

# Global Watch

May 2022

Economic Update

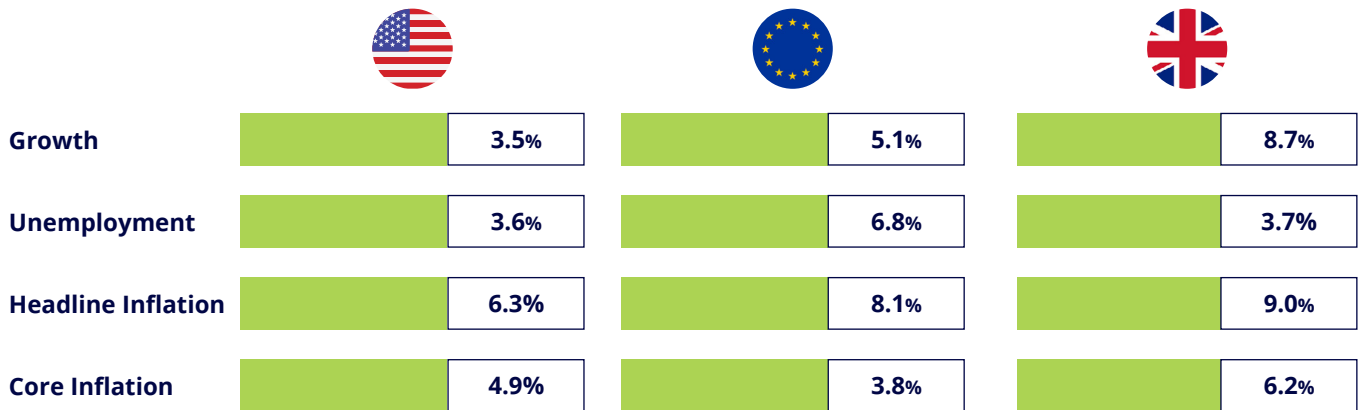


Bank of  
Ireland

## Central banks to the fore amid elevated inflation

Having recovered strongly last year, the fallout from the war in Ukraine - higher energy and non-energy commodity prices, increased uncertainty and sanctions on Russia - will dampen growth in the global economy this year and add to cost and price pressures. A ban on most Russian oil imports to the European Union has just been announced by the bloc, while supply chain disruption more generally is being exacerbated by pandemic-related lockdowns in China. In its April outlook, the IMF lowered its projection for world GDP growth in 2022 (by almost 1 percentage point) to 3.6% and pencilled in 7.4% for global inflation (a 26-year high). With economic activity slowing, China's central bank has been easing monetary policy; elsewhere though many central banks have been tightening in response to elevated inflation. Most notably in this regard, the Fed raised interest rates by 50 basis points in May - the first time it has hiked by this amount in a single move in over 20 years - and signalled more of the same to come at its next two meetings in June and July. The ECB is stepping up the pace at which it normalises monetary policy too, following a greater than expected acceleration in Euro area inflation recently. It has now confirmed that it will end its regular bond purchases in July and exit negative rates, which have been in place since 2014, by September. The prospect of rising ECB rates has also helped arrest the euro's slide against the dollar in the wake of Russia's invasion of Ukraine, with the single currency regaining about 3 cents after hitting a multi-year low of just under \$1.04 in the middle of May.

## Economic Conditions



## Policy Stance



Firming of monetary policy to meet employment and inflation goals



Will adjust monetary policy as appropriate to meet the 2% inflation target



Tightening of monetary policy to sustainably meet the 2% inflation target

## Current Interest Rate

**0.75%-1.0%**

Fed Funds

**0.0%**

ECB Refi

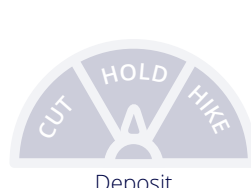
**-0.5%**

Deposit

**1.0%**

BOE Bank Rate

## Next Meeting



# Economy

## War cloud descends

The IMF expects the war in Ukraine to set back the global recovery. It has lowered its forecast for world GDP growth to 3.6% for both 2022 and 2023, from 4.4% and 3.8% in its January update.

## US activity edges down

GDP in the US dipped by 0.4% quarter-on-quarter in Q1, though it was still up 3.5% year-on-year. The IMF sees the economy expanding by 3.7% for this year as a whole, followed by growth of 2.3% next year.

## Euro area expanding modestly

Euro area GDP rose by 0.3% quarter-on-quarter in Q1 and by 5.1% on an annual basis. Largely on account of the war, the IMF has lowered its forecast for growth in 2022 and 2023 to 2.8% and 2.3% respectively.

## Headwinds in the UK

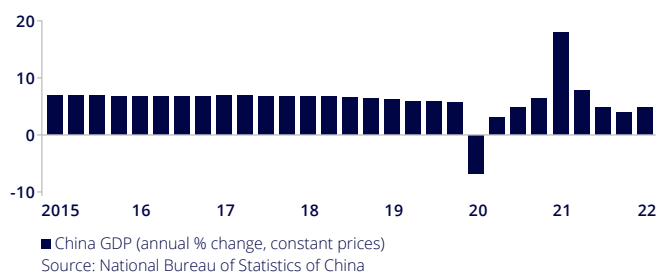
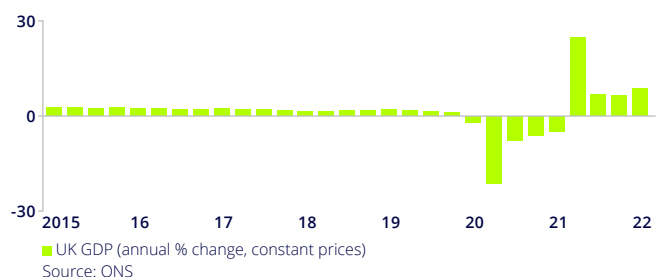
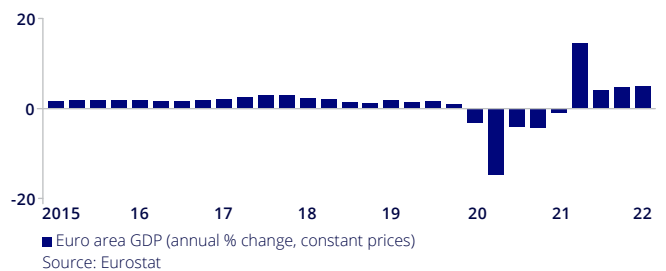
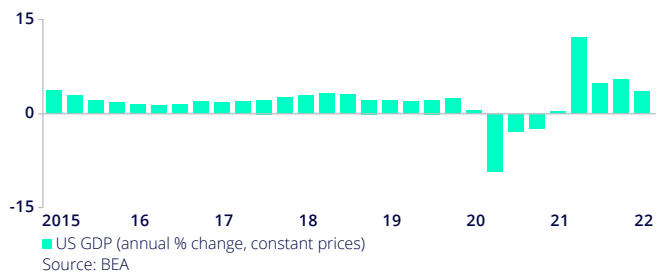
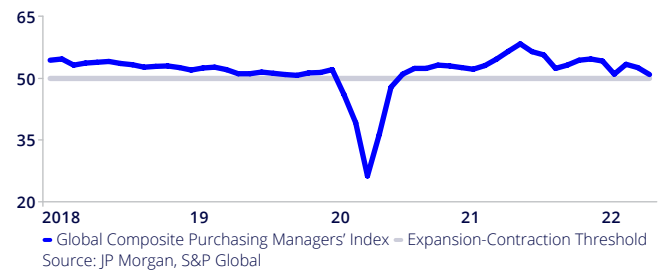
The UK economy expanded by 0.8% on the quarter and by 8.7% in the year to Q1. The IMF expects high inflation and the fallout from the war to temper growth, which it sees averaging 3.7% this year and 1.2% next year.

## COVID concerns in China

GDP in China increased by 1.3% on the quarter and by 4.8% in the year to Q1, though lockdowns are now weighing on activity. Full-year growth of 4.4% is being projected by the IMF for 2022, picking up to 5.1% in 2023.

## EM activity softens

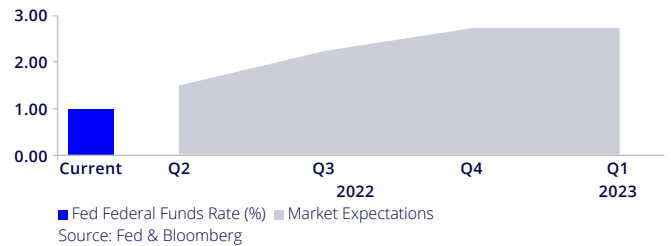
The war has hit the Russian and Ukrainian economies hard, and with the emerging markets Composite PMI in contractionary territory in March-April, the IMF expects GDP growth for EMs as a whole to slow to 3.8% this year.



# Monetary

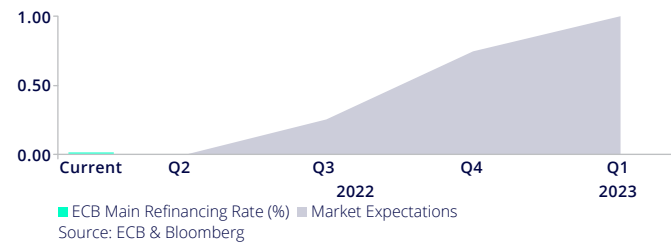
## Fed accelerates tightening

Having raised interest rates by 25bps in March, the Fed hiked by 50bps in May and indicated it will move again in June and July. It is also set to begin reducing the size of its balance sheet.



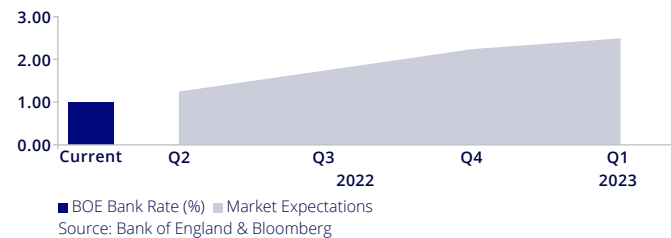
## ECB signals rate increase

Having terminated emergency bond purchases in March, the ECB expects to end regular monthly purchases early in Q3 and to increase interest rates at its next but one meeting in July.



## BOE in hiking mode

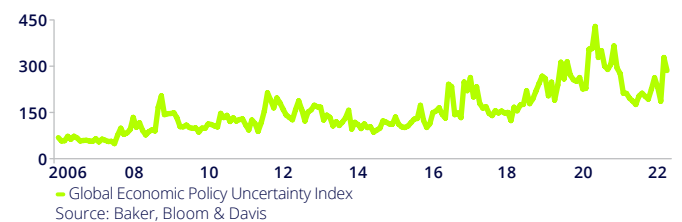
The Bank of England raised interest rates for a fourth consecutive time in May - by 25bps to 1.0% - and said some further increases may still be appropriate in the coming months.



# Policy & Politics

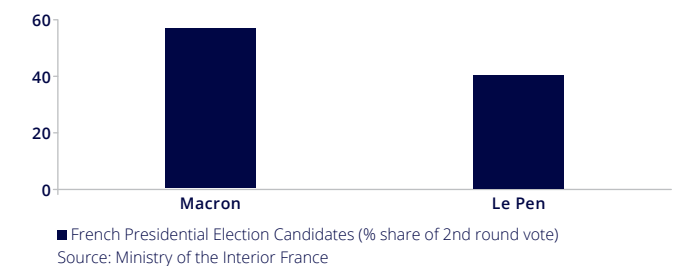
## Fresh uncertainty

Russia's invasion of Ukraine has resulted in a renewed jump in uncertainty, which will be a headwind for the ongoing recovery of the global economy.



## Macron re-elected in France

The incumbent won the second and final round of voting in May's presidential election, with his Renaissance party now facing into parliamentary elections in June.



## UK-EU tensions

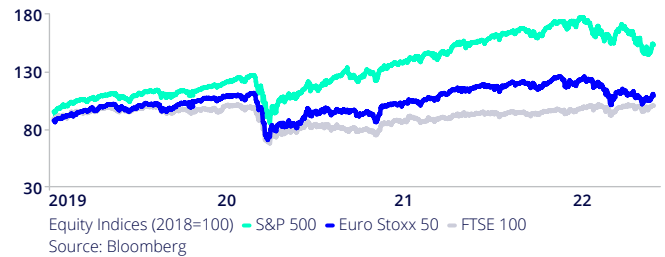
The EU has warned it will respond 'with all measures at its disposal' if the UK government introduces legislation that overrides parts of the Northern Ireland Protocol.



# Markets

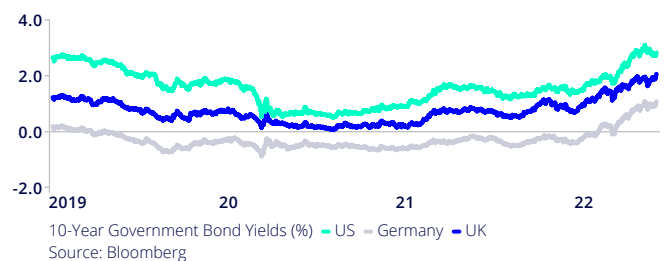
## Stocks under pressure

The economic consequences of Russia's invasion of Ukraine – lower global growth and increased costs and prices – and monetary policy tightening have been weighing on equities.



## Bond yields up

Government 10-year bond yields have headed north this year as markets price in rising central bank interest rates, albeit US yields have eased a touch of late.



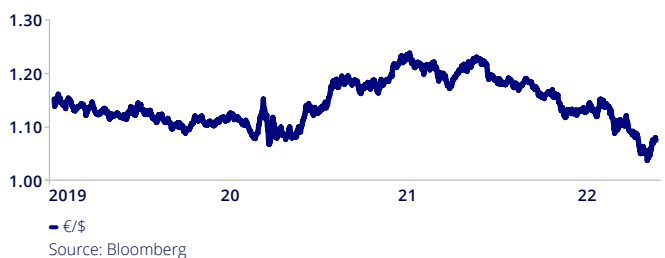
## Dollar firmer

Supported by Fed hikes, the dollar rose to a 2-year high against the currencies of its main trading partners in mid-May before giving up a little ground.



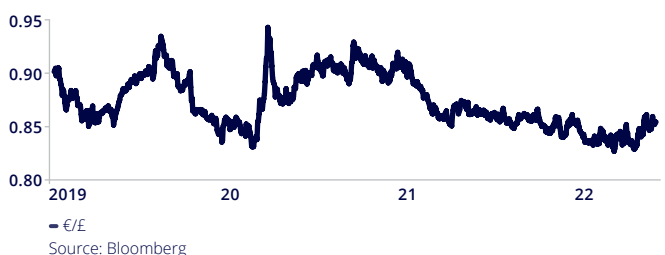
## Some euro respite

The euro has been on the back foot against the dollar for much of 2022 to date, and briefly dipped below \$1.04 recently before recovering to over \$1.07.



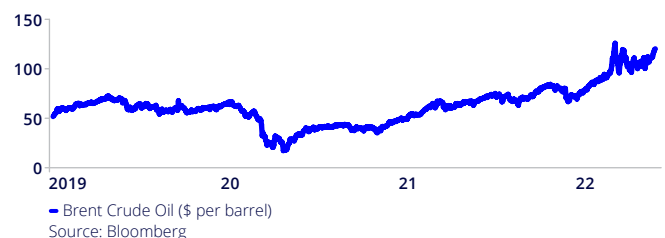
## Sterling off highs

The pound strengthened to a 6-year high of just below 83p against the euro in early March, but has since shed about 2p to 85p.



## Oil prices volatile

Brent crude oil prices have nudged up after the EU agreed to ban most oil imports from Russia, albeit they remain off their recent highs.



# Forecasts

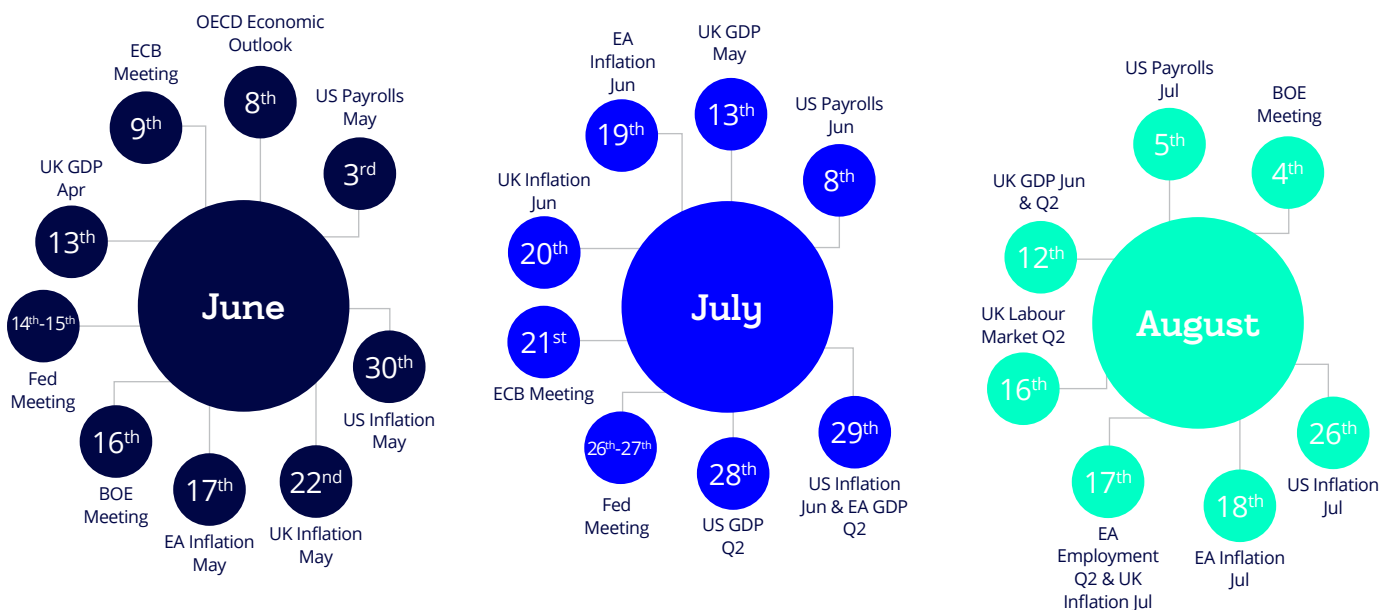
GDP Growth*	2021	2022(f)	2023(f)
Global Economy	6.1%	3.6%	3.6%
Advanced	5.2%	3.3%	2.4%
Emerging	6.8%	3.8%	4.4%

FX**	Current	End Sep 22	End Dec 22
€/€	1.07	1.09	1.12
€/£	0.85	0.86	0.87
£/\$	1.26	1.27	1.29

\*Annual % change, constant prices (Source: IMF)

\*\*Current Rate is as of 31 May 2022 (Source: Bloomberg); Rate forecasts (Source: Bank of Ireland)

# Upcoming Events



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