



ECONOMIC OUTLOOK: 12 CRUCIAL QUESTIONS ABOUT THE WORLD IN 2023

What is the economic outlook for 2023? Sanisha Packirisamy, economist at Momentum Investments, looks at twelve crucial questions for the coming year.

SANISHA
PACKIRISAMY

Economist at Momentum Investments

1. Have we entered a new regime of greater macro and market volatility?

The globe is facing higher levels of geo-economic fragmentation, reduced liquidity, a lower growth pattern in China, increased global conflict and higher inequality. This could lead to shorter and more erratic economic cycles, resulting in more volatile discount rates and lower equity valuations.

2. What are the risks of over-tightening?

Although an over-tightening in monetary policy raises the risk of negative growth outcomes sooner, the risk of under-tightening is seen to pose a bigger threat. Unhinged inflation expectations could force central banks to tighten policy even more, over a longer period, damaging growth and jobs.

3. Will disinflation drive the narrative in 2023?

A further easing in supply chain disruptions, favourable base effects in food and fuel and demand destruction are expected to drive inflation lower in 2023. A return to central bank targets could nonetheless take time given stickier services and wage inflation.

4. When will the united states (Us) dollar weaken?

In the near term, disruptive geopolitics and higher growth and interest rate differentials should support the dollar. However, the dollar is likely to weaken in the second half of 2023 as interest rate and growth differentials begin to narrow.

We project a further, but more gradual, depreciation in the dollar in the long term given its rich valuation as well as weaker current account and fiscal dynamics relative to that

5. Where will interest rates plateau and when will financial markets see the big pivot to easier policy?

In our view, central banks need to have clear sight of a sustained deceleration in underlying inflation and a reversal in tight labour market conditions for interest rate cuts to be considered.

Market-implied policy rates point to a peak in the US federal funds rate of 5% in the first half of next year. Market participants are pricing in a cut before the end of next year, at a pause.



6. Will financial markets force Fiscal consolidation?

Financial markets are threatening to punish developed market governments that attempt to keep economies afloat with fiscal measures which raise upside risks to inflation. In addition, political cycles are likely to influence fiscal decisions heavier going forward, given an increasingly polarised electorate.

7. Will we experience another emerging market debt crisis?

Higher borrowing costs have intensified financial stress for vulnerable countries with a large share of foreign debt. However, middle income emerging markets with healthier macroeconomic fundamentals should fare better.

8. What could deliver a positive surprise in 2023?

A faster relaxation in COVID-19 regulations in China, a warmer winter in Europe that prevents energy rationing or stronger real wage growth for the US consumer can lift our base case view on global growth.



9. What if everything goes wrong at the same time?

Stickier inflation leading to additional interest rate tightening (relative to the baseline), a colder European winter that enforces more energy rationing, an extension of China's zero-COVID strategy, renewed Chinese property sector woes or an accelerated decoupling between the US and China could leave global growth at a mere 0.5% in 2023.

10. How will a global slowdown and local economic and political challenges affect South Africa's (sa) outlook?

Lower growth in SA's main trading partners will reduce demand for SA's exports, while slow reform in energy and logistics as well as mounting consumer headwinds will cap growth in domestic demand. Moreover, political uncertainty has leapt on the possibility of President Cyril Ramaphosa leaving his position. Question marks over SA's political outlook cast a dark shadow over investment and growth prospects.

11. When will interest rates peak in sa and when will the sa reserve bank (SARB) cut again?

The SARB is likely to hike rates further in the first quarter of 2023 to arrest the spread of broad-based inflation pressures. However, the likelihood of an improved global risk backdrop towards the end of 2023 could see the SARB reversing policy. The risk is nevertheless biased towards a tighter stance if higher political uncertainty drives the local currency weaker for a sustained period, leading to an uncomfortable jump in inflation expectations.

12. What are the risks associated with a greylisting event or further rating downgrades?

A potential greylisting and a consequent exiting of a greylisted status will depend on perceived action to address the Financial Action Task Force's concerns. Recent political events threaten to derail the progress on the fight against corruption and raise concerns over the pace of structural reform in areas of the economy that promote growth and fiscal sustainability. As such, we see downside risks to SA's sovereign rating in the medium term.