diversification. The introduction of VAT in 2018 and the increase of its rate to 15% in 2020 had a strong impact on diversification. The share of taxes on goods and services increased from 7% of total fiscal income in 2017 to 26% in 2021. In addition, budgetary discipline has improved noticeably with the implementation of a medium-term fiscal stability program. Government spending should be equivalent to around 32% of GDP in the period 2021-2023 compared to an average of 37% in the period 2015-2020. Current expenditure is expected to rise slightly, while capital expenditure is expected to continue to fall. With regard to investment, the government's willingness is to transfer some of them to the Public Investment Fund (PIF), the Saudi sovereign wealth fund, as well as to develop partnerships with the private sector. This combination of factors translates into a sharp drop in the fiscal breakeven oil price. It has fallen from an average of USD 91/b in 2014-2018 to an expected USD 63/b in 2022. In this context, fiscal performance should be less exposed to oil market volatility, even if there will continue to be significant fiscal dependence on oil income in the medium term.

Government debt should decline thanks to fiscal surpluses. However, due to active debt management, the reduction will be slower than the expected budget surpluses suggest. After it reached a peak of 32% of GDP in 2020, government debt is expected to reach 24% of GDP in 2023. Even when there is a budget surplus, the government continues to issue debt in order to optimise its profile, to extend its average maturity (which already increased from 7.9 to 9.5 years between 2018 and 2021) and to reduce its cost (from 2.91% to 2.77% between 2018 and 2021). The government's solvency is therefore improving even though its net assets remain relatively modest. Government assets held at the central bank (assumed to be the most liquid) were equivalent to 18% of GDP in 2021, while assets held by the PIF were estimated to be around 55% of GDP in 2021.

TENSIONS ON DOMESTIC LIQUIDITY

Paradoxically, tensions over interbank liquidity have emerged since the start of the year despite the rise in oil income (which is traditionally associated with increased liquidity in the economy). The interbank interest rate (SAIBOR) has risen sharply since the beginning of the year (from 0.9% to a peak of 3.3% at the end of June) and reached its highest level since the financial crisis in 2008. Furthermore, the ratio of excess banking liquidity placed at the central bank (securities and REPO contracts) as a percentage of the money supply (M2) is currently at an all-time low (1.9% in May compared with 5.8% on average in 2021). In order to reduce liquidity pressure, the central bank injected USD 13 billion (2.2% of total bank deposits) into term deposits in the banking system in June 2022.

The main cause of these liquidity pressures has been the decoupling since March 2020 of the increase in credit to the private sector (+14.4% on average) with that of deposits (+9.4% on average). If banks do not access other resources (e.g. by issuing securities in the local market), this gap leads to a deterioration in banks' net external position since they must find external resources to meet the demand for credit. Banks' net external assets reached USD 8.9 billion in May 2022 compared to USD 30 billion in mid-2020. Credit growth is particularly strong in consumer credit (+17% year-on-year in 2021) and real estate credit, which represents 29% of credit to the private sector (+28% in Q1 2022).

SAUDI ARABIA: COMMERCIAL BANKS' BALANCE SHEET, MAIN ITEMS

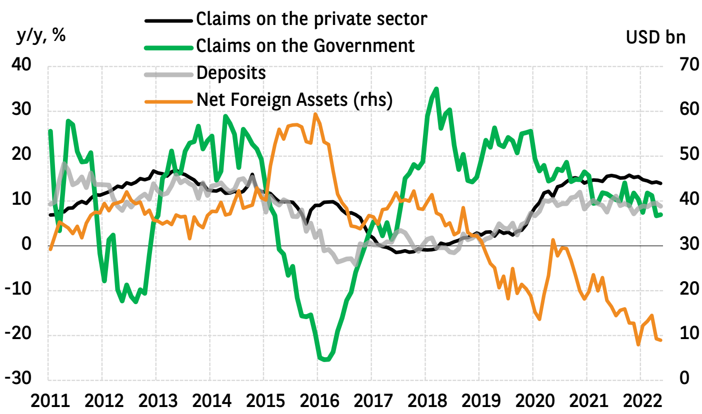

CHART 2

SOURCE: CENTRAL BANK, BNP PARIBAS

Furthermore, the change in the management of the budget surplus by the government could amplify this disconnection between banking claims and resources. In order to limit the effects of overheating caused by the injection of liquidity related to oil income, fiscal surpluses will be held in a government current account at the central bank instead of being partially deposited in the banking system. For the moment, the effects of this policy cannot be seen. The share of government deposits in total bank deposits remained stable (26% in May 2022). In the medium term, this policy should help to reduce the dependence of economic activity on the oil economy. In the short term, however, if it entails a slowdown in credit to the private sector due to a lack of local resources and the will to preserve banks' net external positions, it could be a constraint on non-hydrocarbon GDP growth.

Article completed on 1 July 2022

Pascal DEVAUX
pascal.devaux@bnpparibas.com

ANGOLA

PERSISTENT VULNERABILITIES

Following five consecutive years of recession, Angola's economic outlook is brightening: the country should return to growth, expected to be +3% in 2022, benefiting from a favourable economic situation marked by the upward trajectory of the oil price and a resumption of national production of hydrocarbons. The resulting increase in budget revenues and exports should support the kwanza. This dynamic is helping to ease the pressures on the country's external financing needs and debt sustainability, which has improved thanks to the reprofiling agreement concluded with China in early 2021. Nevertheless, the Angolan economy remains prone to significant vulnerabilities. The authorities should pursue reform efforts by taking advantage of the current situation in order to reduce the country's economic dependence on the oil cycle.

A PROMISING OUTLOOK

The impact of the Covid-19 crisis has resulted in a significant shock to the already fragile Angolan economy. With the sharp downward correction in oil prices in 2015, the country had recorded negative economic growth between 2016 and 2019 (-1.4% per year on average). The collapse in oil revenues, together with the decline in production, had repercussions for the whole economy. The oil sector accounts for over 90% of exports, 60% of budget revenues and 30% of GDP.

In 2020 and 2021, the deterioration in liquidity and solvency indicators was contained thanks to the support of i) multilateral creditors and in particular the IMF via the disbursement of the extended fund facility and the allocation of SDRs and ii) the G20 with the Debt Service Suspension Initiative. Moreover, the debt reprofiling agreement approved by China has significantly relieved pressure on liquidity and the risk of debt distress. In total, these initiatives represent a saving of some USD 7 billion over 2020-2022.

During 2021, the effects of the Covid-19 crisis eased off and the macroeconomic and financial outlook for Angola improved. The return to growth has been based on private consumption thanks to the lifting of restrictions, despite strong inflationary pressures. The non-hydrocarbon sectors contributed significantly to growth: +13.5% for the trade sector, +28.9% for transport, +46.5% for the fishing industry. The negative contribution of the oil sector declined.

The momentum should continue over the coming months with expected growth of +3% in 2022, its highest recorded level since 2014. Oil production, which had been in continuous decline since the end of 2017, has been on the rise since the second half of 2021 with an increase of +8% year-on-year in May 2022. In Q1 2022, the Business Confidence Index (BCI) was in positive territory for the second consecutive time in over 6 years with an improvement of 5 points compared to Q4 2021. Additionally, the reform efforts undertaken by the government of João Lourenço are starting to pay off. The first IPO of the BAI bank in early June is an illustration of this, testing investor appetite and opening up the market for future privatisations of public companies such as Sonangol and Endiamia.

The improved outlook for Angola has been reflected in a strong appreciation of the kwanza, which has gained around 19% against the dollar since the start of the year, making it the best performing currency against the greenback. Since 2019, the gradual liberalisation of the foreign exchange market has also enabled the kwanza to serve as an adjustment variable and to contain the deterioration in the level of foreign exchange reserves of the central bank.

FORECASTS

	2019	2020	2021	2022e	2023e
Real GDP growth, %	-0.7	-5.6	0.6	3.0	3.3
Inflation, CPI, year average, %	17.1	22.3	25.8	23.6	14.6
Gen. Gov. balance / GDP (%)	0.7	-1.9	2.8	1.2	0.8
Gen. Gov. debt / GDP (%)	113.6	136.8	86.3	59.9	57.3
Current account balance / GDP, %	6.4	1.5	11.3	3.6	1.9
External debt / GDP, %	78.7	125.9	95.1	82.0	81.1
Forex reserves, USD bn	14.0	11.0	12.1	10.3	10.6
Forex reserves, in months of imports	12.4	7.4	8.1	7.5	7.8

e: ESTIMATE & FORECASTS

TABLE 1 SOURCE: BNP PARIBAS ECONOMIC RESEARCH

ANGOLA: FAVORABLE GROWTH PROSPECTS

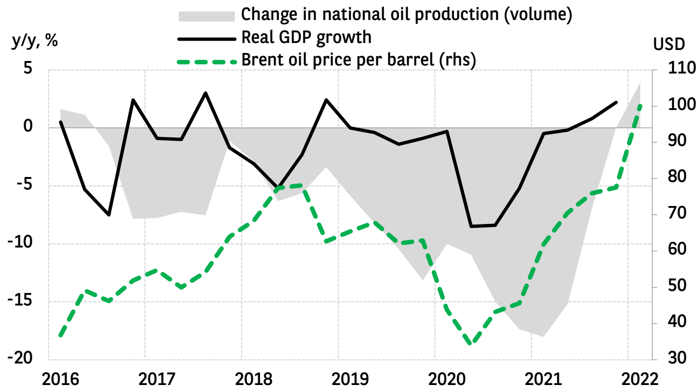

CHART 1 SOURCE: IMF, JODI, ANGOLAN NATIONAL AUTHORITIES

All of these factors have helped to bolster investor confidence and significantly lower the risk premium on sovereign bonds. The Angolan state also managed to issue USD 1.75 billion on the international bond markets in April 2022. The bond, with a maturity of 10 years, was issued at a rate of 8.75%, so slightly higher than the rate of its bond issue in 2019 (8%), the date of its last issue with an equivalent maturity. The transaction recorded a subscription rate of 200%, illustrating the continued appetite of investors for the Angolan signature.

General elections are scheduled for 24 August 2024. President João Lourenço could remain in power and retain a majority in parliament. Nevertheless, questions remain about the government's ability to continue and to accelerate the reforms in progress, in order to permanently resolve the country's vulnerabilities.

THE NEED TO CONTINUE WITH REFORMS

Angola's budget fundamentals continue to be extremely fragile. The public debt to GDP ratio fell in 2021 after reaching over 135% of GDP in 2020 and it is expected to continue to fall in 2022. Nevertheless, this decrease is closely linked to the appreciation of the exchange rate given that 4/5 of public debt is denominated in foreign currency. Furthermore, the cost of debt continues to be a concern. The increasing reliance on private commercial credit over the past decade has resulted in an increase in total debt servicing. During the crisis in 2020, it represented more than 100% of revenue. Although pressures have eased significantly, debt servicing will continue to absorb around 50% of budget revenues in the medium term. This ratio is already higher than the prudential threshold recommended by the IMF and the situation is all the more worrying as the State's capacity to sustain resources remains limited.

Firstly, the official objective of reaching oil production capacities of 1.3M barrels per day (b/d) over the next 3 years may not be achieved given the ageing of infrastructure and the lack of new investment in the sector. According to the Angolan national petroleum agency, exploration and production expenditure has fallen by 77% over the past 5 years. In H1 2022, production (1.2M b/d) was 35% lower than the 2015 average level. The possible repercussions related to technical problems in the implementation of new projects could prevent current production levels from being maintained. In addition, 60% of production is already allocated to China in return for older project financing agreements, based on a Brent price that is lower than the current price. Therefore the rise in prices only benefits the 40% of production that is intended for the open market. Moreover, refining capacities are still very limited and the rise in Brent prices increases the import bill.

Secondly, the reforms undertaken since 2018 under the IMF programme to reduce the Angolan economy's vulnerability to changes in the oil price are still insufficient. Reducing the pro-cyclical nature of economic activity requires an increase in the proportion of investment in the less volatile non-hydrocarbon sectors. Reforms aimed at promoting the country's openness to private investors are moving in this direction, with the desire to benefit from the financial resources of the private sector in order to promote a more sustainable growth model. The privatisation programme implementation rate reached 67% in June. Nonetheless, the country still suffers from a lack of attractiveness for bringing in foreign investment flows, which remain negative (-6.4% of GDP in 2021). These flowscontinue to be concentrated in the hydrocarbons sector and reflect the repatriation of revenues from the oil companies.

Reform efforts need to continue. In particular, improving the business climate and reducing red tape are necessary to attract a broader investor base and promote the development of the non-hydrocarbon sectors.

Article completed on 30 June 2022

Perrine GUERIN
perrine.guerin@bnpparibas.com

ANGOLA: ENDURING VULNERABILITIES

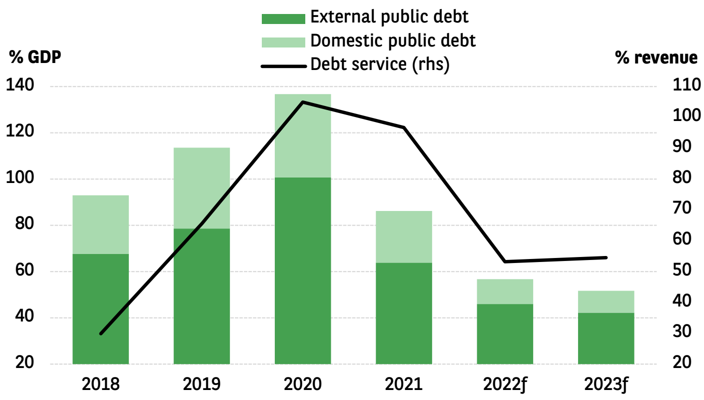

CHART 2
SOURCE: IMF, BNP PARIBAS

NIGERIA

MIXED PROSPECTS

The Nigerian economy is experiencing mixed fortunes. Its low level of oil production does not allow it to benefit fully from the rise in oil prices. The current account balance is expected to return to a surplus this year, though the persistence of a rigid exchange rate regime continues to weigh on the economy's attractiveness and the availability of liquidity in dollars. The commodity price shock is exacerbating already strong inflationary pressures, and the budget deficit will remain high due to the continuation of an energy subsidies policy that has become too expensive. For the time being, this is not jeopardising the strength of the economic recovery. However, the weakening macroeconomic stability leaves the economy vulnerable to further setbacks in the future.

As the largest oil producer in sub-Saharan Africa, Nigeria should benefit from the current global context. However, while growth prospects are positive, gains in terms of macroeconomic stability will be modest. The poor performance of the oil sector is one of the main reasons. Crude oil production (excluding condensate) has just reached a low point of only 1.2 million barrels per day in May 2022, compared with a quota set in the OPEC+ agreements of 1.76 million barrels per day. Since early 2020, the country has been unable to meet its targets due to repeated technical incidents and insecurity. Even if we factor in an improvement in the coming months, total oil production is expected to reach an average of 1.6 million barrels per day this year at best, a level similar to 2021 but 20% lower than in 2019. Added to this are imbalances caused by economic policy inertia. Admittedly, the country's Central Bank has just raised its key rate, but the timing raises questions. Furthermore, it still does not seem ready to relax its foreign exchange regime despite significant, lingering dysfunctions. Above all, the decision to postpone the reform of the oil subsidy system to mid-2023 will weigh considerably on Nigeria's public finances.

FORECASTS

	2019	2020	2021	2022e	2023e
Real GDP growth, %	2.3	-1.9	3.4	3.4	3.2
Inflation, CPI, year average, %	11.5	13.2	17.0	17.9	14.9
Gen. Gov. balance / GDP (%)	-4.7	-5.7	-5.9	-5.5	-5.4
Gen. Gov. debt / GDP (%)	25.0	29.4	30.0	31.1	31.7
Current account balance / GDP, %	-3.6	-3.9	-0.4	0.9	1.2
External debt / GDP, %	17.9	19.4	20.7	18.0	16.0
Forex reserves, USD bn	38.3	36.7	40.4	43.7	48.3
Forex reserves, in months of imports	4.6	6.1	7.3	7.0	8.3

e: ESTIMATE & FORECASTS

TABLE 1 SOURCE: BNP PARIBAS ECONOMIC RESEARCH

INFLATION: THE CENTRAL BANK FINALLY REACTS

Inflation was already a problem before the conflict began in Ukraine. It has worsened since then. The rise in the Consumer Price Index (CPI) reached 17.7% year-on-year (y/y) in May 2022, and should soon exceed the last peak of 18% reached in the first quarter of 2021 (chart 1). Nigeria is a net importer of food and is therefore heavily impacted by the surge in international commodity prices. In addition, food accounts for 51% of the consumer basket. Therefore, rising food prices (19.5% y/y in May) largely explain the strong inflationary pressures, but not only. Excluding food, inflation is also rising (14.9% in May compared to 13.8% in January), notably due to the energy shock. In fact, while petrol prices are stable thanks to the system of subsidies, gas and diesel prices are deregulated. Yet approximately 70% of the gas consumed is imported, while diesel is widely used to compensate for the deficiencies of the national electricity network.

Against this backdrop, the Central Bank raised its key rate by 150 basis points to 13% in May. This decision came as a surprise – it was the first rate hike since mid-2020, and we have to go back as far as July 2016 to see the Central Bank tighten its monetary policy, despite inflation consistently remaining above its target (6-9%). Should this be interpreted as a shift towards greater discipline? It is difficult to say. The Central Bank is simultaneously pursuing objectives that could conflict with the fight against inflation, starting with its continuing policy of supporting certain sectors via subsidised loans. Severe dysfunctions caused by the exchange rate system are another example. In any case, further rate hikes will be necessary if the Central Bank wants to reanchor inflationary expectations. But visibility is limited.

NIGERIA: MONETARY ENVIRONMENT

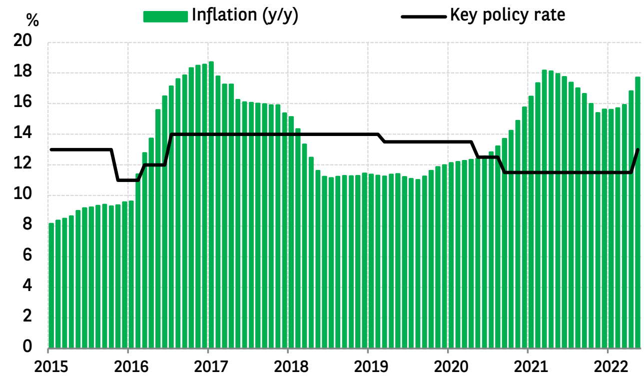

CHART 1 SOURCE: CENTRAL BANK, NBS, BNP PARIBAS

MACROECONOMIC STABILITY: STILL FRAGILE

The surge in oil imports is weighing on the recovery in external accounts, but the current account deficit is narrowing and Nigeria should be able to achieve a current account surplus this year. Nevertheless, external liquidity problems persist. Forex reserves fell to a low point of USD 33.7 bn in March 2020, but then stabilised at around USD 35 bn. However, this stabilisation was achieved at the cost of strict foreign currency rationing and a strong compression of imports. After rising to

USD 41.5 bn in September 2021 thanks to both the IMF's allocation of Special Drawing Rights and a large issue of Eurobonds, forex reserves have fallen again since October (USD 38.4 bn in May). The gap between the official exchange rate and the parallel (black market) rate also widened to over 40% today compared to 22% in mid-2021 (chart 2).

The monetary authorities' willingness to preserve a stable exchange rate (despite some adjustments) continues to weigh heavily on the amount of US dollar liquidity available in the economy. This shortage has a knock-on effect on inflation insofar as large parts of the economy have turned to the black market to purchase imported products. This also weakens Nigeria's financial attractiveness. Capital inflows collapsed further in 2021 after the shock of 2020, dropping from USD 23.7 bn in 2019 to USD 6.7 bn in 2021. The situation is unlikely to improve much in the short term, given the tightening of global liquidity. The authorities already issued Eurobonds in March 2022, but the widening of Nigerian sovereign bond spreads (EMBI) by 344 basis points (bps) since April reflects increased investor mistrust. They have now reached 962 bps, one of the highest spreads among African issuers.

While foreign capital inflows are likely to remain depressed, Nigeria is also exposed to the risk of short-term capital outflows due to US monetary policy tightening and rising risk aversion among international investors. Indeed, the total stock of « hot money » (portfolio investment stock and short-term debt) remains significant, equivalent to 44% of forex reserves at the end of 2021.

The situation of public finances is even more worrying. The heavy burden of energy subsidies and the drop in oil production meant the Nigerian government did not benefit from the rise in oil prices in 2021. This will remain the case in 2022. The cost for the Nigerian National Petroleum Corporation under the country's energy policy is expected to reach almost 2% of GDP, i.e more than 20% of the government's total revenue. Excluding hydrocarbons, revenue is structurally weak (less than 5% of GDP), and flexibility is limited due to the extremely low level of capital spending (around 2% of GDP). Despite the sharp rise in nominal GDP, public finance indicators will therefore remain deteriorated this year. The budget deficit is expected at 5.5% of GDP in 2022, and public debt is set to rise slightly to 31% of GDP. At this stage, debt sustainability is not under threat, especially since its structure is favourable (70% of debt outstanding is denominated in local currency) and Nigeria does not have significant Eurobond debt amortization in the short term. Nevertheless, the debt dynamics is a source of a concern – public debt stood at only 13% of GDP in 2014 – and its significant cost hampers the government's room for manoeuvre and its ability to cope with further shocks. More than 30% of government revenue is now allocated to debt interest payments, compared to less than 10% in 2014.

GDP GROWTH: VIGOROUS IN 2022, WITH UNCERTAINTY BEYOND

Persisting pressures on external accounts and public finances has not dampened the strength of the recovery for the time being. Real GDP growth slowed to 3.1% in Q1 2022 from 4% in the previous quarter, but this primarily reflects the 26% drop in oil GDP. Excluding hydrocarbons, momentum remained strong (up 6.1%) thanks to a good performance of services (+7.4% y/y; 54% of GDP). Leading indicators for Q2 remain rather well-oriented. Provided that oil production does not fall any further, Nigeria's growth could reach 3.4% in 2022, the same rate as 2021, which would constitute a quite remarkable performance given the dissipation of the post-Covid catch-up effect.

NIGERIA: EXCHANGE RATE

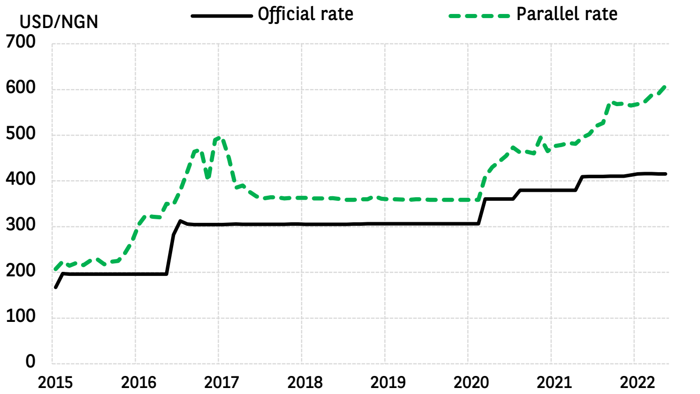

CHART 2

SOURCE: CENTRAL BANK, NAIRAMETRICS, BNP PARIBAS

Nevertheless, at this pace, it will take until 2025 for real GDP per capita to return to its 2019 level. Furthermore, in the absence of deep structural changes, Nigeria will remain exposed to oil price fluctuations.

Presidential elections will take place in February 2023. While the candidates are already known, their reform programmes are yet to take shape. The overhaul of the energy subsidy sytem should be a priority, but socially, this will remain a highly sensitive subject. For the same reasons, the governor of the Central Bank (whose term of office expires in June 2024) has continuoulsy repeated his opposition to greater flexibility in the exchange exchange system.

However, in the second half of 2022, the situation should improve once operations begin at a mega-refinery that will have sufficient capacity to cover Nigeria's oil needs. Investors' renewed interest in the country's vast gas reserves could also revitalise a sector that has been struggling for many years. But it will take much more to allow Nigeria to find its way back to over 5% economic growth, the prevailing rate at the turn of the 2010s.

Article completed on June 30, 2022

Stéphane ALBY
stephane.alby@bnpparibas.com

GROUP ECONOMIC RESEARCH

William De Vijlder Chief Economist	+33 1 55 77 47 31	william.devijlder@bnpparibas.com

OECD ECONOMIES AND STATISTICS

Hélène Baudchon Head - Eurozone, Germany - Climate	+33 1 58 16 03 63	helene.baudchon@bnpparibas.com
Felix Berte United States, United Kingdom	+33 1 40 14 01 42	felix.berte@bnpparibas.com
Stéphane Colliac France	+33 1 42 98 43 86	stephane.colliac@bnpparibas.com
Guillaume Derrien Southern Europe, Japan - International trade	+33 1 55 77 71 89	guillaume.a.derrien@bnpparibas.com
Veary Bou, Tarik Rharrab Statistics		

ECONOMIC PROJECTIONS, RELATIONSHIP WITH THE FRENCH NETWORK

Jean-Luc Proutat Head	+33 1 58 16 73 32	jean-luc.proutat@bnpparibas.com

BANKING ECONOMICS

Laurent Quignon Head	+33 1 42 98 56 54	laurent.quignon@bnpparibas.com
Céline Choulet	+33 1 43 16 95 54	celine.choulet@bnpparibas.com
Thomas Humblot	+33 1 40 14 30 77	thomas.humblot@bnpparibas.com

EMERGING ECONOMIES AND COUNTRY RISK

François Faure Head – Argentina, Turkey – Methodology, Modelling	+33 1 42 98 79 82	francois.faure@bnpparibas.com
Christine Peltier Deputy Head – Greater China, Vietnam – Methodology	+33 1 42 98 56 27	christine.peltier@bnpparibas.com
Stéphane Alby Africa (French-speaking countries)	+33 1 42 98 02 04	stephane.alby@bnpparibas.com
Pascal Devaux Middle East, Balkan countries	+33 1 43 16 95 51	pascal.devaux@bnpparibas.com
Hélène Drouot South Korea, Philippines, Thailand, Andean countries	+33 1 42 98 33 00	helene.drouot@bnpparibas.com
Perrine Guérin South Africa & English/Portuguese-speaking African countries	+33 1 42 98 43 86	perrine.guerin@bnpparibas.com
Salim Hammad Latin America	+33 1 42 98 74 26	salim.hammad@bnpparibas.com
Cynthia Kalasopatan Antoine Ukraine, Central European countries		cynthia.kalasopatan@bnpparibas.com
Johanna Melka India, South Asia, Russia, Kazakhstan	+33 1 58 16 05 84	johanna.melka@bnpparibas.com

CONTACT MEDIA

Mickaelle Fils Marie-Luce	+33 1 42 98 48 59	mickaelle.filsmarie-luce@bnpparibas.com

BNP PARIBAS

The bank
for a changing
world

GROUP ECONOMIC RESEARCH

CONJONCTURE
Structural or in news flow, two issues analysed in depth

EMERGING
Analyses and forecasts for a selection of emerging economies

PERSPECTIVES
Analyses and forecasts for the main countries, emerging or developed

ECOFLASH
Data releases, major economic events. Our detailed views...

ECOWEEK
Weekly economic news and much more...

ECOTV
In this monthly web TV, our economists make sense of economic news

ECOTV WEEK
What is the main event this week? The answer is in your two minutes of economy

MACROWAVES
The economic podcasts

POUR RECEVOIR NOS PUBLICATIONS

SUBSCRIBE ON OUR WEBSITE
see the economic research's website

ET

FOLLOW US ON LINKEDINN
wsee the economic research's linkedin page

OU TWITTER
voir la page twitter des études économiques

Bulletin édité par les Etudes Economiques – BNP PARIBAS
Siège social : 16 boulevard des Italiens – 75009 PARIS / Tél : +33 (0) 1.42.98.12.34
Internet : www.group.bnpparibas.com - www.economic-research.bnpparibas.com

Directeur de la publication : Jean Lemierre / Rédacteur en chef : William De Vijlder

BNP PARIBAS

The bank
for a changing
world