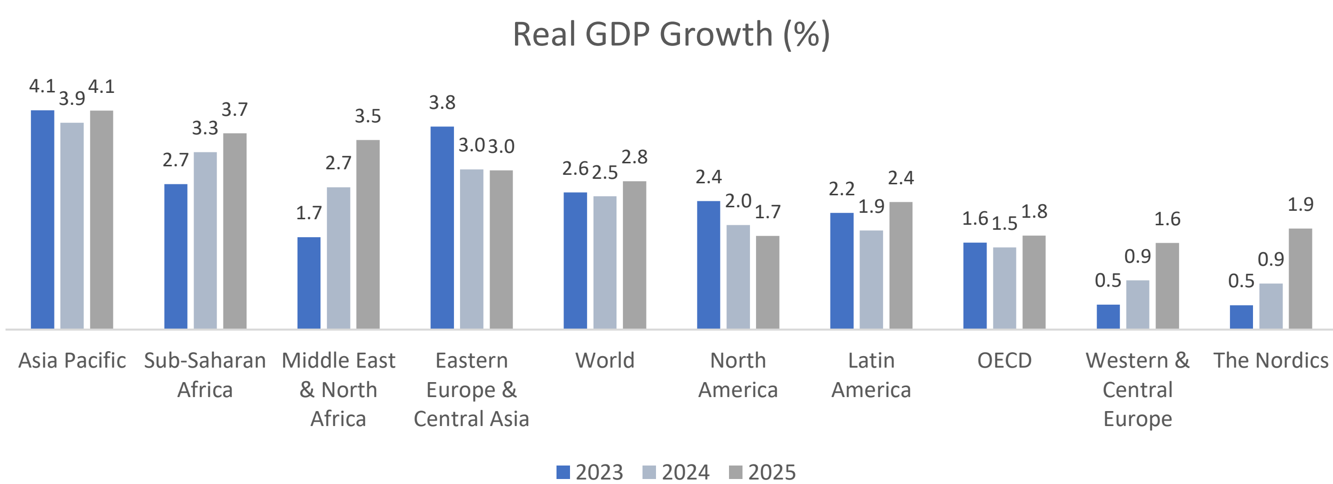
Global Economic Outlook – August 2024

Economic recovery shifts to Europe and emerging markets amid slower U.S. growth

"Against a backdrop of moderating global growth, economic policymakers continue to find common priorities in supporting their domestic economies, bringing inflation back to target, and following a course to easier monetary policy. Momentum on global disinflation appears to be slowing, signaling challenges for policymakers and businesses alike. Although the European Central Bank (ECB) and the Bank of England have begun cutting interest rates, the U.S. Federal Reserve decided against cutting rates in July. And although looser policy in developed economies has only just begun, emerging economies are further along the easing cycle. As such, we expect growth in emerging economies to be ahead of that in developed economies this year and next. Political risks, meanwhile, have returned to the fore in the form of anti-immigrant sentiment in the U.K. and Europe. In the U.S., uncertainty is high following the attempted assassination of former President Donald Trump and President Joe Biden's decision not to stand for re-election, with Vice President Kamala Harris now the Democratic candidate as campaigning enters a more active phase." **– Dr. Arun Singh, Global Chief Economist, Dun & Bradstreet.**



Global Economic Outlook

As recoveries in Western Europe and in some emerging economies have gathered strength over the course of the year, global growth now appears less dependent on the U.S. than it was at the start of 2024. The pace of monetary policy easing in developed economies is substantially slower than was expected at the beginning of the year, and tight global monetary policy settings – despite interest rate cuts in some economies – will continue to suppress growth prospects in H2 as compared with H1. Momentum on global disinflation appears to be slowing, signaling that the path ahead for policymakers – and in turn, for businesses – may be challenging.

Weaker-than-expected macroeconomic data from the U.S., led by the softening labor market, has fueled expectations that the U.S. Federal Reserve (the Fed) will cut interest rates this year. The Fed kept monetary policy on hold at its July meeting, leaving interest rates set at a range of 5.25% to 5.50%, but said it could start reducing rates at its next meeting in September. As of mid-August, around 80% of market participants expect the Fed to cut rates by 50bps in September. The chance of a U.S. recession, implied by falling U.S. treasury yields in August, has increased. However, we still expect a soft landing for the U.S. economy – slower economic growth but without a severe recession – to be the most likely outcome.

In Europe, the good start to the year continued in Q2 2024: GDP grew 0.3% q/q in the Eurozone and in the EU, following 0.3% growth in Q1. Ireland (+1.2%), Spain (+0.8%), and France (+0.3%) led growth, but Germany's economy contracted, putting Europe's largest market on the brink of recession. The latest quarterly output data followed the European Central Bank (ECB) meeting in June, where a decision to cut rates meant that the ECB became the first major central bank to start cutting interest rates this cycle. The rate-setting meeting minutes suggest that the ECB will continue to lower interest rates in H2 2024 to support demand. Similarly, the Bank of England cut rates in August to 5.0%, warning that high interest rates were here to stay, in a clear signal that it was in no rush to move towards markedly lower policy rates. Easing policy settings in the U.K. and Western Europe are likely to provide a prop to recovery in the second half of this year.

Growth in emerging economies is likely to hold up in H2 2024, but outcomes will be varied. Softer growth in Brazil, Mexico, Poland, and parts of emerging Asia are set to be offset by a reacceleration in parts of Latin America such as Chile, Peru, and Uruguay, where inflation is moderating. Key emerging economies' central banks began easing their monetary policies this year ahead of their developed economy counterparts. Continued tight monetary policy in the U.S. is likely to support the U.S. dollar for the time being, but this will begin to unwind when the Fed cuts rates in H2. Expectations of the Fed cutting interest rates will provide a more supportive environment for emerging economies, including via some easing in U.S. dollar strength. This will be good for emerging economies' currencies, which have depreciated across all regions, but with Latin America the most affected.

Supporting our view of a soft landing in the U.S. and continued growth in Western Europe, the Q3 2024 Dun & Bradstreet Global Business Optimism Insights report reveals that business optimism is growing around the world. Our headline Global Business Optimism Index has shown a consistent uptrend over the year, implying that businesses have adapted well to the challenges of 2024. We expect global GDP growth to accelerate from 2.5% this year to 2.8% in 2025.

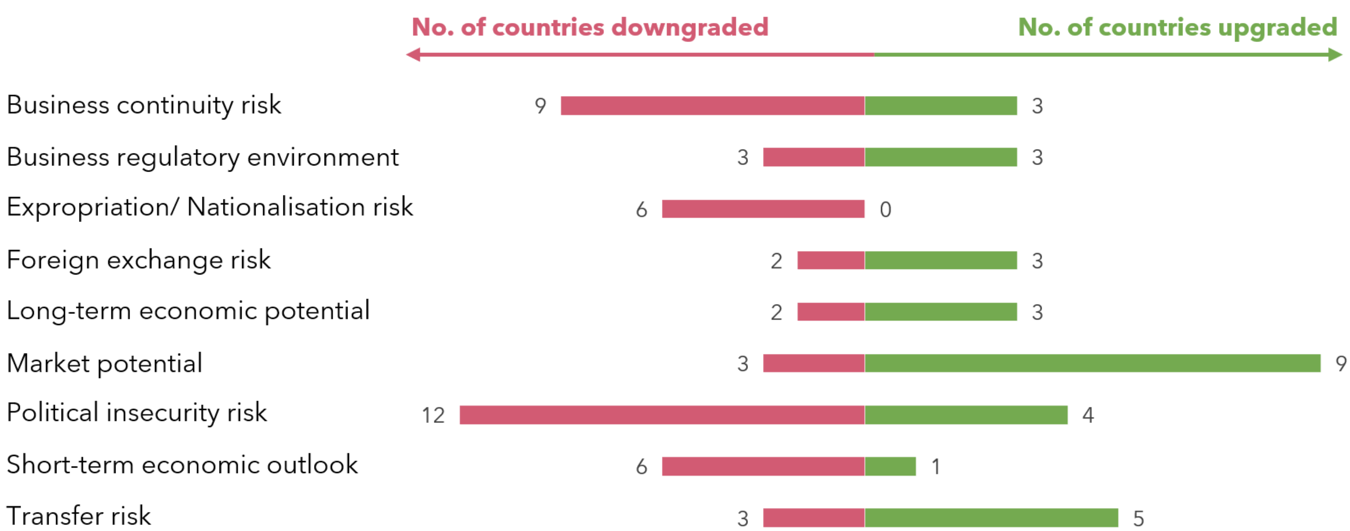
Although risks seem to be becoming better balanced, significant downside factors continue to act as headwinds and hold back recoveries in some economies. Elections that have taken place this year have yielded few material impacts to our outlooks and have in general panned out as expected – such as the U.K. general election in July. France has been a notable exception, and we will continue to monitor the impact of coalition-forming in the country, as well as the buildup to the U.S. election in November as it enters a more active phase. In July, President Joe Biden stepped down from running for re-election, with Vice President Kamala Harris confirmed as the Democrats' candidate. Former President Donald Trump, who was the target of an assassination attempt, remains the Republican candidate. A growing risk in the U.K. and in parts of Europe, such as Ireland and France, is the escalation of anti-immigrant sentiment, which has led to violence.

Movement in Country Rating & Environment Risks

Country Rating	Environment Risks			
	Credit	Market	Supply	Political
Cambodia India Serbia South Africa Türkiye France	Albania Cambodia Serbia Türkiye Zambia France	Bahrain Romania Serbia Zambia Spain	Germany South Africa Uzbekistan	Romania South Africa Türkiye Azerbaijan Oman United States

Note: *Colors indicate Rating upgrade/Improvement in outlook, Rating downgrade/Deterioration in outlook*

Movement in Risk Dimensions



Source: *Dun & Bradstreet*

Rating Changes

▲ (Upgrade)

Albania: Albania's credit environment risk rating has been upgraded, with a 'stable' outlook; the central bank has begun reducing interest rates, allowing steady growth in credit through the remainder of 2024 and into 2025. The lek has reached an all-time high against the euro, and FX reserves are also close to an all-time high due to inflows of tourism receipts, FDI, and remittances. We have upgraded Albania's market environment risk rating due to rising real incomes and improving consumer sentiment, strong FDI inflows, and EU funds supporting infrastructure development.

Bahrain: We have upgraded Bahrain's market environment risk rating. The expected restoration of bilateral diplomatic ties between Bahrain and Iran may lead to improved commercial opportunities, while economic growth is expected to be buoyed by several significant investments in infrastructure and energy-intensive sectors; the non-oil sector is also growing robustly. However, there are still downside risks to business continuity amid Houthi attacks on key trade routes.

India: India's country risk rating has been upgraded by 25 bps as the government's structural initiatives are expected to enhance growth, boost foreign investment, and strengthen market potential.

Romania: We have upgraded Romania's political and market environment risk ratings on the back of political consolidation and the country's reviving economy; however, the prospect of integration with the euro area has receded. The ruling coalition seems strongly placed following wins in both local elections and the European Parliament poll. The first round of the presidential election will be held in November, followed by parliamentary elections in December.

Türkiye: We have upgraded Türkiye's overall risk rating owing to the improving credit and political environments; the economy continues to surprise positively as orthodox monetary and fiscal policies continue. The lira has been stabilizing, leading to reduced FX risk and a strengthening banking system. We have upgraded the political environment risk rating as internal political stability improves amid President Recep Tayyip Erdogan's consolidation of power. We have upgraded the market potential risk rating as investors return to the capital market given the stable lira and improved prospects.

Uzbekistan: We have upgraded Uzbekistan's credit environment risk rating as the economy is weathering global and domestic challenges, with robust growth of 5.2% expected in 2024. The supply environment risk rating is upgraded as the country undertakes structural reforms in a bid to speed up the process of joining the World Trade Organization (WTO).

▼ (Downgrade)

Azerbaijan: Azerbaijan's political environment risk rating has been downgraded owing to concerns about the scuttling of the political opposition and the introduction of arbitrary regulations for businesses and the economy.

France: We have downgraded France's overall country risk rating as the hung parliament is leading to delayed government formation, which is likely to cause significant fiscal and policy uncertainties. We have also downgraded the credit environment, supply environment, market environment, and political environment risk ratings. Economic and policy reforms, including trade and intra-EU negotiations, are likely to face a bumpy road ahead. The markets fear policy deadlock and regulatory uncertainty, which would be detrimental to business.

Spain: We have downgraded Spain's market environment risk rating due to the adverse effects on tourism from protests across the country and the potential impact of the Chinese anti-subsidy probe into pork imports from the EU.

Thailand: We have downgraded the political/insecurity risk rating by 25 bps as legal efforts to dissolve the country's most popular political party could endanger political stability and raise the risk of renewed protest activity. The increasing political role of the military establishment and the growing use of aggressive judicial means targeting opposition figures could create significant public unease regarding the democratic validity of the coalition government and the abiding political influence of the monarchy. More positively, we expect a boost from the digital wallet initiative and a faster-than-expected recovery in tourist numbers.

United States: In mid-July, an assassination attempt was made on former President Trump while he spoke at an election rally. This raises uncertainties around political security and elevates the threat of social unrest and politically related disturbances in the run-up to the November election. We have downgraded the political environment risk rating.

Key Market Updates

Bangladesh: A student protest against quotas for government jobs escalated into a nation-wide conflict in July, culminating in the collapse of the Awami League-led government in early August and the exile of Prime Minister Sheikh Hasina, causing significant disruption to the supply environment, affecting production, transportation and wider supply chains.

Brazil: The short-term economic outlook risk rating has been downgraded, as the economy will moderate to 2.0% growth in 2024, from 2.9% in 2023, on the back of slower growth in exports and weaker private consumption. In late June, Brazil's central bank paused monetary easing, meaning that borrowing costs will remain elevated in the near term. Sticky inflation and high borrowing costs will weigh on investment, especially in the extractive, manufacturing, and construction sectors.

Cambodia: We expect improved growth prospects for Cambodia in 2024, driven by a resurgence in the manufacturing and tourism sectors, lower inflationary pressures, and an expanding trade network.

Czech Republic: Aggressive rate cuts by the Czech central bank are supporting economic recovery and turning the investment cycle upwards. The government's position on the Russia-Ukraine war has created significant internal and external risks. A sizeable portion of the population aligns with Russia and there have been demonstrations against the Czech government's support for Ukraine and membership of NATO.

Germany: The three-party ruling coalition is beset by internal disagreements but, after much deliberation and compromise, has reached accord on the draft 2025 budget. Businesses now appear more optimistic about the financial and investment climates – Dun & Bradstreet's Q3 2024 Business Optimism Index for Germany shows an uptick of 10% compared with Q2 2024.

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Iran: Masoud Pezeshkian, a reformist, won the June 2024 presidential election; he will likely prioritize domestic policies like growth, inflation, and women's rights, but will probably have limited influence over foreign policy. Growth prospects remain weak, as the U.S. continues to broaden sanctions against Iran.

Israel: Regional tensions are escalating, with Israel and Hezbollah, based in Lebanon, trading almost daily attacks and retaliations but narrowly avoiding all-out war. The situation is particularly sensitive following the death of a high-ranking Hamas official in Iran.

Japan: In July, the Bank of Japan raised interest rates by 15bps to 0.25%, as expected by markets. It announced quantitative tightening, reducing purchases of Japanese Government Bonds to JPY3trn by Q1 2026 with a flexible approach for stability. The hawkish guidance indicates continued tightening if economic conditions align, with real rates remaining accommodative.

Macedonia: Macedonia's supply, market, and political environments have improved. Its application to join the Single Euro Payments Area could usher in a period of cheaper, safer, and faster cross-border transfers in euros to the eurozone. The price of imported oil and gas is falling, gas reserves are ample, and supplies are relatively secure. The economy has returned to modest growth, supported by household consumption, government spending, and investment, increasing the potential for making sales.

Chinese Mainland: The Third Plenum held in July emphasized governance with top-down reforms, including fiscal/tax, finance, foreign trade, foreign investment, and land. High-quality development has been prioritized, shifting growth engines from property to new productive forces. We expect growth to remain moderate as the property sector stabilizes.

Sweden: In May, the Riksbank (the Swedish central bank) cut rates by 25bps to 3.75% with guidance of two further interest rate reductions, rekindling hope of a faster recovery for the Swedish economy. We have upgraded Sweden's market potential risk rating, with a 'stable' outlook, as the economy is set to revive in H2 2024. We have also upgraded the FX risk rating, given that the krona's depreciation seems to be slowing, and export prospects are brightening. Meanwhile, key reforms are delayed as the minority government treads a delicate path among its coalition partners.