FKCCI Economic Forecast 2023

Global and Asian Economic Outlook 2023

Suppressed Recovery amid Tightening and Fragmentation

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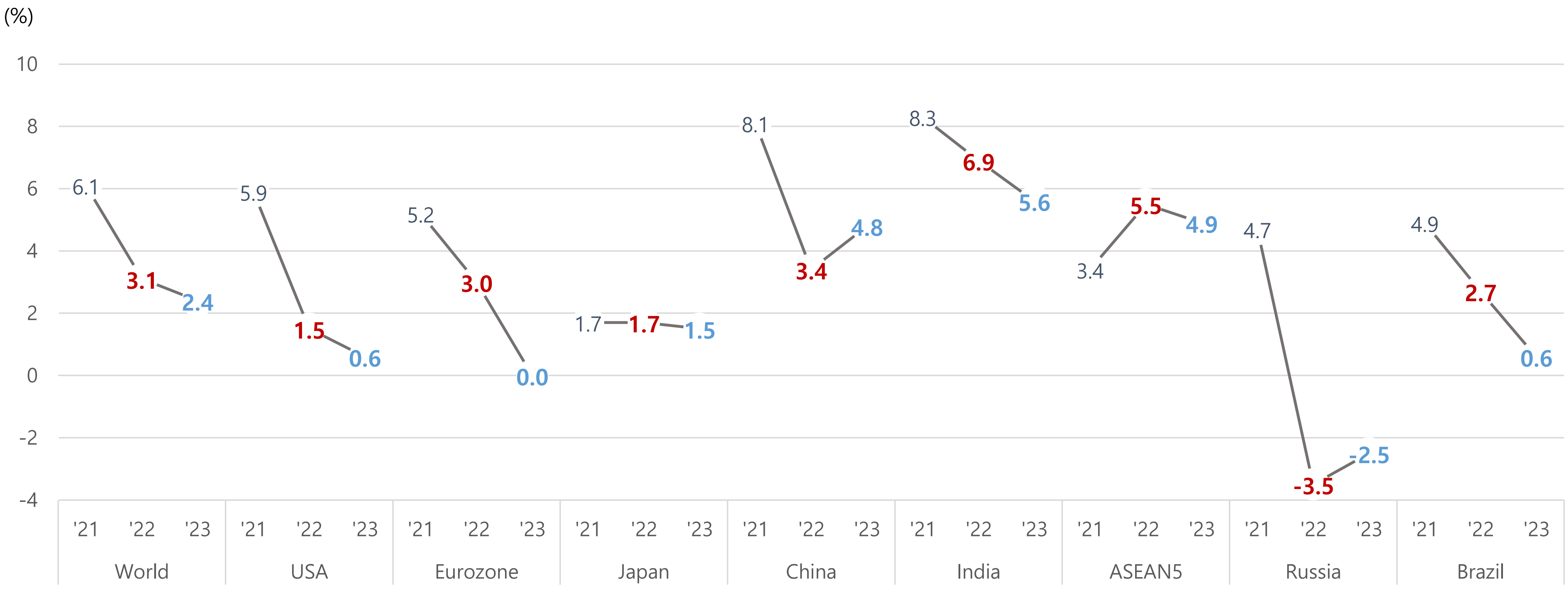
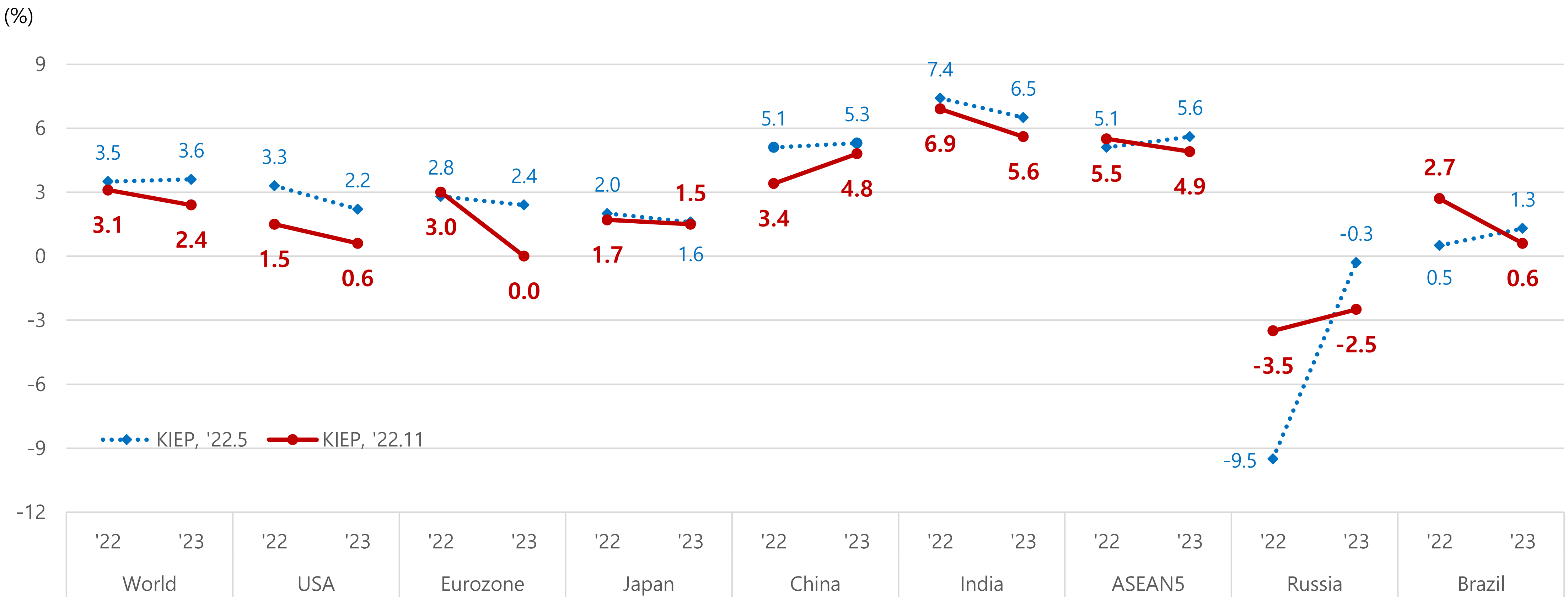
1. Overview

KIEP World Economic Outlook(November, 2022)



Note: 1) Based on PPP. 2) ASEAN5 refers to Indonesia, Malaysia, The Philippines, Thailand, and Vietnam.
Source: KIEP, World Economic Outlook (November, 2022)

Growth Forecast Updates by KIEP



Note: 1) Based on PPP. 2) ASEAN5 refers to Indonesia, Malaysia, The Philippines, Thailand, and Vietnam.
Source: KIEP.

Key Messages for Economic Outlook 2023

Suppressed Recovery amid Tightening & Fragmentation

- **Risk 1** — Interest Rate Hikes & Private-Debt Burden
- **Risk 2** — Dilemma in Fiscal Policies
- **Risk 3** — Worsening Geopolitical Risks

Rapid Policy Rate Hikes amidst Inflationary Pressure

Advanced Economies

	Adjustment Frequency, ’22-’23	Adjustment width (%p)	The Recent Adjustment Date	Current Policy Rate (%)
Sweden	2023/1	0.50	23/2/9	3
Australia	2023/1	0.25	23/2/6	3.35
Hong Kong	2023/1	0.25	23/2/2	5
UK	2023/1	0.50	23/2/2	4
Euro Area	2023/1	0.50	23/2/2	3
US	2023/1	0.25	23/2/1	4.75
Canada	2023/1	0.25	23/1/25	4.50
Korea	2023/1	0.25	23/1/13	3.50
Switzerland	3	1.75	12/15	1
Taiwan	4	0.625	12/15	1.75
Norway	6	2.25	12/15	2.75
New Zealand	7	3.25	11/23	4.25
Czech	4	3.25	6/22	7

Emerging Countries

	Adjustment Frequency, ’22-’23	Adjustment width (%p)	The Recent Adjustment Date	Current Policy Rate (%)
Mexico	2023/1	0.5	23/2/9	11
India	2023/1	0.25	23/2/7	6.50
Saudi Arabia	2023/1	0.25	23/2/1	5.25
Indonesia	2023/1	0.25	23/1/19	5.75
South Africa	2023/1	0.25	23/1/26	7.25
Thailand	2023/1	0.50	23/1/25	1.50
The Philippines	7	3.5	12/15	5.5
UAE	7	4.25	12/14	4.4
Malaysia	4	1	11/3	2.75
Chile	7	7.25	10/12	11.25
Hungary	10	10.6	9/27	13
Poland	8	5	9/7	6.75
Brazil	5	4.5	8/3	13.75
Argentina	9	37	9/15	75

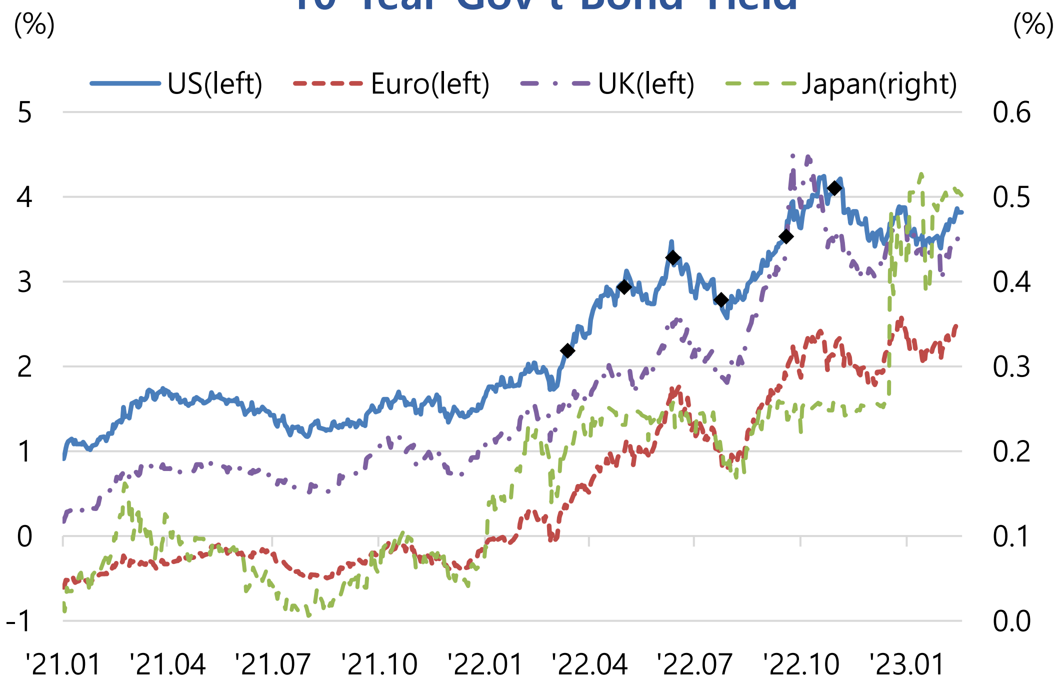
Note: 1) Classified based on IMF standards. 2) Ascending order of policy rate. 3) Japan keeps rate unchanged/ China · Russia · Turkey cut rate, worrying about economic recession
Source: IFC; Centra Banks of each country(accessed on 2023. 2. 15.)

Gradual Decline Uncertain Due to Mixed Signals on the Economic Outlook and the Pace of Tightening

✓ **Lower bounds on long-term government bond rates remain in place at least in the first half of 2023 as the pace of monetary tightening in the major advanced economies remains steady**

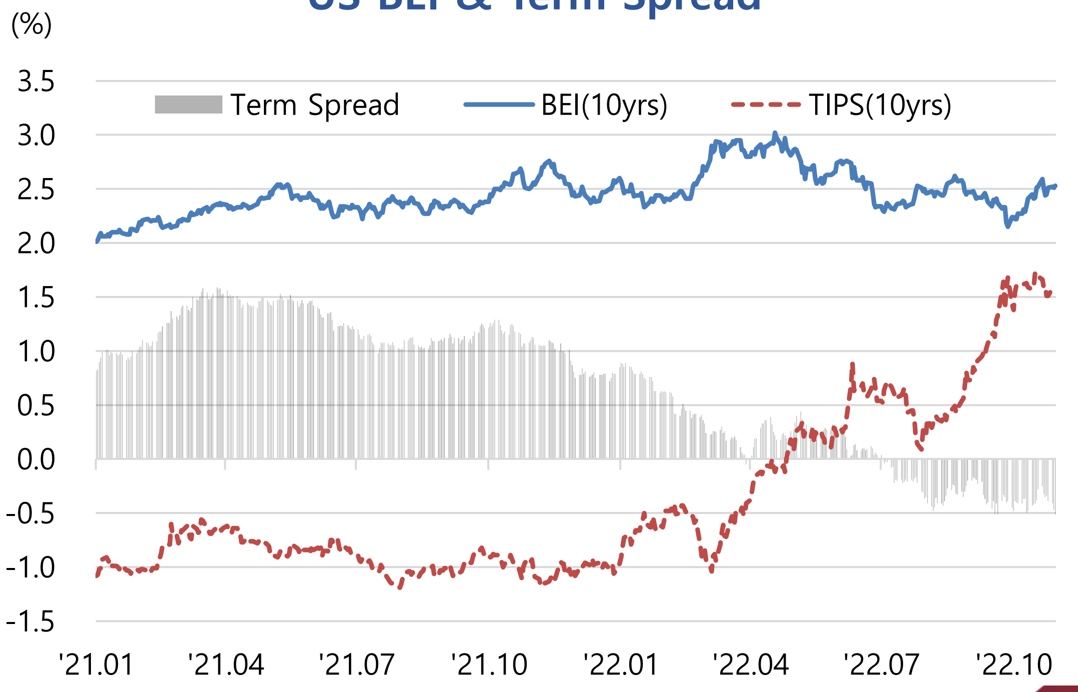
- **the pivot point of monetary policy is gradually pushed back and target rate is getting higher, with modest declines of long-term rate expected in the coming years as the economy slows and inflation moderates**

10-Year Gov't Bond Yield



Note: ◆ means Fed's Policy Rate Adjustment Date
Source: Bloomberg(accessed on : 2023. 2. 20).

US BEI & Term Spread

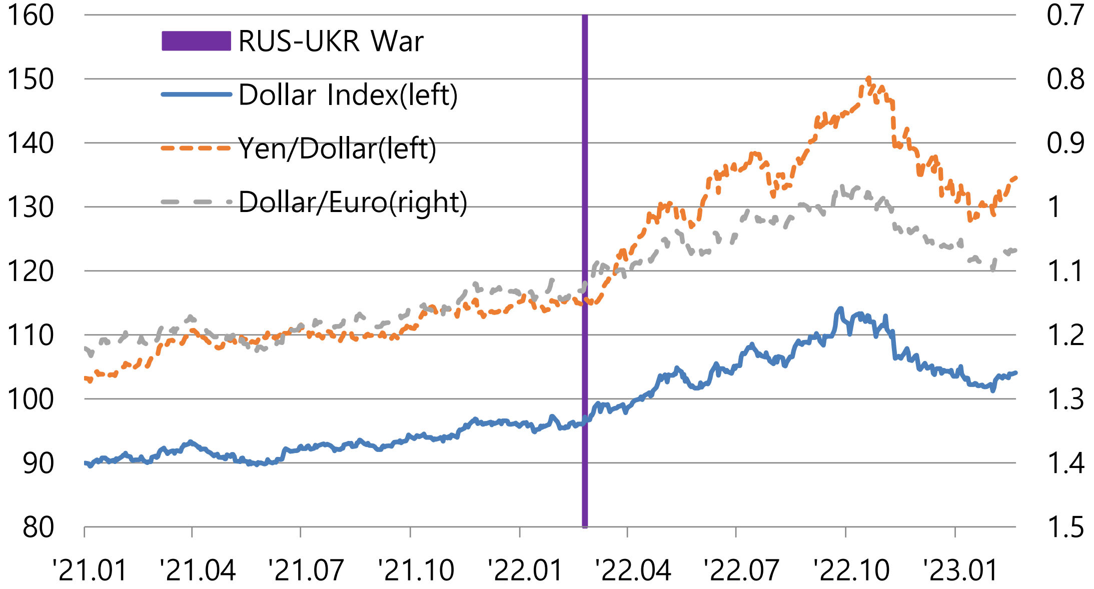


Note: Term Spread = 10yr Treasury Yield – 2yr Treasury Yield
Source: Federal Reserve Bank of St. Louis(accessed on : 2023. 2. 20).

Fed's Aggressive Tightening Provides Support for the US Dollar

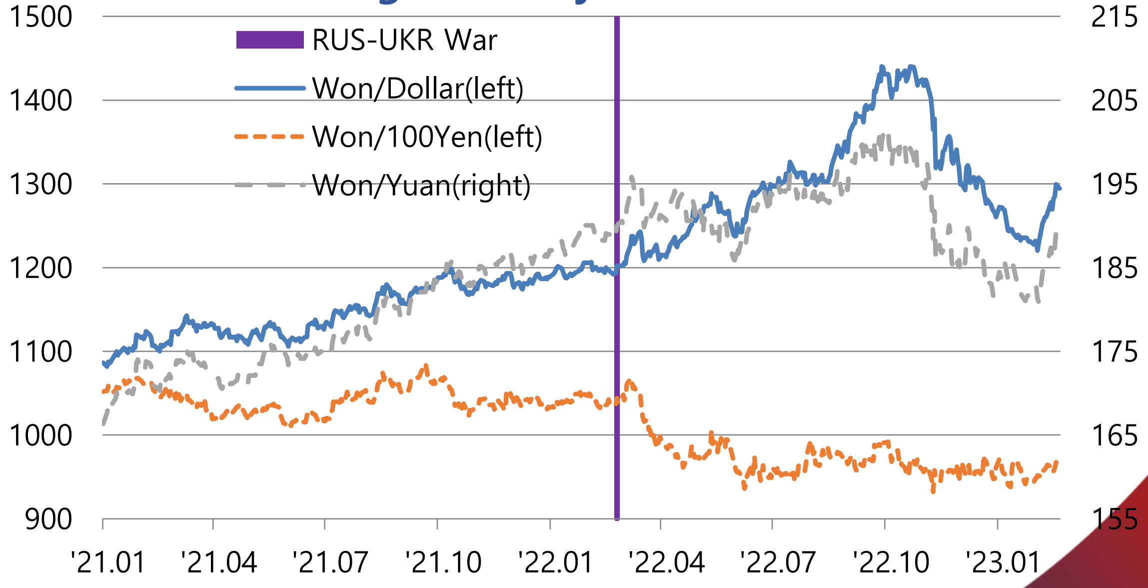
- ✓ **During 2022, U.S. monetary tightening as inflation continues, safe-asset demand amid global recession fears, rising commodity prices and increased uncertainty following the Russian-Ukraine conflict, all contributed to a stronger dollar**
  - **Fiscal consolidation issues in the UK and southern European countries, uncertainty in the Russian-Ukraine conflict, and the potential for emerging market defaults, could differentiate the U.S. economy from other economies and support a stronger dollar**
- ✓ **The Korean Won has recently become stable, but may fluctuate depending on unstable external factors and import and export performance**

Dollar Index, USD/EUR, JPY/USD



Source: Left axis(USD/EUR) is inverted; upward shift means weaker EUR
Source: Bloomberg(accessed on : 2023. 2. 20).

KRW against Major Currencies

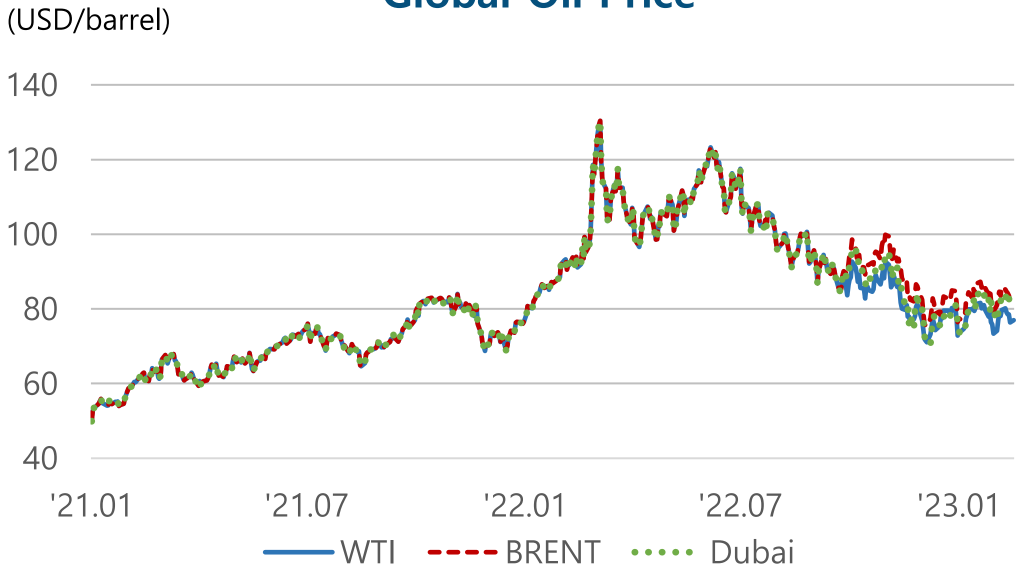


Source: Bloomberg(accessed on : 2023. 2. 20).

Supply-Side Uncertainty amid Downside Pressure

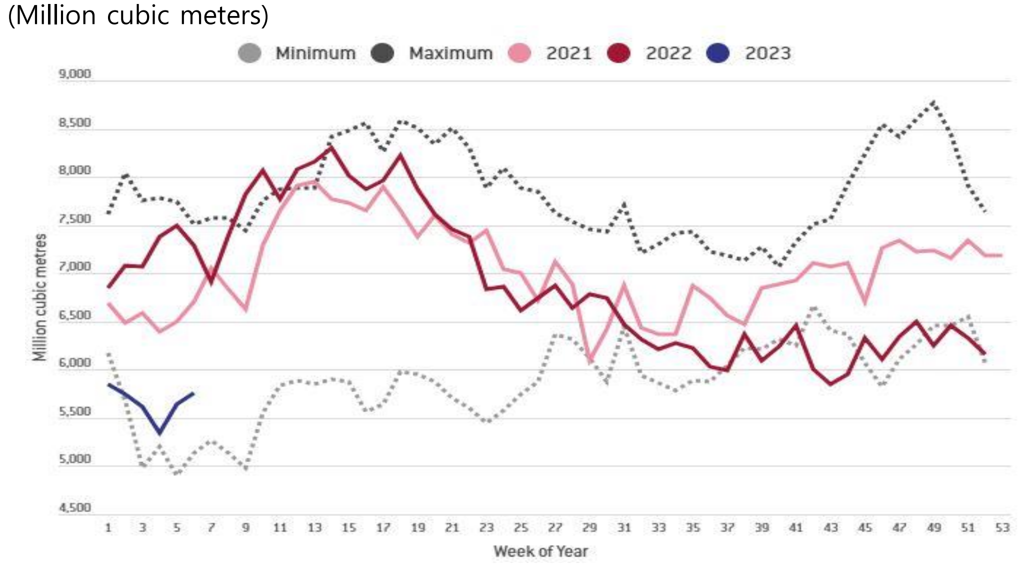
- ✓ Downward demand for oil due to delayed economic recovery in many countries
  - But demand substitution from LNG to Oil gives the upward pressure on oil price
- ✓ Reduction in oil production by OPEC+ may intensify supply side uncertainty
  - OPEC+ will cut the production if oil price drops, and supply uncertainty from the sanctions against Russia will continue
  - EU embargo on Russian oil and petroleum products in addition to G7 discussions about price cap on Russian oil will add the supply side uncertainty further

Global Oil Price



Source: Bloomberg(accessed on : 2023. 2. 20.)

Russian Natural Gas Import by EU and UK



Note: max & min calculated using 2015~2020 figures.
Source: Brugel Datasets(accessed on : 2023. 2. 20.)

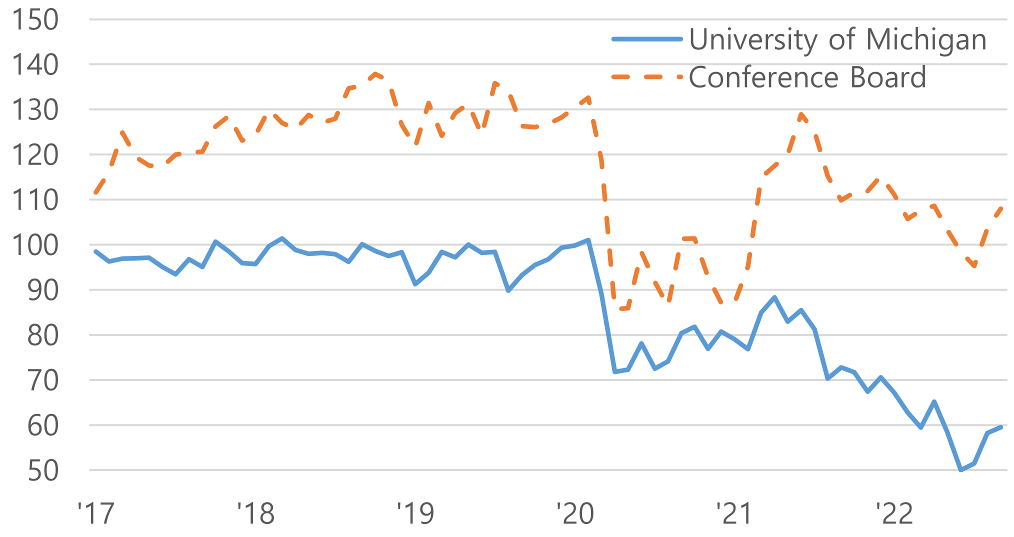
2. Outlook for Selected Economies

Economic Slowdown Due to MP Gives 0.6%

- ✓ **Private sector contraction by inflation and interest burden**
  - Consumer sentiment has recently rebounded, but indicators such as employment, housing, durable goods, and industrial production are showing mixed signals, making it difficult to assess the future of the economy
  - Possible recession during the second half as the Fed raises rates further and delays pivot timing
- ✓ **Policy constraints after mid-term election**
  - Interest burden restrains expansionary fiscal policy, with Fed expected to focus on inflation

US: Consumer Confidence Index

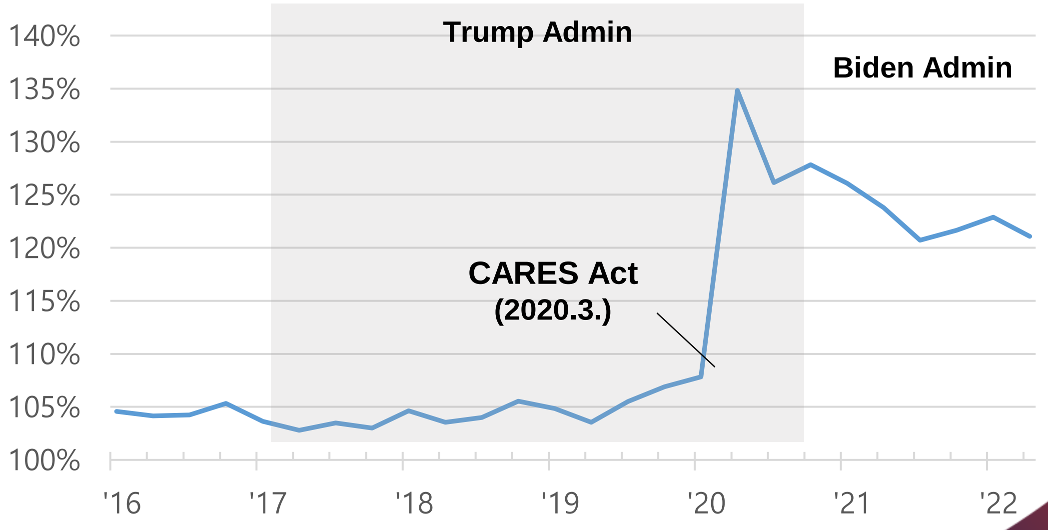
1996yr=100(the University of Michigan), 1985yr=100(Conference board)



Source: the University of Michigan; Conference board(accessed on 2023. 2. 20).

US: Gov't Debt relative to GDP

(%)

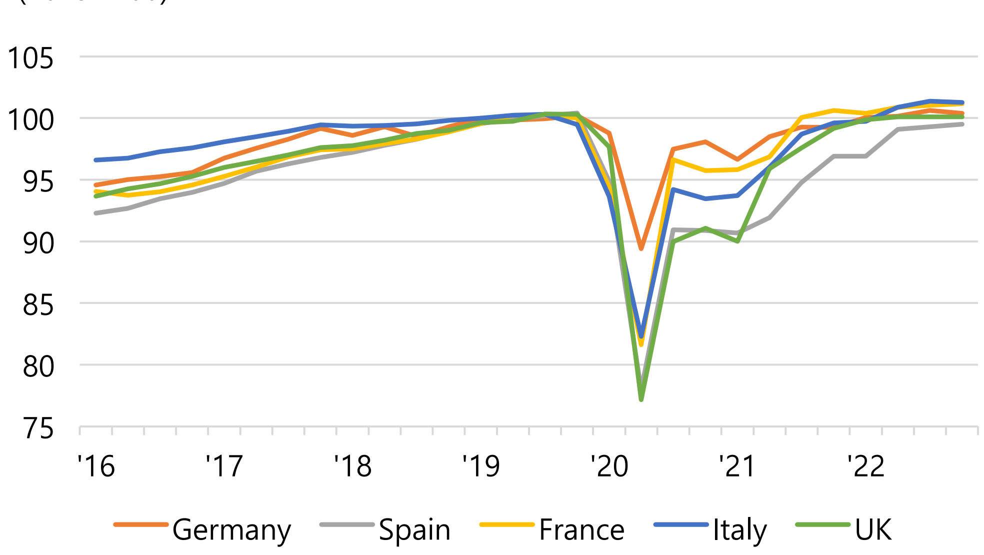


Note: Seasonally adjusted
Source: U.S. Office of Management and Budget.

Affected by RUS-UKR Crisis, 0% Growth Expected

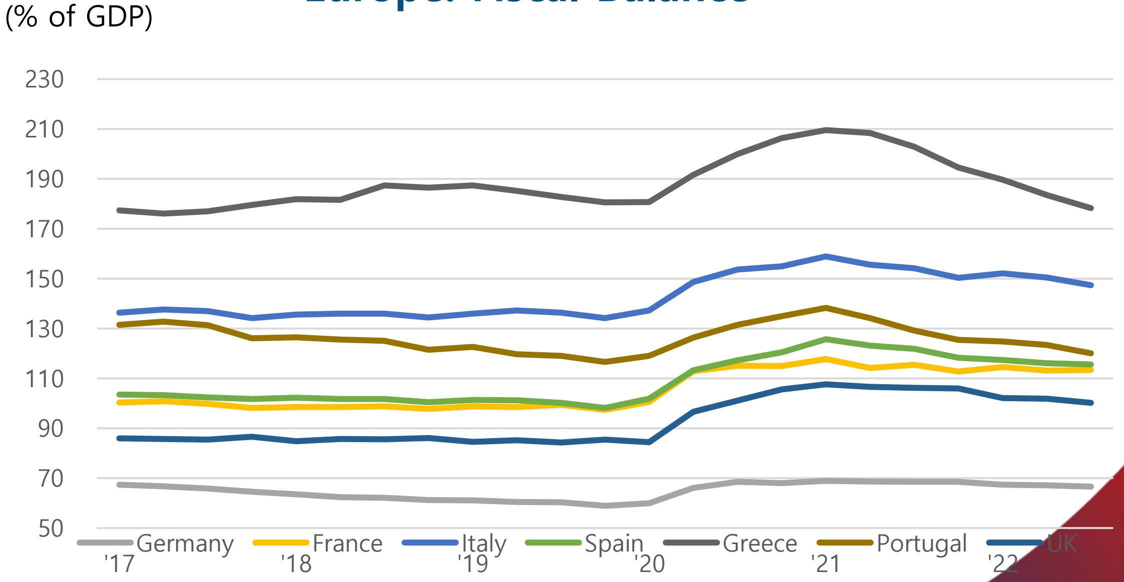
- ✓ Downside pressure from weak purchasing power by inflation, supply chain disruption and rising input cost
  - Unemployment rate improved to pre-COVID-19 levels in Euro and UK, but rising inflation puts pressure on the ECB to raise rates
- ✓ Growing fiscal burden in major countries due to prolonged RUS-UKR crisis
  - Fiscal burden grows by seeking restoration measure for disrupted supply chain including energy sector
  - National debt soared in some Southern European countries during Covid19, and worries on financial market turmoil led by misjudgment of fiscal policy could be realized, as seen in UK

Europe: Real GDP



Note: Seasonally adjusted
Source: Eurostat; Oxford Economics(accessed on 2023. 2. 21).

Europe: Fiscal Balance



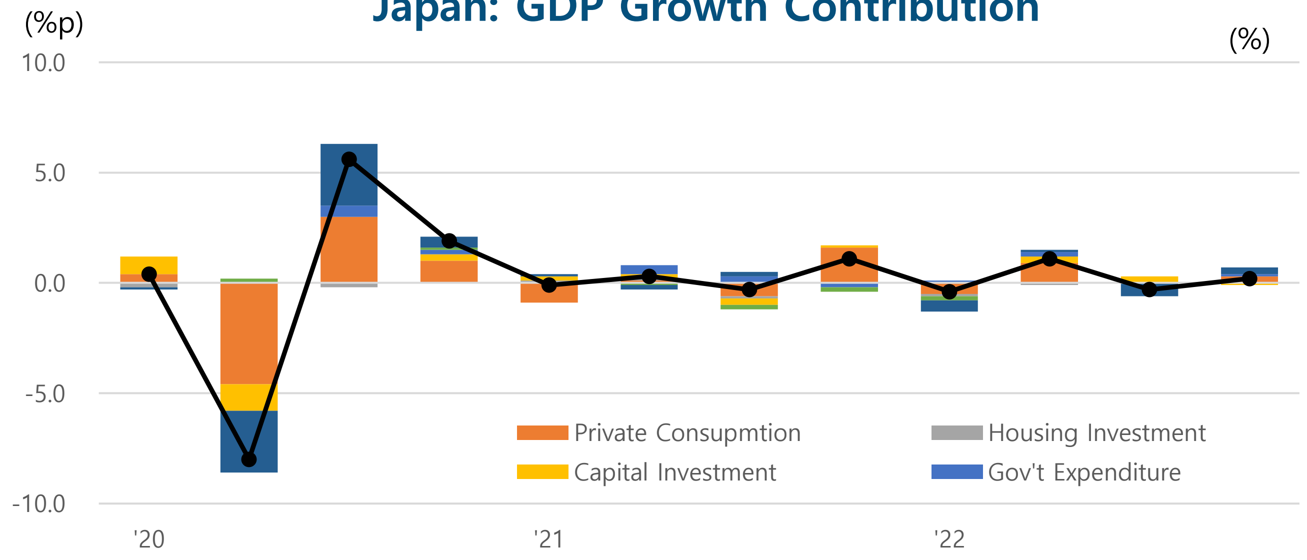
Source: Eurostat; Oxford Economics(accessed on 2023. 2. 21).

Domestic Demand-Led Growth But Limited Export, 1.5%

✓ Low growth since difficult to expand export due to global demand slowdown
  - Better private consumption and physical investment thanks to household savings and corporate profits, and Kishida gov't expansionary fiscal policy in line with Abenomics

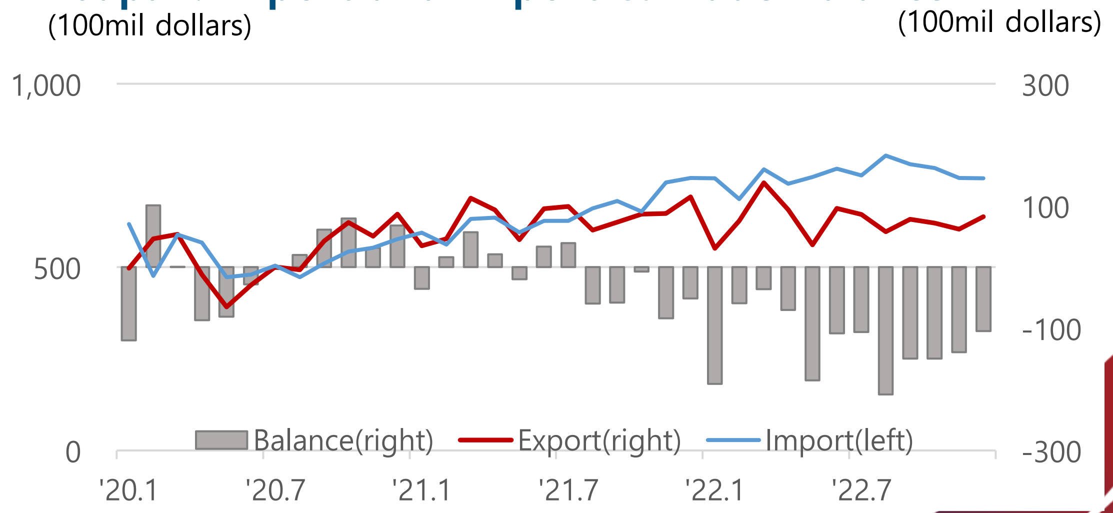
✓ Expected to maintain expansionary monetary policy, in spite of the intervention in foreign exchange market to curb soaring exchange rates
  - Bank of Japan intervened in foreign exchange market for the first time in 24 years as JPY weakened rapidly due to U.S-Japan interest rate gap
  - Yield curve control and asset purchase will continue, and new BOJ president will inherit previous policy stance while carefully watching inflation

Japan: GDP Growth Contribution



Note: Seasonal Adjustment, YOY
Source: Cabinet of Japan(accessed on 2023. 2. 21.).

Japan: Export and Import & Trade Balance



Source: JETRO(accessed on 2023. 2. 21.).

4.8% Mainly Thanks to Gov't Policy Support

- ✓ Expecting economy recovery by active monetary · fiscal policy after 20th national congress of the CCP hoping that reopening helps the economic activities
  - Stagnant real estate market and debt problem, re-proliferation of COVID, US-China conflict, and prolonged RUS-UKR crisis stay as risks
- ✓ Decrease in Chinese fiscal revenue and narrow monetary policy space because of the tight US MP will lower the effectiveness of Chinese expansionary support

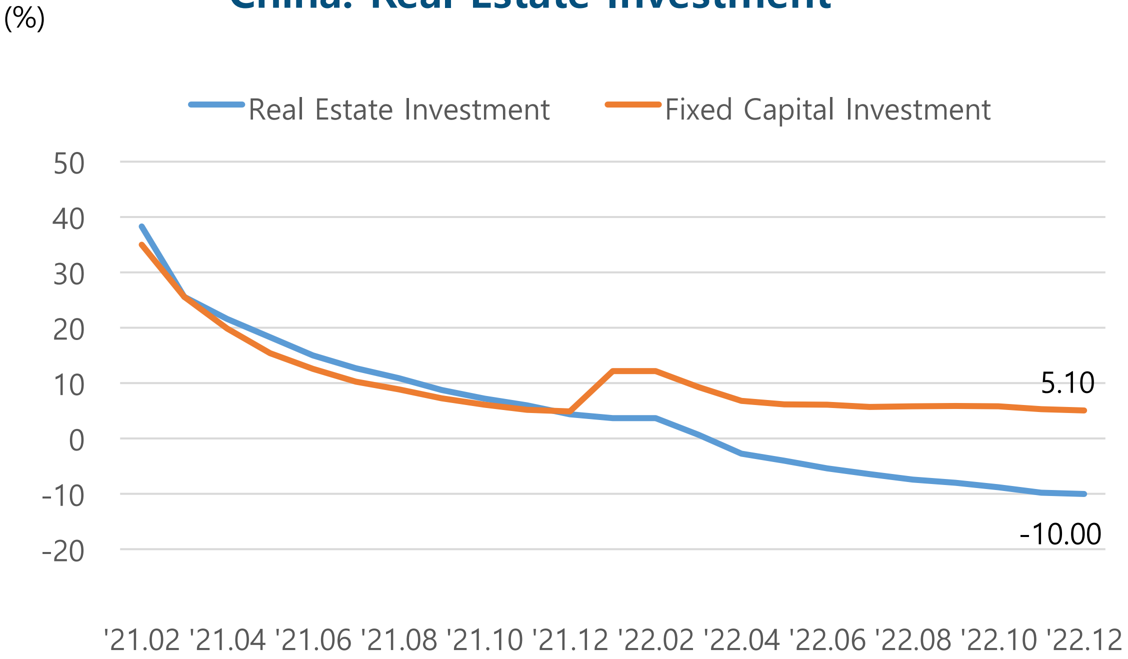
China: Major Economic Indicator

(%)

	'20	'21					'22			
		Y	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP	2.2	8.1	18.3	7.9	4.9	4.0	4.8	0.4	3.9	2.9
Retail	-3.9	3.4	33.9	14.1	4.9	3.5	3.3	-4.6	3.5	-1.8
Fixed Capital Investment	2.9	4.9	25.6	12.6	7.3	4.9	9.3	6.1	5.9	5.1
Export	3.6	21.2	49.0	38.6	24.3	23.3	15.0	12.9	10.3	-6.3
Import	-0.8	21.5	28.0	36.1	26.3	23.9	10.0	1.7	1.0	-6.2
Industrial Production	2.8	9.6	24.5	9.0	5.1	3.9	5.0	0.6	4.7	2.8
Manufacturing PMI	49.9	50.5	51.3	51.0	50.0	49.9	49.9	49.1	49.5	48.1

Note: YOY growth, Fixed Capital Investment(YTD).
Source: CEIC, General Administration of Customs, National Bureau of Statistics of China. (accessed on 2023. 2. 22.).

China: Real Estate Investment



Note: YOY Growth of YTD
Source: National Bureau of Statistics of China (accessed on 2023. 2. 22.).

Foreign Direct Investment Driven Growth by 5.6%

- ✓ Upward foreign direct investment: Indian gov't efforts to improve investment environment and relocation to India from other countries including China
  - Record high of $83.6 billion in foreign direct investment in fiscal year 2021/22, and expected to attract $100 billion in year 2022/2023
  - Modi gov't key policies: △Make in India, △Smart City Development, △Digital India, △Skill India
  - Relatively solid stock market, despite global uncertainties
- ✓ Downside: base effect in 2021 disappears, monetary tightening in major countries, and geopolitical instability

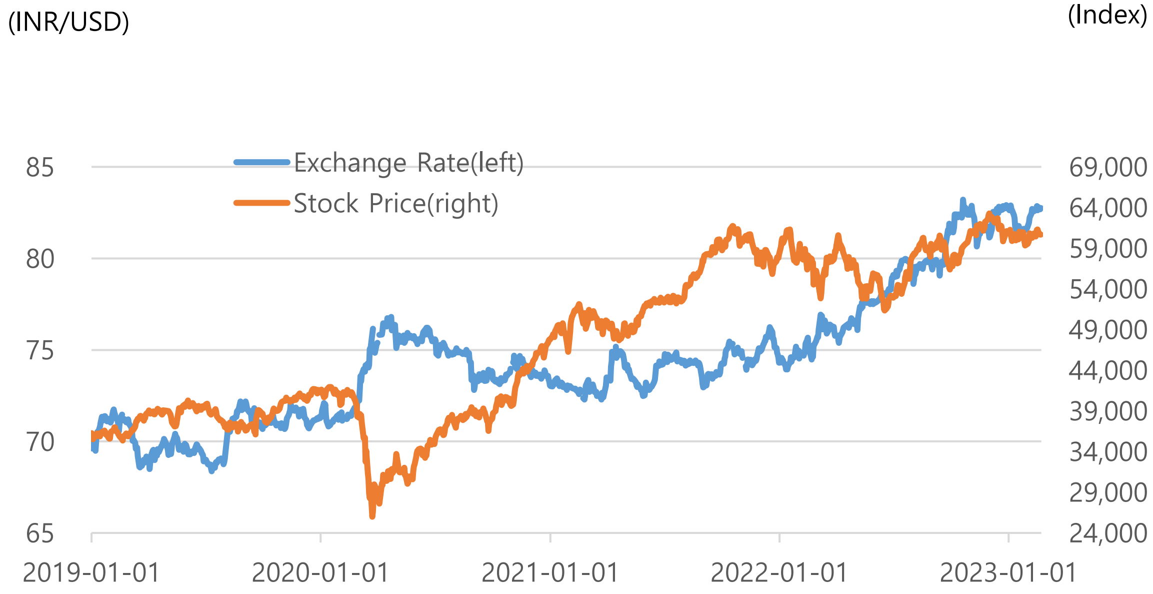
India: Growth by Component

(%)

	'20	'21					'22		
		Y	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Real GDP	-6.7	9.1	2.5	20.1	8.4	5.4	4.1	13.5	6.3
Private Consum.	-7.4	9.7	6.5	14.4	10.5	7.4	1.8	25.9	9.7
Gov't Expenditure	-0.5	9.0	29.0	-4.8	8.9	3.0	4.8	1.3	-4.4
Gross Fixed Capital Formation	-12.7	22.3	10.1	62.5	14.6	2.1	5.1	20.1	10.4
Export	-12.3	22.1	3.7	40.8	20.7	23.1	16.9	14.7	11.5
Import	-16.7	36.9	11.7	61.1	41.0	33.6	18.0	37.2	25.4

Note: YOY, based on Calendar Year.
Source: CEIC(accessed on 2022. 10. 5).

Exchange Rate and Stock Price



Source: CEIC(accessed on 2023. 2. 22).

Global Growth Slowdown vs. Chinese Reopening, 5.2%

- ✓ Stagnant global economy is affecting commodities and manufacturing goods exports negatively, therefore export-driven growth is not expected
  - Domestic demand is also harmed by high inflation, and expansionary fiscal and monetary policy in the Area are rolling Back
  - Vulnerable to international financial market volatility
- ✓ Chinese reopening and subsequent increase in demand may partly offset the effect of global growth slowdown

ASEAN5 Growth Forecasts

(%)

지역	KIEP [`22.11]		IMF [`22.10]		Oxford Economics* [`23.02]		Connect [`23.02]		ADB [`22.12]		AMRO [`23.01]	
	`22	`23	`22	`23	`22	`23	`22	`23	`22	`23	`22	`23
Indonesia	5.4	4.9	5.3	5.0	5.2	3.6	5.3	4.4	5.4	4.8	5.3	5.0
Malaysia	6.8	4.0	5.4	4.4	9.2	2.7	9.1	3.3	7.3	4.3	8.4	4.0
The Philippines	6.4	5.3	6.5	5.0	7.6	4.1	7.7	5.8	7.4	6.0	7.3	6.2
Thailand	3.0	4.0	2.8	3.7	3.3	4.0	3.0	3.4	3.2	4.0	3.2	3.9
Vietnam	7.1	6.6	7.0	6.2	7.4	4.0	8.0	6.5	7.5	6.3	8.0	6.8
ASEAN5	5.5	4.9	5.2[`23.01]	4.3[`23.01]								

Note: [ ] shows release dates
Source: KIEP, IMF, Oxford Economics, Connect, ADB, AMRO(accessed on 2023. 3. 13.).

3. Implications

- **Speed of liquidity contraction is much faster than what we have experienced after GFC**
  - Little time for households and firms to adjust and prepare for the bad scenarios
  - Possible bankruptcy of marginal companies and households in addition to the high volatility of asset markets
  - Need to keep an eye on the soundness of banking system (SVB)

- **Negative effects of (maybe) permanent change in GVC**
  - We are giving up the cost-effectiveness of GVC that we have enjoyed during last 30 years. Instead, we want to earn security and stability
  - By earning security and stability, we may have to give up low inflation era
  - Reorganizing the production network and creating blocs will have significant effects on production, consumption and price levels. It also may decrease the size of the markets that firms can access easily

- **Fiscal policies still needed even under the limited fiscal space which will promote:**
  - (1) the reallocation of resources from unproductive to productive units
  - (2) and support newly growing industries and combining new technologies into traditional ones
  - (3) IT and green-tech driven investment for sustainable long-term growth

Thank You