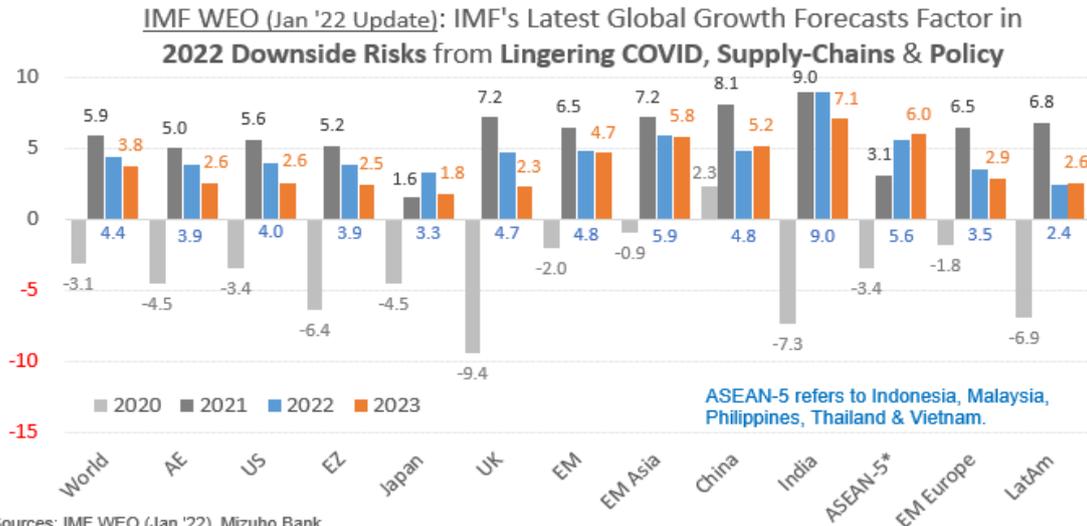


## IMF's 2022 Growth Downgrades: Because & In Spite



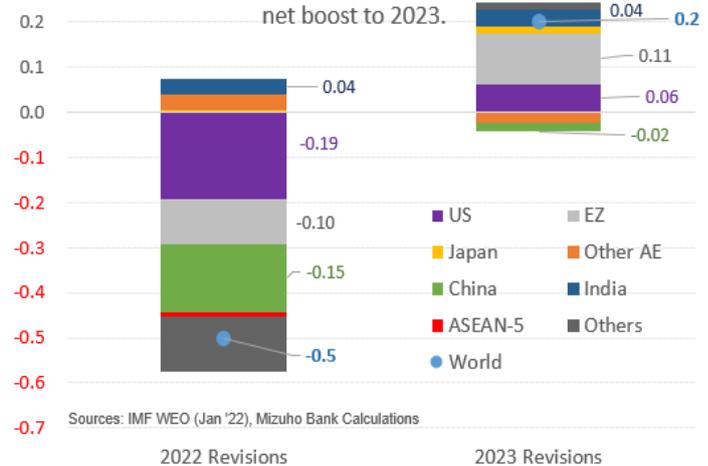
Sources: IMF WEO (Jan '22), Mizuho Bank

### Sharp Downward Revisions to IMF's 2022 Global Growth Forecasts (from the Oct '21 WEO), Led by US (-1.2%-pts) & China (-0.8%-pts) ...



Sources: IMF WEO (Jan '22), Mizuho Bank Calculations

... which together account for ~70% (-0.34%-pts) of downgrade to World GDP for 2022, with insignificant net boost to 2023.



Sources: IMF WEO (Jan '22), Mizuho Bank Calculations

**IMF Dims 2022 Outlook:** In its **January 2022 update** to the **World Economic Outlook (WEO)**, the **IMF has downgraded global growth for 2022** by 0.5%-pts to 4.4% from 4.9% projected in the October 2021 edition of the WEO (and from an estimated 5.9% in 2021, flattered by COVID base effects). Although **2023** has been **revised up 0.2%-points** to 3.8%, this is **mostly** a **“mechanical pick-up”** from 2022 **“drags”**. Crucially, the **cumulative 2022-23 growth effect is consistent with disrupted and dampened recovery out of the pandemic**. Rolling **supply-chain kinks**, troubling escalation and broadening of **inflation**, and stuttered re-opening due to the **Omicron variant** of (COVID) are in the **line-up of “usual suspects”** for the **dimmer recovery in 2022**.

**Led by Sharp US & China Lead Downgrades:** And **sharp downgrades to US** (-1.2%-pts to 4.0%) and **China** (-0.8%-pts to 4.8%), the world's two largest economies, are (perhaps unsurprisingly) the **key drivers of this knock back in global growth prospects for 2022**. What's poignant is that the **drag imposed by US and China** is not only **disproportionally large**, with **US and China downgrades contributing ~70% of the 0.5%-pt downgrade to 2022 global growth**, but also **somewhat persistent** insofar that **US and China barely account for a fifth of the 0.2%-point “mechanical” upgrade in 2023**. In a sense, the **conspiracy of drag forces** impeding an unfettered and emphatic appear to be **resonating in and via US and China risks, policies and outcomes**.

**US' "Because":** In the case of the **US**, the IMF has justifiably identified **headwinds because of policy**; both fiscal and monetary. Specifically, a **shortfall in US fiscal ambitions**, led by *disappointments in fully realizing Biden's "Build Back Better"* infrastructure boost, are **expected to dampen fiscal tailwinds to US growth**; which also entails some order of dampening in private sector growth multipliers.

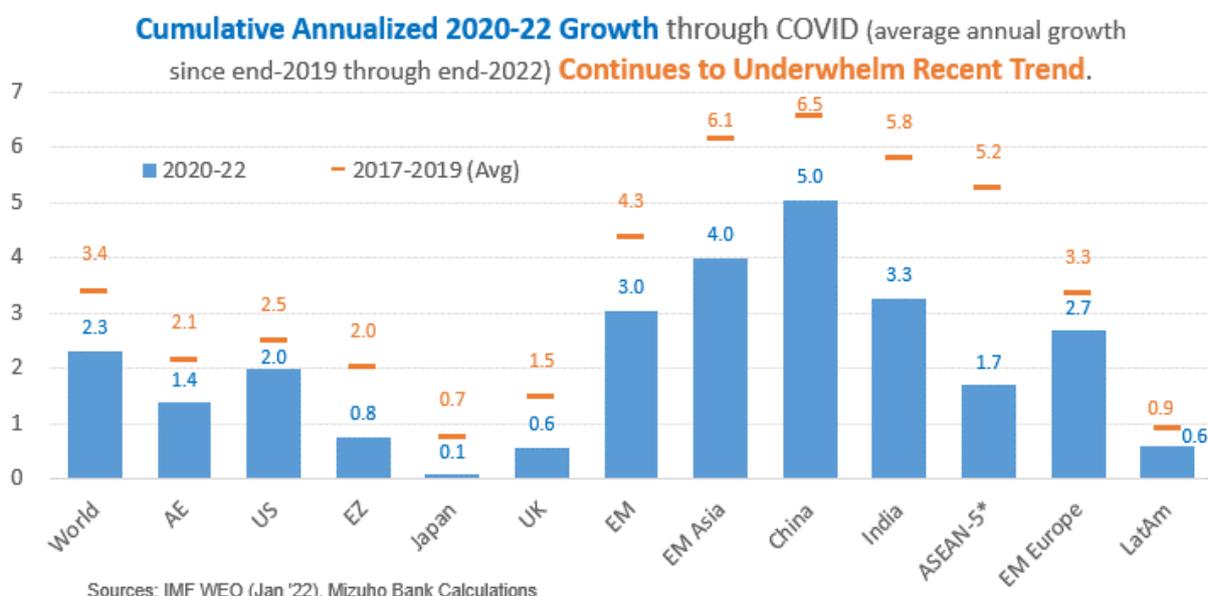
Crucially, a **far more aggressive iteration of monetary stimulus withdrawal by the Fed**, entailing rate hikes and planned balance sheet run-off, **poses the single biggest downside threat** to a growth (and not just for the US); as shock pervade, and possibly feedback between, the real economy and financial markets.

Having been caught wrong-footed by worrying **profusion of inflationary pressures** (at 40-year highs) in the US, *rendered far more pervasive and profound* by energy and supply-side factors colluding with a confoundingly tight job market (that fuels wage pressures), the **Fed's "behind the curve" baggage accentuates risks of over-steer**; and the attendant downside risks to growth. So, necessarily US headwinds may grow **because of policy**.

**China's "In Spite":** *In sharp contrast*, **threats to China's economic growth** are deemed to persist **in spite of policy**. Notably, **despite the CEWC** in December **unambiguously declaring a line-up of coordinated stimulus** (to tackle a trifecta of supply constraints, demand contraction and confidence deficit threatening growth), the IMF is a tad more downbeat. On-going **financial travails of property developers**, with potential for *deleterious, far-reaching ripples* from defaults and restructuring looming over precariously is certainly a, if not *the*, **bug bear**.

What's more, against a backdrop of **Zero COVID policies** compounded by power disruptions that **stutter activity recovery**, the IMF expects growth to be hobbled (in downgrading by 0.8%-points to below 5%). Point being, **China's policy stimulus risks being too little too late** (given property market lags), and faces clear and present dangers of being overwhelmed by *adverse global forces* such as escalating energy costs and the Fed's aggressive tightening.

**Prone to Stumbles:** The upshot is that **inflation risks** (undermining aggregate demand), consequent **tightening monetary/financial conditions** from monetary policy response, **persistent supply-chain disruptions** amid lingering *"variant" risks*, and **mounting geo-political tensions** make for an **uninspired recovery prone to stumbles**. "Escape velocity" escapes the global recovery because, and in spite, of US and China; as underlying growth underwhelms.



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