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GLOBAL INSIGHT

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2024 Global Economics Outlook

The Last Mile

Global inflation has peaked, but the last mile to target will take a period of subpar growth. Growth stepped down in 2023, and should be slower at just under 3% for 2024 and 2025. DM growth is broadly soft, while the picture in EM is mixed.

Contributors


MORGAN STANLEY & CO. LLC
Seth B Carpenter
Chief Global Economist
+1 212 761-0370
Seth.Carpenter@morganstanley.com


MORGAN STANLEY & CO INTERNATIONAL PLC (DIFC BRANCH)+
Rajeev Sibal
Senior Global Economist
+971 4 709-7201
Rajeev.Sibal@morganstanley.com


MORGAN STANLEY & CO. LLC
Cristina Arbelaez
Global Economist
+1 212 761-2045
Cristina.Arbelaez@morganstanley.com


MORGAN STANLEY INDIA COMPANY PRIVATE LIMITED+
Mayank Phadke
Economist
+91 22 6514-3452
Mayank.Phadke@morganstanley.com


MORGAN STANLEY & CO. LLC
Ellen Zentner
Chief US Economist
+1 212 296-4882
Ellen.Zentner@morganstanley.com


MORGAN STANLEY ASIA LIMITED+
Chetan Ahya
Chief Asia Economist
+852 2239-7812
Chetan.Ahya@morganstanley.com


MORGAN STANLEY EUROPE S.E.+
Jens Eisenschmidt
Chief Europe Economist
+49 69-21662817
Jens.Eisenschmidt@morganstanley.com


MORGAN STANLEY ASIA LIMITED+
Robin Xing
Chief China Economist
+852 2848-6511
Robin.Xing@morganstanley.com


MORGAN STANLEY MUFG SECURITIES CO., LTD.+
Takeshi Yamaguchi
Chief Japan Economist
+81 3 6836-5404
Takeshi.Yamaguchi@morganstanleymufg.com


MORGAN STANLEY C.T.V.M. S.A.+
Fernando D Sedano
LatAm Economist
+55 11 3048-6605
Fernando.Sedano@morganstanley.com


MORGAN STANLEY ASIA LIMITED+
Derrick Y Kam
Asia Economist
+65 6834-8272
Derrick.Kam@morganstanley.com


MORGAN STANLEY INDIA COMPANY PRIVATE LIMITED+
Upasana Chachra
Chief India Economist
+91 22 6118-2246
Upasana.Chachra@morganstanley.com


MORGAN STANLEY & CO. INTERNATIONAL PLC+
Bruna Skarica
UK and Scandi Economist
+44 20 7425-9110
Bruna.Skarica@morganstanley.com


MORGAN STANLEY & CO. INTERNATIONAL PLC+
Georgi Deyanov
Economist
+44 20 7425-7006
Georgi.Deyanov@morganstanley.com


MORGAN STANLEY ASIA LIMITED+
Kathleen Oh
Chief Korea Economist
+852 2848-7340
Kathleen.Oh@morganstanley.com


MORGAN STANLEY AUSTRALIA LIMITED+
Chris Read
Equity Strategist and Australia Economist
+61 2 9770-1513
Chris.Read@morganstanley.com


MORGAN STANLEY & CO. INTERNATIONAL PLC+
Hande Kucuk
CEEMEA Economist
+44 20 7677-3270
Hande.Kucuk@morganstanley.com


MORGAN STANLEY & CO. LLC
Lenoy Dujon
US/Canada Economist
+1 212 761-2779
Lenoy.Dujon@morganstanley.com

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The Last Mile

A baseline scenario of below-trend growth in DM, and a mixed EM growth picture: We see global growth in 2023 at 3.0%Y. Most of the slowing is in DM, with some EM outperformance outside of China partially offsetting. We expect global growth at 2.8%Y in 2024 (2.9% 4Q/4Q) and 2.9%Y in 2025 (2.8% 4Q/4Q). In the US, subdued growth over the forecast reflects monetary policy working its way through the economy: 1.9%Y (1.6% 4Q/4Q) in 2024 and 1.4%Y (1.4% 4Q/4Q) in 2025. In Europe, we see only barely positive growth of 0.5%Y (1.0% 4Q/4Q) in 2024 and 1.0%Y (1.1% 4Q/4Q) in 2025, reflecting the continued effects of energy supply shocks, especially on Germany, and lagged effects of tight monetary policy. The EM narrative for 2024 and 2025 is mixed. China should weigh on headline EM growth. In EM Asia, India, Indonesia, and the Philippines remain the fastest-growing economies, but combined they are less than half the size of China's economy. Outside Asia, we see improvement in Eastern Europe and Saudi Arabia in 2024, after a challenging 2023, while below-trend growth in Brazil throughout the forecast horizon weighs on growth in LatAm.

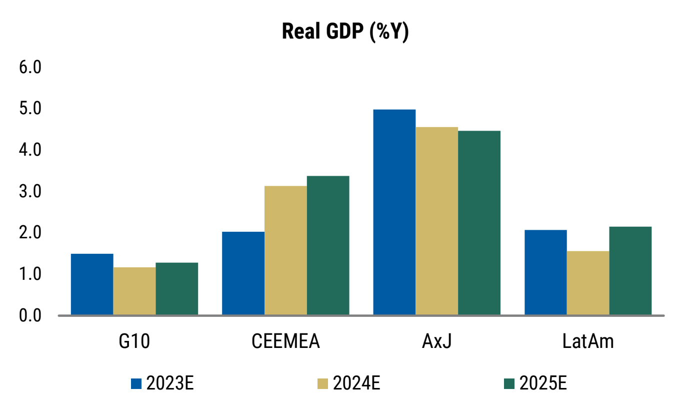
We expect DM policy rates to generally remain on hold in 1H24 and only decline gradually as inflation covers the 'last mile' to central banks' targets: In 2023 we had a fall in inflation from near double digits to mid-to-low single digits. The pace of declines in 2024 should be much more gradual. We see inflation close to but not quite at target in most DM economies, with the final stage of inflation normalization only in 2025. Consequently, we see central banks only nearing their neutral rates at the end of 2025. Emerging markets should also see declines in inflation, but much more gradually because of food and energy price volatility. China is the exception, where we forecast a slight reflation cycle from 1Q24.

Restrictive monetary policy should continue to exert pressure on the global cycle over the forecast horizon because inflation only sustainably converges to target in 2025: Will DM economies avoid recession while taming inflation? While recessions remain a risk everywhere, we expect any recession in our baseline scenario (such as in the UK) to be shallow because inflation is falling with full employment, so real incomes are buoyed, leaving consumption resilient, despite more volatile investment spending.

The global downside scenario envisions a protracted debt-deflation cycle in China, which subsequently spills over to other economies: For China, it starts with a major housing shock with widespread defaults, which leads to a pullback in both household and investment spending, and asset devaluations, which collectively damage the riskier part of the economy. In particular, consumers hold back on spending given uncertain income prospects, investment losses, and negative housing wealth effects. Moreover, the financial system would face capital shortage amid mounting NPLs, and credit growth falters, affecting the productive part of the economy. Policy easing ramps up with interest rate/RRR cuts and the resumption of quasi-fiscal tools to support public capex, but they are not enough to counter a systemic fallout.

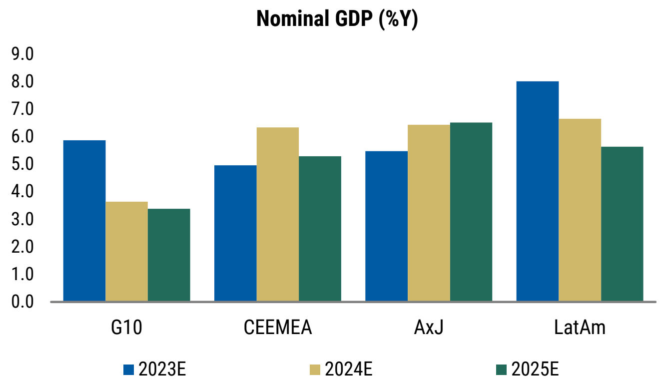
In the global upside scenario, we have a stronger US economy, where short-run r* is higher than realized: The implication is that the Fed has notably undershot the amount of monetary tightening that is needed. This year's strength in consumption and investment extends into 2024, where GDP increases by 2.8%Y (2.5% 4Q/4Q). Payroll growth remains strong at 180k/month, and the unemployment rate continues to fall back to a low of 3.4%. Strong demand and inflation pressures force an additional 100bp of Fed hikes into end-2024. Weaker consumption, BFI, job growth, and inflation in 2025 are accompanied by Fed easing.

Exhibit 1: Subpar DM growth, and China slows Asia; CEEMEA picks up steam



Source: Morgan Stanley Research forecasts; Note: CEEMEA excludes Ukraine.

Exhibit 2: Nominal growth falls sharply in DM and LatAm as inflation moderates



Source: Morgan Stanley Research forecasts; Note: CEEMEA excludes Ukraine, Turkey, and Egypt, LatAm excludes Argentina.

Exhibit 3: Morgan Stanley forecasts versus consensus

	2023E		2024E		2025E	
GDP (%Y)	**MS**	**Cons**	**MS**	**Cons**	**MS**	**Cons**
G4						
US	2.4	2.3	1.9	1.0	1.4	1.8
US (4Q/4Q)	2.5	2.2	1.6	0.8	1.4	-
Euro Area	0.4	0.5	0.5	0.7	1.0	1.5
Japan	2.0	1.9	1.0	1.0	1.1	1.0
UK	0.5	0.4	-0.1	0.4	1.0	1.3
Selected EM						
China	5.1	5.2	4.2	4.5	4.0	4.5
India	6.6	6.2	6.4	6.3	6.5	-
Brazil	3.1	3.0	1.7	1.6	1.6	2.0
CPI (%Y)	**MS**	**Cons**	**MS**	**Cons**	**MS**	**Cons**
G4						
US	4.1	4.2	2.1	2.7	2.0	2.3
Euro Area	5.6	5.6	2.4	2.7	2.0	2.1
Japan	3.3	3.1	3.2	2.0	1.8	1.4
UK	7.4	7.4	2.8	3.0	1.8	2.2
Selected EM						
China	0.3	0.5	1.1	1.8	1.5	2.0
India	5.6	5.4	5.1	4.6	4.8	-
Brazil	4.6	4.7	4.3	4.0	3.8	3.7

Source: Bloomberg, Haver Analytics, Morgan Stanley Research forecasts; Note: Aggregates are PPP-weighted. Cons = consensus, which is built off leading Wall Street bank forecasts from Bloomberg except for the US and Brazil, where alternative consensus sources are used with more local representation. India consensus values refer to FY.

Growth – Weak DM and Mixed EM Performance

Global GDP looks to have slowed in 2023 to 3.0%Y (3.0% 4Q/4Q). Within major DM, growth is expected to be 1.5%Y (1.4% 4Q/4Q). For the major economies, our growth forecasts are largely in line with consensus.

In the **US,** the drag from monetary policy eventually overcomes the fiscal impulse, and the US economy decelerates from here through to 1Q25. We expect growth to slow from an estimated 2.4%Y (2.5% 4Q/4Q) in 2023 to 1.9%Y (1.6% 4Q/4Q) in 2024 and 1.4%Y in 2025 (1.4% 4Q/4Q). Because the labor market slackens only a bit, labor income is supported, and falling inflation means real income is resilient. Against a backdrop of many 30-year fixed mortgages, consumption is buoyed throughout 2024. In turn, that aggregate demand keeps labor demand from falling too far. With labor participation rising slightly further in the forecast, we project a modest increase in the unemployment rate, from an estimated 3.9% at end-2023 to 4.1% at end-2024. Poor affordability keeps residential investment unchanged in 2024 before bouncing back in 2025 off lower mortgage rates. Business investment in equipment finally turns positive by 2H24, following two years of decline. The surge in non-residential construction moves to a lower, more sustainable pace.

China's growth has been muted in the post-reopening phase, amid housing and LGFV deleveraging. The risk of a debt-deflation loop remains in place. We expect reflationary policies to ramp up further in 2024, lifting real GDP growth slightly to 4.2%Y (4.1% 4Q/4Q) in 2024. Among the components of growth, infrastructure and industrial investment will likely remain robust due to policy support, while exports could improve, but only slightly, and we expect a similar year-on-year contraction in housing investment. We expect private consumption growth to normalize gradually in 2024. For 2025, we expect real GDP growth to moderate to 4.0%Y (3.5% 4Q/4Q).

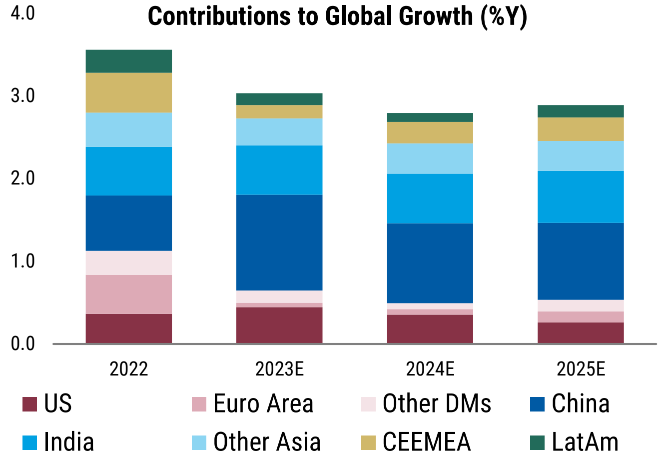
The **euro area** economy has decelerated over 2023, and our forecast remains bearish. We expect growth below potential at 0.4%Y (0.0% 4Q/4Q) in 2023, before accelerating to 0.5%Y in 2024 (1.0% 4Q/4Q), driven by a strong pick-up in 2H24. Investment and consumption have been largely stagnant, on balance, in 2023. Going into 1H24, the region will likely face the peak impact of restrictive monetary policy on growth combined with weak global trade momentum. On the upside, as inflation declines and labor markets remain resilient, rising inflation-adjusted income starts to lift consumption spending. By 2025, we estimate that real GDP growth could pick up close to potential growth, at 1.0%Y (1.1% 4Q/4Q).

The **UK** economy will likely experience a drag in the near term, following the strikes in healthcare and transport sectors. We forecast a technical recession at the turn of the year, and expect growth for the year at 0.5%Y (0.4% 4Q/4Q). Economic activity should continue to be weighed down in 2024 as monetary policy tightening takes effect, and we expect growth to effectively stall (-0.1%Y/0.2% 4Q/4Q). In 2025, we expect real GDP growth to pick up, as policy eases and falling inflation supports real income. We expect 1.0%Y in 2025 (1.1% 4Q/4Q), close to potential.

In **Japan,** the structural upward shift of nominal growth has been significant in 2023. Our baseline forecast is for nominal growth to be 5.4%Y in 2023, largely driven by increases in domestic inflation and terms-of-trade gains. We expect the strength of sustained domestic inflation and wage growth to keep nominal GDP growth near 4%Y in 2024. We expect real GDP growth of 2.0%Y (2.1% 4Q/4Q) in 2023 and 1.0%Y (1.0% 4Q/4Q) in 2024. Private consumption should be backed by real income recovery in 2024 with another round of strong spring wage negotiations. It should also be supported by the government's economic package including extended energy subsidies and a temporary income tax cut with transfers to households. We also expect resilience in domestic private capex, supported by investment in software and automation to save on labor, and the pent-up demand for digitalization accumulated during Covid-related economic restrictions. We expect real GDP growth to be 1.1%Y in 2025 (1.2% 4Q/4Q).

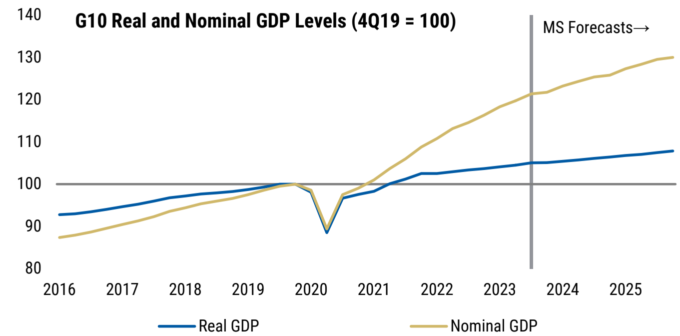
In other DM, we expect tighter monetary policy in **Canada** to weigh on growth by end-2023 and into 2024. We see growth at 1.2%Y in 2023 (0.8% 4Q/4Q) and 0.7%Y in 2024 (1.1% 4Q/4Q). The slowdown in 2024 reflects weaker consumption, a continued drag from weakness in residential investment, and soft non-residential business investment. By 2025, we expect a rebound in activity as policy normalizes, and forecast real GDP growth to be 2.0%Y in 2025 (2.6% 4Q/4Q). In **Australia,** growth will likely remain below trend at 1.9%Y in 2023 (1.4% 4Q/4Q), 1.6%Y in 2024 (1.8% 4Q/4Q), and 2.2%Y in 2025 (2.3% 4Q/4Q). The effects of policy tightening remain the key headwind for the economy. In **Sweden,** we expect growth to only pick up in 2H24, following a trough in the investment cycle and moderate support from a weaker currency; fiscal support should also help. In **Norway,** we expect the recovery in private consumption to lead the recovery in 2024. We forecast GDP growth in mainland Norway at 1.2%Y (0.5% 4Q/4Q) in 2023, 1.0%Y (1.3% 4Q/4Q) in 2024, and 1.5%Y (1.5% 4Q/4Q) in 2025.

Exhibit 4: Despite a slowdown in China, it remains the largest contributor to global growth



Source: Morgan Stanley Research forecasts; Note: CEEMEA excludes Ukraine.

Exhibit 5: Nominal growth has far outpaced real growth in DMs since the pandemic. But as we enter the last mile of the inflation journey, we should get slowing



Source: Haver Analytics, Morgan Stanley Research forecasts

In **Asia,** we expect **India** to remain solid, with growth at 6.6%Y in 2023 (6.0% 4Q/4Q) and 6.4%Y in 2024 (6.8% 4Q/4Q). Sustained growth in consumption and capex spending drive the growth outlook. Growth in 2025 will likely be similar, with 6.5%Y real GDP growth (6.4% 4Q/4Q). In **Korea,** we expect the economy to recover, with growth at 2.2%Y in 2024 (1.9% 4Q/4Q) and 2.1%Y in 2025 (2.4% 4Q/4Q), compared to 1.5%Y in 2023 (2.5% 4Q/4Q). We expect exports to lead the recovery into 2024. In **Indonesia,** growth momentum should stay relatively strong, with the drivers shifting towards a more capex- and consumption-led recovery, rather than commodity exports. We expect growth at 5.0%Y in 2023 (5.0% 4Q/4Q), 5.1%Y in 2024 (5.2% 4Q/4Q), and 5.2%Y in 2025 (5.1% 4Q/4Q).

Within **CEEMEA,** in the CE3 economies, growth in **Poland** should start to recover in 2H23 on the back of improving real disposable income while the fiscal stimulus delivers a boost to domestic demand. We forecast real GDP growth of 0.7%Y in 2023 (3.8% 4Q/4Q), 3.4%Y in 2024 (2.4% 4Q/4Q), and 2.6%Y in 2025 (2.9% 4Q/4Q). In the **Czech Republic,** growth will likely pick up as real disposable income growth turns positive. We forecast that real GDP growth will be -0.4%Y in 2023 (0.1% 4Q/4Q), but rise to 1.3%Y in 2024 (2.0% 4Q/4Q), and 2.5%Y in 2025 (2.6% 4Q/4Q). In **Hungary,** we expect the recovery of domestic demand to be aided by improved consumer confidence as real disposable income turns positive, and as EU fund inflows lift public investment. In **Turkey,** due to the projected slowdown in the euro area, we forecast that real GDP growth will slow to 3.5%Y in 2024 (3.2% 4Q/4Q) from 4.1%Y in 2023 (3.6% 4Q/4Q), and remain below potential at 3.1%Y in 2025 (4.1% 4Q/4Q). In **Israel,** the impact of the conflict on the real economy should be contained to 4Q23 while a swift recovery begins in 1Q24. We expect that GDP recovers to its pre-conflict level only in mid-2024. In **Egypt,** we expect there to be downward pressure on economic activity in FY24 from import compression (we expect an FX adjustment in 1Q24) and tight financial conditions. FY25 looks better as FX liquidity improves and inflation declines.

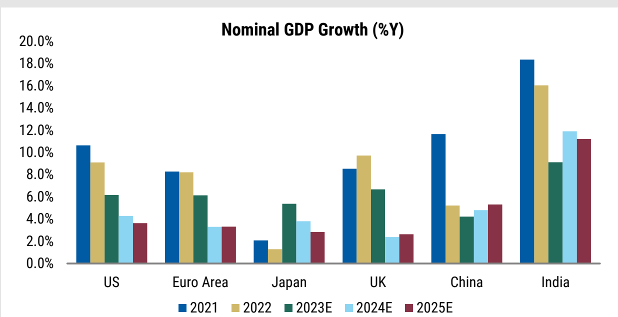
Among the **LatAm** economies, in **Brazil,** we expect muted growth in 2H23, as the agricultural sector should decelerate, and we forecast real GDP growth to be 3.1%Y in 2023 (2.9% 4Q/4Q). For 2024, a Fed that holds rates until June 2024, combined with more fiscal easing, means fewer rate cuts by the BCB, which restrains growth. This should be partially offset by the boost to fiscal spending. We forecast real GDP growth to be 1.7%Y in 2024 (2.0% 4Q/4Q) and 1.6%Y in 2025 (1.7% 4Q/4Q). In **Mexico,** we expect consumption to be boosted by strong labor markets, resilient remittances, and higher social transfers, and nearshoring should continue to boost investment. We forecast that real GDP growth will be 3.4%Y in 2023 (3.3% 4Q/4Q), 2.3%Y in 2024 (1.9% 4Q/4Q) and 2.2%Y in 2025 (2.6% 4Q/4Q). In **Chile,** monetary policy restraint is acting on the economy in 2023, and in 2024 we see Chile's economy rebounding as rate cuts starts to filter through the economy, and China's reflation policies keep external demand somewhat resilient. In 2025, we expect real GDP growth to accelerate towards potential. For **Colombia,** we expect an economic slowdown due to lower domestic demand, stemming in part from the transmission of higher policy rates. In 2024, growth should be supported by increased consumption and investment, and slightly higher oil prices. We expect the economy to transition towards a more sustainable growth path in 2025. In **Argentina,** the ongoing recession will likely deepen as FX and fiscal adjustments will likely be key features of a much-needed stabilization plan. Inflation will likely surge in 1H24 and we only expect the economy to begin a gradual recovery late in 2024 and 2025.

Thinking nominally

Economists focus on real GDP to make sure inflation does not masquerade as actual growth. Covid has forced a rethink because of the heightened volatility in inflation. For fixed income investors, nominal growth matters for debt sustainability and as most sovereign debt is nominal, it thus embeds inflation compensation and inflation risk (see our EM debt-sustainability note or the box on Diving into DM government debt). For equity investors, earnings are always in nominal terms – and as highlighted by strategists in different regions, the variance between price and volume has been consequential for earnings expectations, particularly as inflation started to normalize in 2023 and will continue to do so over the forecast horizon.

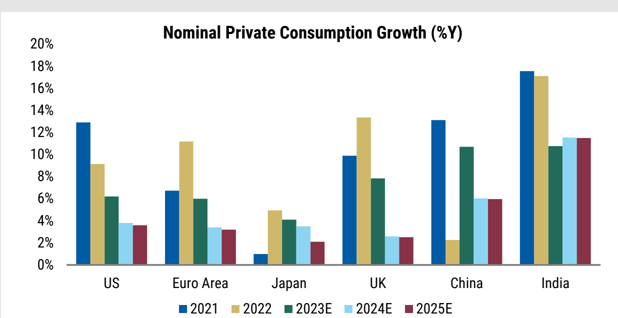
In real terms, Asia is a clear outlier for growth and hence a key source of alpha opportunities – particularly in India, which is Morgan Stanley global equity strategists' top region for investment. In nominal terms, however, the story is very different for Asia. Exhibit 6 shows how, in nominal terms, Asia is little differentiated from the rest of the world. What is perhaps more interesting is the trend across the forecast horizon within regions. There is a step down in nominal growth in every region: in the G10 economies, nominal growth falls in half; in LatAm, where real growth slows, then picks up, nominal growth only grinds lower; and CEEMEA shows a curious pattern where real growth will be trending up, but nominal growth will be trending down. Meanwhile, Asia drives sideways as China slows structurally while combating deflation risks – India, Indonesia, and the Philippines are still small relative to China in terms of economic size.

Exhibit 6: Nominal growth is slowing across the forecast horizon in DM



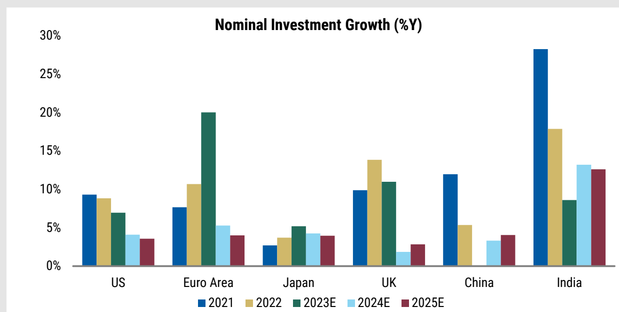
Source: Haver Analytics, Morgan Stanley Research forecasts

Exhibit 7: Only India is forecast to see improved consumer nominal growth of the sample



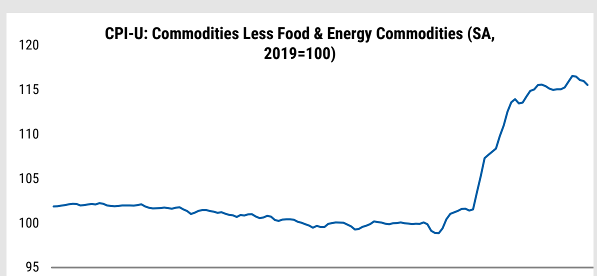
Source: Haver Analytics, Morgan Stanley Research forecasts; Note: Nominal GDP forecasts are estimates from GDP and PPI trends/regressions; GDP deflators are not measured explicitly.

Exhibit 8: Nominal investment in Europe faces a material decline



Source: Haver Analytics, Morgan Stanley Research forecasts. Note: Nominal GDP forecasts are estimates from GDP and inflation trends; GDP deflators are not measured explicitly.

Exhibit 9: The price level of tradeable goods (a.k.a. commodities ex food/energy in US statistical data) remains elevated versus pre-Covid levels



Source: BLS, Haver Analytics, Morgan Stanley Research

The step down in nominal growth dynamics is particularly important for the investment side of the economy. As consumer prices normalize, so to are producer prices expected to follow, particularly in Europe, where historical relationships suggest that the decline will be steep into 2024 (Exhibit 7). In the euro area, the decline in inflation is happening as real growth is stalling. And given the deflationary impulse from China, that pattern looks set to continue in the industrial sector. Europe is most susceptible to normalization in PPI as, after the step down in 2024, the US and Asia look broadly sideways.

On the consumer side, the fall in nominal terms is not as dramatic as it is on the investment side of the economy, but there are differences in trend (Exhibit 8). Growth in the G4 economies for the consumer will be weak and likely converge to the trend of low-to-mid-single-digit nominal growth. The inflation dynamic for the consumer looks better supported in the US than in Europe or Japan. Chinese consumption, nominally, has been quite volatile but is forecast to stabilize, though it is better supported by real growth than inflation.

While most of the regions face risks from trends in growth and inflation adjacent to actual consumption (e.g., labor market, monetary policy, etc.), there is one risk that cannot be ignored – while goods inflation started to decelerate in 2023, the level of prices remain highly elevated (Exhibit 9). While there may have been a structural step change during Covid for the prices of goods, the price level of goods remains far above pre-Covid trends. The risk is that too much demand was pulled forward and will have to normalize over time. There is a scenario in which goods pricing remains persistently negative, which would be a major headwind not only for US goods producers but also exporters around the world. Exhibit 9 reminds us that the disinflation process will take years not quarters, with consequential implications for investors.

ports. There are many facets driving the deflation risks that must be dealt with individually. Ultimately, unlike when driving growth in the industrial sphere, reflation will require improvements in consumer confidence – this is a gradual process. We forecast CPI to improve to 1.1%Y (1.5% 4Q/4Q) in 2024 and 1.5%Y (1.9% 4Q/4Q) in 2025, with the GDP deflator recovering to 0.6% in 2024 and 1.3% in 2025. In **India,** we expect headline inflation to gradually align with the 4%Y target with volatility in food prices presenting a key risk, while core inflation is likely to be range-bound around 5%Y. Across other Asian EMs, inflation remains stable, with commodity prices and a strong dollar driving currency depreciation the source of upside risks.

CEEMEA and **LatAm** have seen the sharpest declines in inflation over the course of 2023 (Exhibit 10), and disinflation is likely to continue, albeit at a slowing pace, throughout 2024 and 2025.

Across **CE3** economies, regional dynamics like tighter labor markets, wage growth, energy prices, and improving consumer demand lead to differing but range-bound paths for inflation in 2024, but over the course of 2025 inflation sustainably converges to targets. In **South Africa, Saudi Arabia,** and **Israel,** inflation remains subdued, while it remains elevated through to 2H24 in **Turkey** and **Egypt,** and inflationary pressures only ease in 2H24 with policy reforms and large base effects beginning to kick in.

In **LatAm,** FX considerations, El Niño-led food inflation, energy prices, and policy uncertainty pose upside risks to the strong disinflationary trend the region has been experiencing. **Brazil** has seen lower food inflation and persistent services inflation over the course of 2023, but in 2024 they switch roles, as El Niño and base effects (resulting from a record-high harvest in 2023) contribute to accelerating food inflation, while lagged effects of monetary policy soften core services inflation. Disinflation continues over our forecast horizon, at 4.4%Y (4.4% 4Q/4Q) in 2024 and 3.8%Y (3.5% 4Q/4Q) in 2025, still above the inflation target. In **Mexico,** tight labor markets and elevated capacity utilization rates have helped to keep core services inflation high, while goods disinflation continues to drive improvement in CPI. We expect this trend to continue, with inflation only falling to the 3.5%Y target in 2025. In **Chile,** slack in the economy and lower commodity prices allow inflation to approach the 3%Y target by 2H25. **Colombia** continues to see disinflation play out slower than other economies in the region, and in 2024 inflation remains at 6.6%Y (5.2% 4Q/4Q), above the 3%Y target.

Real rates: Measures and monetary policy implications

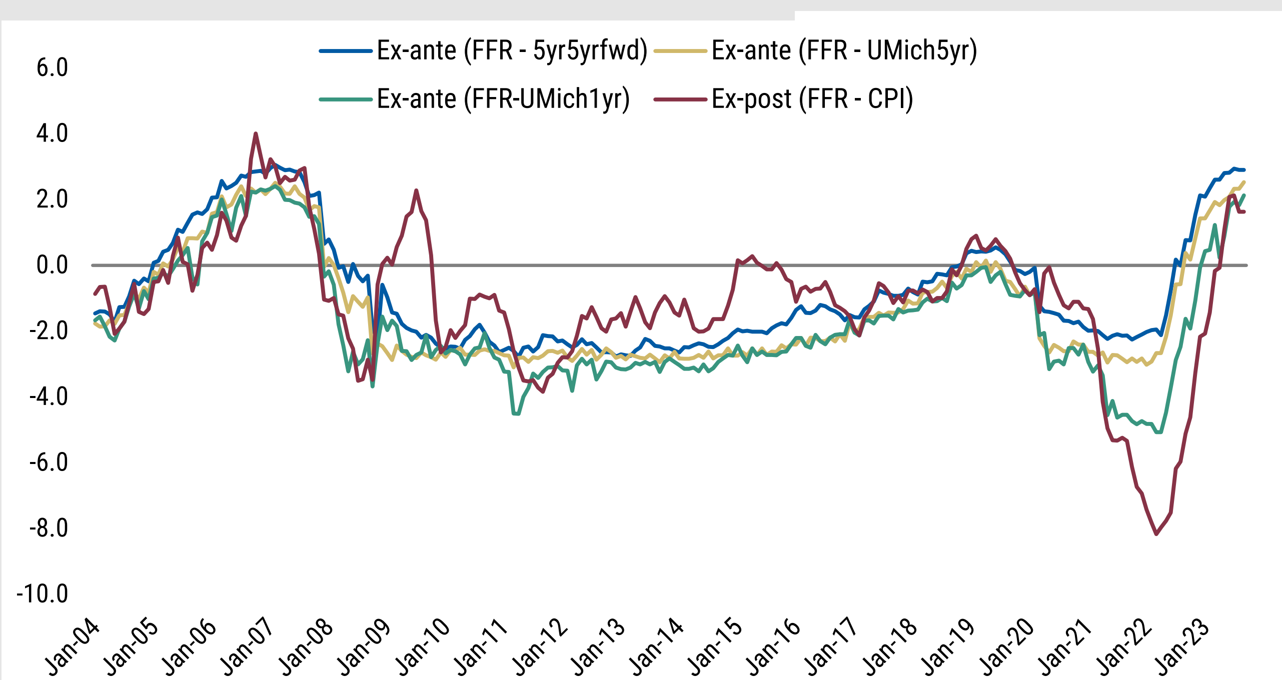
Economists take it as an article of faith that real – that is, inflation-adjusted interest rates – not nominal interest rates drive the economy. In particular, policymakers appeal to the difference between the real policy rate and the neutral real rate as a measure of the restrictiveness of policy. But the real neutral rate is never observed, so there is already imprecision. To make matters worse, actually measuring the current real rate is not obvious either. The ex post real rate comes from subtracting current inflation (usually over the past 12 months) from the nominal rate. The ex ante real rate instead subtracts a measure of expected inflation. In periods of moderate inflation levels, expected and actual rates of inflation differ little; in current circumstances, the differences are large.

Exhibit 13 shows three measures of ex ante real federal funds rate (FFR), computed using survey- and TIPS-implied inflation expectations: the 1-year and 5-year ahead expected inflation, based on the University of Michigan's survey of consumers, and the 5-year, 5 year-forward breakeven from TIPS. The ex post rate subtracts the realized CPI inflation from the FFR.

The different measures of the real policy rate differ substantially over time. Just after the financial crisis, inflation fell and the ex post real rate soared, while inflation expectations were more anchored, and ex ante real rates moved much less. Over the past 18 months, the divergence has been larger, with as much as a 6pp gap between ex post and ex ante real rates. But even among ex ante measures, the variance has been extremely large of late. In 2H22 – when the Fed and markets were starting to ask how much tightening would be sufficient – the different ex ante measures did not all have the same sign, and differed by as much as 4pp.

To complicate the issue further, households and businesses often care about different sets of prices in the economy, and indeed across households and businesses different sets of prices might be relevant. The upshot is that although central banks refer to real interest rates all the time, the ability to measure real rates is limited and subject to uncertainty measured in percentage points. Consequently, policy will always have a backward-looking, data-dependent component as the effect of the stance of policy on the real economy is revealed over time.

Exhibit **13**: Ex ante and ex post federal funds rate



Source: Bloomberg, Federal Reserve Board, Morgan Stanley Research

Monetary Policy – The Last Mile

Most DM central banks have signalled that they will keep rates at the peak until they are convinced that inflation is converging to target. We expect the first cuts to come in 2024. We forecast the ECB and the Fed to start lowering policy rates in June. Growth concerns in Europe push for cuts from a lower peak, but falling inflation and subpar growth in each economy are key. In contrast, we have Japan hiking in July 2024 from the zero interest rate after leaving NIRP in January 2024. EM central banks had hiked early, but will be caught in the crosshairs as high real rates in DM force delays to their normalization path.

We expect the Fed to hold interest rates elevated until it sees inflation near 2.5%Y and clearly still falling. The strong labor market and economic resilience in 3Q23 mean that more than a quarter of soft data are needed for the Fed to start lowering the policy rate. After the first cut of 25bp in June 2024, we see a further 25bp decline in September and at every subsequent policy meeting in our forecast horizon. So, the funds rate falls 100bp in 2024 and 200bp in 2025, leaving the policy rate at 2.25-2.5% when inflation is near to but just above 2.0%Y. Conceptually independent of the cutting, the discussion and tapering of QT is tied to declines in the level of the Fed's RRP facility. Extrapolating the current pace of decline, tapering of QT likely starts in June next year.

We expect the ECB to start cutting in June, the same time as the Fed. While the ECB has been much more focused on headline inflation, we think that persistently weak euro area economic growth pushes down the ECB's inflation forecast, and leads to a cut. The weak growth in the euro area in 2024 stabilizes somewhat in 2025, as growth picks up because consumption normalizes as inflation falls. Against this backdrop, the path of inflation is projected to fall back to and remain around 2%Y throughout 2025. Consequently, in our forecast, the ECB lowers its policy rate to 2% by 3Q25.

The BoE follows a somewhat similar path to the one in the euro area, cutting rates as early as 2Q24, also because of subpar growth. The impetus to cut arrives when headline inflation falls below 3%Y and core below 4%Y in 2Q24. We think that the BoE remains highly data dependent, but the rapid pace of the fall in inflation in 1Q24 is more important than the level of inflation. We see inflation stabilizing at 2%Y in 2025, enabling the BoE to continue to cut gradually throughout the forecast horizon.

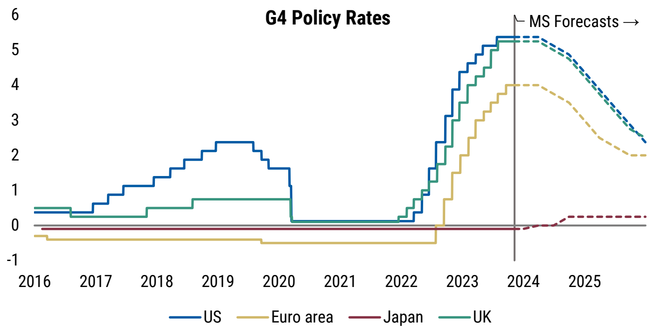
We expect the BoJ to remove both the Negative Interest Rate Policy (NIRP) and Yield Curve Control (YCC) in January 2024. The move in October to remove the ceiling on the 10-year and change 1% to a reference rate affirmed our call. However, the next step, away from the zero interest rate policy, requires a higher threshold than leaving NIRP. We see the further step of policy normalization only in July 2024 as nominal growth improves, though that is the only hike forecast as the inflation outlook is stable through 2025.

Stabilization in Fed expectations as US inflation normalizes and growth slows helps to reopen the path for rate cuts across LatAm. The path will likely be slower than markets had anticipated as recently as 2Q23, because these central banks will have to grapple with their currencies as the Fed stays higher for longer. Nevertheless, with real interest rates still high by historical standards, there is room to cut.

Within CEEMEA the story is mixed. A cutting cycle in CE3 is forecast as Poland and the Czech Republic gradually normalize rates from moderate levels. Hungary sees more aggressive cuts from elevated levels to converge towards its CE3 peers. We forecast the SARB to begin its cutting cycle in 3Q24 as it moves to 8.00% and then stops at 7.25%, where it spends most of 2025. Turkey, Ukraine, and Egypt are special situations. Saudi Arabia runs a currency peg and imports US policy rates.

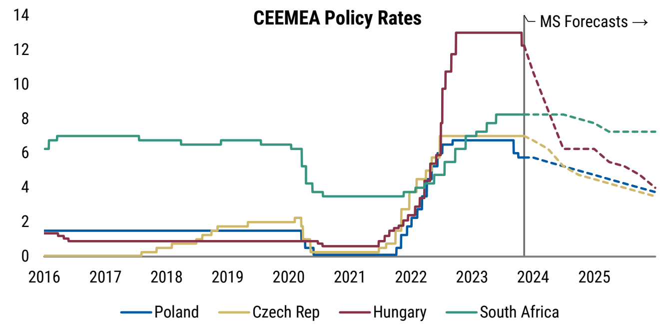
As China grapples with subdued inflation and holds rates low over the forecast horizon, we see very moderate policy rate changes across EM Asia. Central banks in Indonesia and the Philippines both hiked rates in recent weeks on the back of pressure from a strong dollar and higher global rates, but after adjusting the forecast path of rates, we see limited scope for continued upside rate surprises, particularly if the US inflation path remains benign. In Korea and Taiwan we see modest cuts as inflation falls. We forecast the RBI to hold rates from 3Q24 at 6.00% as inflation drifts sideways.

Exhibit 14: Policy is normalizing everywhere



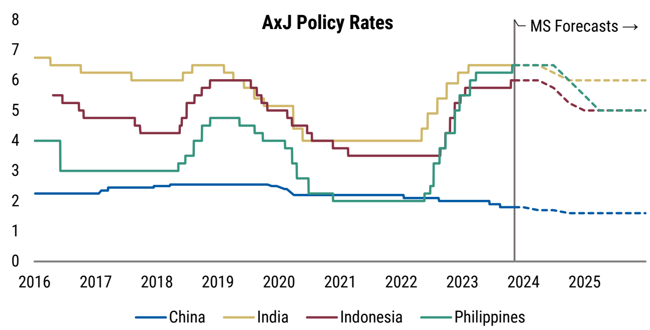
Source: National central banks, Haver Analytics, Morgan Stanley Research forecasts

Exhibit 15: Early to hike, the cutting cycle in CEEMEA will likely proceed cautiously



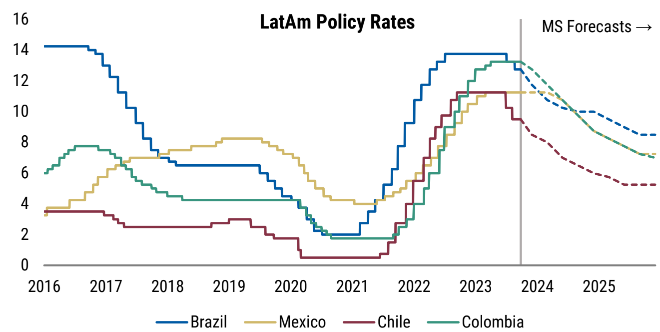
Source: National central banks, Haver Analytics, Morgan Stanley Research forecasts

Exhibit 16: In Asia, China stays accommodative with modest adjustment elsewhere



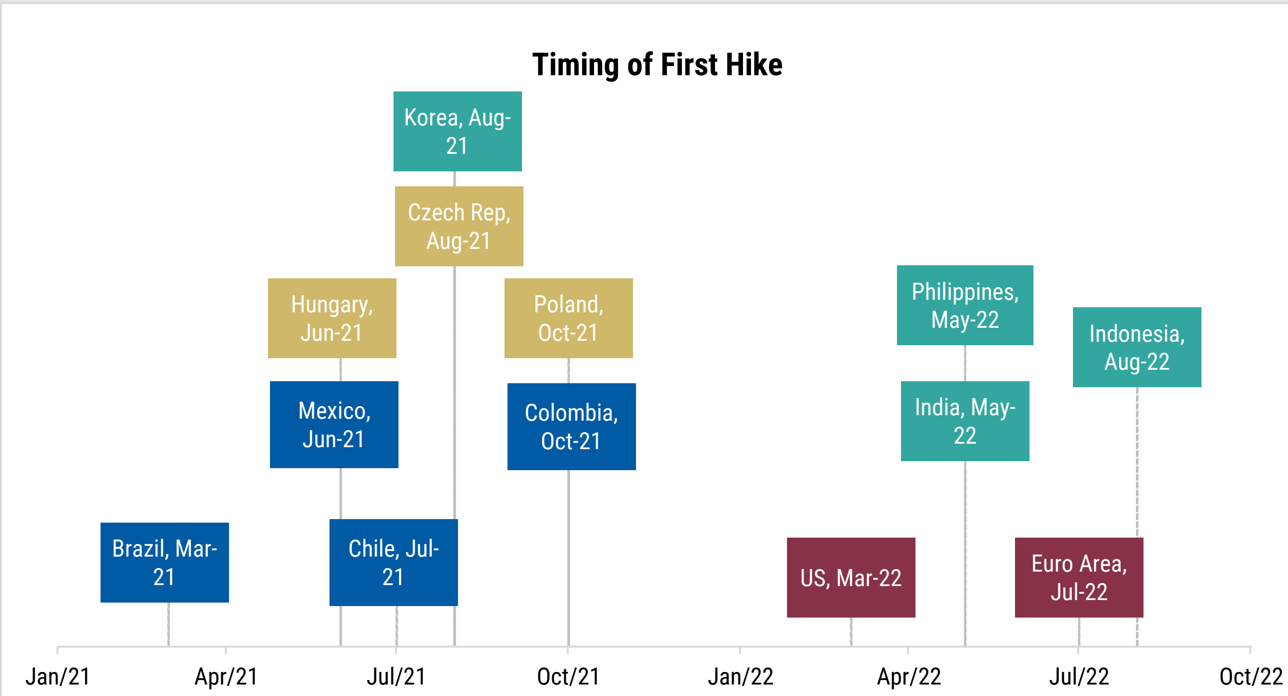
Source: National central banks, Haver Analytics, Morgan Stanley Research forecasts

Exhibit 17: LatAm sees a cutting cycle with caution



Source: National central banks, Haver Analytics, Morgan Stanley Research forecasts

Exhibit 18: Most EMs anticipated the DM hiking cycle



Source: National central banks, Morgan Stanley Research

The downside to 'higher for longer'

This entire hiking cycle, we have said that the US economy would avoid recession, and the Fed would hold its policy rate in restrictive territory for years, the so-called 'higher for longer' strategy. Anticipating the DM hiking cycle, EM central banks were early to start hiking this cycle (Exhibit 18). The logic was to try to insulate their domestic economies from higher rates elsewhere. As DM markets began to pivot to a pause, many EM central banks began to position to start cutting.

The US 3Q23 GDP data upside surprise confirmed that the US economy remains very strong, forcing the market to consider the possibility that the Fed may be on hold at the peak rate well into next year. This higher-for-even-longer view for the Fed changes things a lot for EM. EM central banks that had already started their easing cycles or were poised to start soon will have to reconsider. Recent communication from a few EM central banks has pointed to a stronger dollar, implying weaker currencies and thus upside risks to inflation. The change in tack is likely to restrain LatAm and CEEMEA central banks in their easing cycles, while Asian central banks have recently provided rate-hike surprises.

At the beginning of the hiking cycle, LatAm central banks were clearly ahead of the curve. They hiked early, hiked aggressively, and were early to cut, starting from historically elevated real rate levels, often nearing 8%. However, as the US data have stayed strong and US real rates have been rising, we are seeing increased caution, which could translate into slower normalization paths. Cutting too much could weaken the currency and reignite inflation. Specifically, we think that the BCB could easily reduce the size of rate cuts to 25bp from 50bp as it gets closer to perceived neutral levels. In Chile, macro-prudential concerns and greater upside risks to inflation also push for caution. Colombia's BanRep will similarly have to consider a softer path if the Fed needs to pursue a higher path for policy. However, the dilemma is clear. If central banks cannot ease policy because of concerns about the currency and inflation, the real side of the economy will likely suffer. Within LatAm, Banxico stands out as an exception, given how closely aligned the Mexican economy is to the US. If stronger growth in the US is the driver, Mexico should benefit from the spillover.

In CE3, the cautionary stance is broadly similar. Both the Fed and the ECB are contributing to the high real rates, making

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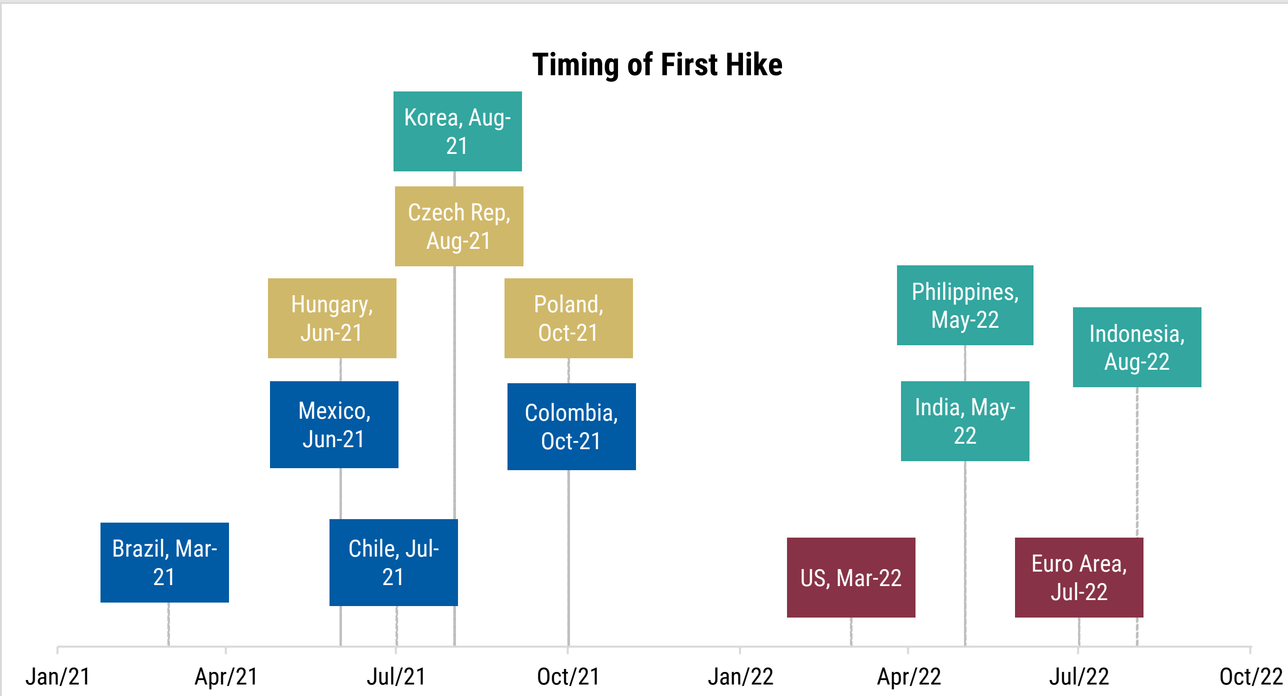

Source: National central banks, Morgan Stanley Research

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In CE3, the cautionary stance is broadly similar. Both the Fed and the ECB are contributing to the high real rates, making the path to normalization tricky. After initial accelerated cuts in Poland and Hungary, we see greater caution in the path forward as the pace of cuts has reduced in the most recent meetings. Nonetheless, the recent decision by the National Bank of Hungary to lower its base rate by a larger-than-expected amount provides an exception to the rule.

Asia has much more heterogeneity. China is still facing disinflationary pressures, so monetary policy should stay accommodative. We still think that the Reserve Bank of India will cut rates, but we have pushed out the start of that cycle. For other Asian central banks where we have been expecting cuts over the next year, the chances are dissipating. Indeed, the BSP in the Philippines recently resumed tightening in an off-cycle move, signalling follow-through policy action to bring inflation back to target. The move by the BSP came after Bank Indonesia restarted its rate-hike cycle in response to elevated US real yields. The policy conundrum that BI is facing epitomizes the tensions for EM monetary policy, balancing domestic versus external pressures. In Indonesia, inflation had already fallen within the target and real rates are high on a historical basis. But from an external standpoint, the currency has been depreciating because of high and rising US real rates driving the dollar higher, and a reversal in Indonesia's terms of trade. BI's mandate for currency stability takes center stage. Even short of such an explicit mandate, the lessons of BI are widely applicable.

Exhibit 19: Policy rate forecasts

Economy	Current Policy Rate (Last Change)	Next Meeting Date	End of Quarter Policy Rate Forecast (21Q1E to 25Q4E)	Next Expected Move	Timing of Next Expected Move
G10					
US	5.375% (N/A)	13-Dec-2023	0.125 5.375 4.375 2.375	-25 bp	Jun-24
Euro Area	4.00% (N/A)	14-Dec-2023	-0.500 4.00 3.00 2.00	-25 bp	Jun-24
Japan	-0.10% (N/A)	19-Dec-2023	-0.100 -0.1 0.25 0.25	+10bp	Jan-24
UK	5.25% (N/A)	14-Dec-2023	0.100 5.25 4.25 2.50	-25 bp	May-24
Canada	5.00% (N/A)	6-Dec-2023	0.250 5.00 4.00 2.50	-25 bp	Jul-24
Norway	4.25% (N/A)	14-Dec-2023	0.000 4.50 4.00 3.00	+25 bp	Dec-23
Sweden	4.00% (+25 bps)	23-Nov-2023	0.000 4.25 3.50 2.50	+25 bp	Nov-23
Australia	4.35% (+25 bps)	5-Dec-2023	0.100 4.35 4.60 3.60	+25bp	Feb-23
EM					
CEEMEA					
Poland	5.75% (N/A)	6-Dec-2023	0.100 5.75 4.75 3.75	-25 bp	Mar-24
Czech Rep.	7.00% (N/A)	21-Dec-2023	0.250 6.75 4.50 3.50	-25 bp	Dec-23
Hungary	12.25% (-75 bps)	21-Nov-2023	0.600 10.75 6.25 4.00	-75 bp	Nov-23
Ukraine	16.00% (-400 bps)	14-Dec-2023	6.500 15.00 12.00 12.00	-100bp	Dec-23
Turkey	35.00% (+500 bps)	23-Nov-2023	19.000 37.50 40.00 30.00	+250bp	Nov-23
South Africa	8.25% (N/A)	23-Nov-2023	3.500 8.25 7.75 7.25	-25 bp	3Q24
Egypt	19.25% (N/A)	21-Dec-2023	8.250 19.25 19.25 14.25	+200bp	1Q24
AXJ					
China	1.80% (-10 bps)	End-Dec	2.200 1.80 1.60 1.60	-10bps	1Q24
India	6.50% (N/A)	8-Dec-2023	4.000 6.50 6.00 6.00	-25 bp	Jun-24
Korea	3.50% (N/A)	30-Nov-2023	0.500 3.50 3.00 2.50	-25 bp	Jul-24
Indonesia	6.00% (+25 bps)	23-Nov-2023	3.500 6.00 5.00 5.00	-25 bp	2Q24
LatAm					
Brazil	12.25% (-50 bps)	13-Dec-2023	2.750 11.75 10.00 8.50	-50 bp	Dec-23
Mexico	11.25% (N/A)	14-Dec-2023	4.000 11.25 8.75 7.25	-50 bp	Jun-24
Chile	9.00% (-50 bps)	19-Dec-2023	0.500 8.50 6.00 5.25	-50 bps	Dec-23
Colombia	13.25% (N/A)	19-Dec-2023	1.750 12.75 8.75 7.00	-50 bp	Dec-23
◆Historical ◆First Hike ◆First Cut ◆MS Quarterly Forecasts ◆Current					

Source: National central banks, Haver Analytics, Morgan Stanley Research forecasts

Alternative Scenarios

Upside scenario – a fundamentally stronger US economy

The upside scenario is one where US growth reaccelerates because short-run r* is higher, meaning that the Fed has undershot notably the amount of hiking needed to slow the economy and bring inflation down. The 2023 upside surprise from consumption and investment extends into 2024, where GDP increases by 2.8%Y (2.5% 4Q/4Q). Payroll growth remains strong, at around 200k/month, and the unemployment rate stays anchored at around 3.4%. Related to this strength, we see continued spending by state and local governments, as tax revenues remain resilient and post-Covid stimulus continues to support local capital investment. The relative strength drives a reacceleration in inflation, even as the housing (rent) subcomponent decelerates. Inflation stays above 4%Y in 2024, and expectations at around 5%Y. The data are so strong through year-end that the Fed renews its hiking through the end of 2024. In this scenario, we forecast 100bp of hikes, with the first cut coming only in 2025.

This scenario implies some positive growth spillovers to other economies, but there is a countervailing implication from global rate differentials and relative dollar strength. What kind of inflation risks would such a scenario create around the world? The pressures on key dollar cross currencies in Japan, Europe, and China are particularly noteworthy. Overall, a growth reacceleration in the US, while an upside, would probably increase risks for the rest of the world, and could therefore be viewed as something negative, as global central banks would likely be left in a predicament between growth and inflation.

For the euro area, more robust activity in the US and additional Fed hikes in 2024 would have the ECB increasing rates in June and September 2024, to 4.5%. The first cuts would be delayed to June 2025, with rates at 3.75% by end-2025. For the UK, a pick-up in growth in early 2024 would be likely, but fewer cuts from the BoE in 2H24 would weigh on growth in 2025. In such an upside scenario with additional hikes by the Fed, we forecast that the BoE would likely hike by another 50bp over 2024 and cuts would be postponed to 2025.

In Asia, the pressure of weaker currencies is likely to have implications for policy decisions. In Japan, the 150 USD/JPY level, which has historically been sensitive, might see further pressure, and drive faster inflation in Japan. The recent positive wage-inflation cycle in Japan is reinforced, and would push the BoJ to hike rates sooner than expected. The ability for China to defend CNY would become increasingly expensive and could drive further currency weakening. A weaker currency in China has historically been linked with weaker consumer confidence. In Indonesia, higher Fed rates could lead to further hikes, which would bring real rates higher and weigh on rate-sensitive areas of spending, especially capex.

In LatAm, implications stemming from the upside scenario are mixed. For Brazil, paradoxically, a stronger US economy and even more restrictive Fed policy is the downside scenario. Here, the BCB stops the easing cycle earlier to keep monetary policy in a contractionary stance to support the currency. As a result, we see slower growth, although improved Chinese growth dynamics and possibly looser fiscal policy help to offset the downturn in activity partially. On the other hand, stronger US growth supports Mexico's external demand, and Banxico hikes further in 1H24 as the Fed resumes its tightening cycle, before starting to cut in 2025 as the Fed starts to normalize policy.

GenAI: Macro implications

Generative artificial intelligence (GenAI) will have wide-ranging effects on the economy. Based on a proprietary Enterprise AI Impact Index created by our global technology team, GenAI could replace or meaningfully change a wide range of occupations. But when this technology affects the US economy is as important as how. Recently published research explores the potential effect of GenAI on labor markets, inflation, and interest rates. We summarize them below.

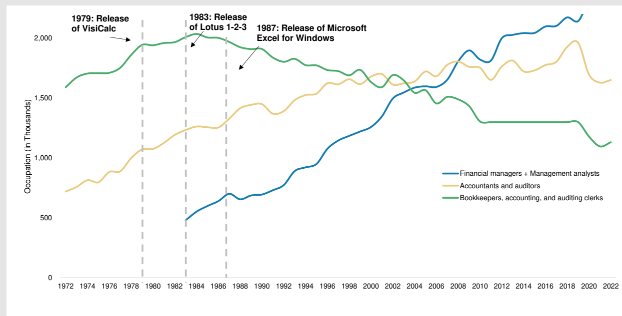
Evidence supports net job creation as a clear possibility. In theory, the impact of GenAI on labor demand is uncertain. New technology can increase demand for labor by creating new tasks and boosting economic growth. But GenAI can also displace workers as existing tasks are performed by machines and software. A close look to past technological innovation points us to net job creation as more likely. Spreadsheets were introduced in the 1980s. As adoption of the technology spread, fewer Americans worked as bookkeepers and accounting/auditing clerks, but there was a significant increase in Americans employed as accountants/auditors and management analysts and financial managers (Exhibit 22).

GenAI will likely boost productivity growth, but technology adoption takes time. We think that generative AI has the potential to reverse the downtrend in labor productivity (LP) and total factor productivity (TFP) growth once the technology is widely adopted (Exhibit 20). But adoption takes time and our CIO survey data and recent funding activity suggest that GenAI remains in the early stages of the opportunity. In fact, historical data suggest that technology adoption is not linear, and new technologies generally take about 10 years to reach critical mass. Moreover, measurement issues might underestimate a potential productivity boom, especially if GenAI creates new goods and services or improves the quality of existing ones. It takes time for new goods or services and for quality adjustments to be captured in official statistics.

After adoption, in the short run, more productivity could cause lower inflation and interest rates. Higher productivity means more supply of goods and services and lower marginal costs for firms, which should mean lower inflation. Our models estimated with historical data suggest a disinflationary impulse as productivity growth increases. And as inflation decreases relative to a baseline, the Fed will tend to have lower interest rates to allow inflation to get to target and for the economy to grow into its new potential.

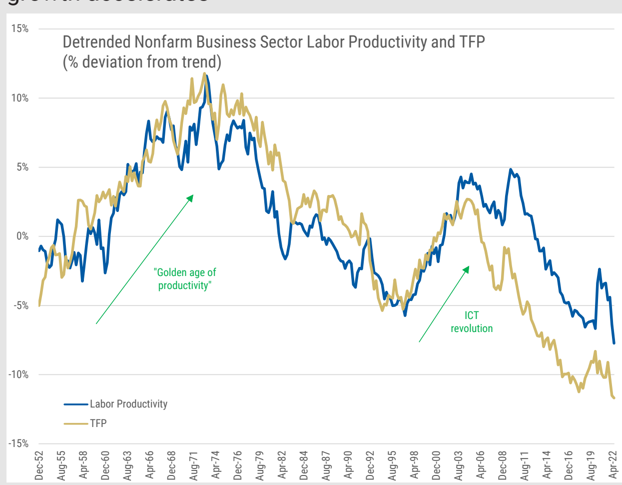
In the longer run, however, interest rates might increase. When inflation is at target and the economy has used up the new productive capacity, interest rates will tend to be higher during the period of high productivity growth. A persistent acceleration in productivity increases real returns and makes investment more attractive. And higher demand for investment (and aggregate demand) tends to increase the neutral interest rate or r*, all else equal.

Exhibit 20: Fewer Americans were employed as bookkeepers and accounting/auditing clerks; those employed as accountants/auditors, management analysts, and financial managers increased



Source: Bureau of Labor Statistics, Morgan Stanley Research; Note: Data for financial managers or management analysts are unavailable prior to 1983. Given changes in occupational definitions, data are not strictly comparable over time.

Exhibit 21: As new technologies are adopted, productivity growth accelerates



Source: Bureau of Economic Analysis, FRB San Francisco, Morgan Stanley Research

Downside scenario – a protracted debt-deflation cycle in China

The downside scenario envisions a severe debt-deflation cycle in China, where an insufficient policy response exacerbates a pullback in the economy. A major housing shock where housing prices in bigger cities fall another 20% or more hits the economy but central government backstops and guarantees on developer/LGFV debt remain insufficient. The shock would kick-start a cascade of defaults, spending cuts, and asset revaluations, damaging the leveraged part of the economy. Consumers will likely withhold from spending in light of uncertain income prospects, investment losses, and negative housing wealth effects. Therefore, economic entities that borrowed 165% of GDP (local government, property developers, households) could face balance sheet contraction, exacerbating deflation pressures. Moreover, the financial system would face capital shortages amid mounting NPLs, and credit growth falters, affecting the productive part of the economy.

The implication in China would be a hit to real GDP of 1.5pp in 2024 and 1pp in 2025. Focusing on 2024, slower growth of 2.7%Y (2.3% 4Q/4Q) would be driven primarily by investment (down 3.3pp to 0.5%Y). Real manufacturing and infrastructure investment growth would reach ~3%Y (versus our base case of ~5%Y), and housing investment would see a deeper contraction at -14%Y versus the base case of -9%Y. Meanwhile, private consumption would slow at a somewhat milder pace (down over 2pp to 2.9%Y), led by discretionary spending (such as outbound tourism and luxury spending). A severe slowdown in domestic demand would lead to an even sharper decline in real imports of goods and services – likely reaching -8%Y in 2024, 11pp lower than the base case.

Spillovers stemming from a protracted debt-deflation cycle in China are likely to have negative implications in Asia. The Chinese slowdown affects ASEAN demand, which more than offsets tech exports recovery, and translates into an extended rate-hike cycle, which leads to even more restrictive monetary policy. In Korea, the exports recovery fails to offset and buffer growth amid weakening consumption, while the tech upcycle effect would be offset by slower-than-expected external demand.

The spillovers would also be material for Europe. The incremental export demand for the eurozone industrial complex has come from China in the last two decades. Our recent analysis shows the relatively weak benefit to Europe from a consumer cycle in China, emphasizing the threat it places on eurozone industry – particularly visible in recent PMI softness. In this scenario, Europe faces weaker demand from China while also struggling with an energy crisis that is raising the costs of European export processing. An accelerated deterioration in Chinese growth likely extends the German technical recession and weighs heavily on European exports.

A weaker Chinese economy also has negative implications for LatAm, in particular for Brazil, Argentina, and Chile. In prior work where we analyze the linkages between Chinese growth and Latin American exports, we found heightened sensitivity in those economies. The links between Brazil and Chinese industrial demand, linked to iron ore and a lack of stabilization in the downcycle, would continue to weigh on Brazil. In Chile, because copper has both industrial and consumer utility, the relative stability in exports would face greater downside risks relative to the baseline in an adverse China scenario. More broadly, depressed global demand with elevated US interest rates raises concerns about LatAm macro stability.

For better or worse, a Chinese slowdown is unlikely to have material implications for US growth. All else equal, a deflationary episode characterized by overcapacity in manufacturing may help to lower prices in the US, but given that durable goods are such a small contribution to US inflation, the benefit would be muted; US inflation is lower, but within the margin of forecast uncertainty. With modest drag on real economic activity, the implications for Fed policy are limited.

US Election Outlook

It is too early to predict the next US president or the control of the US Congress following next year's election. Preliminary polling data at the presidential level suggest a very tight race. In an environment of elevated deficits, the election outcomes matter. The scenarios we lay out capture only some of the fiscal possibilities in different electoral outcomes depending on if the president and Congress are uniformly Republican or Democrat. Our baseline assumption is that the US will have a divided federal government – that is to say neither party controls the White House and both houses of Congress.

The politics of deficit spending have changed, according to our political analysts: After the post-Covid inflation wave, cost of living became the most important economic policy issue for voters. The link between deficit spending and inflation is now better understood among politicians. Furthermore, priority legislation for both the Republicans and Democrats were achieved in the previous two presidential cycles, notably tax cuts for the Republicans and infrastructure spending for the Democrats. Policy priorities now revolve around regulation for AI and crypto more so than deficit spending. Therefore, the key spending decisions in the next presidential cycle, barring an economic slowdown or military escalation, should revolve around the expiry of existing policy packages – notably what to do about the expiry of the 2017 Tax Cuts & Jobs Act (TCJA) and leftover provisions of the Build Back Better Act.

Under the baseline assumption, the fiscal impulse fades – the -5.5% of GDP FY22, which jumped to -6.0% in FY23, instead holds at -6.0% in FY24; the FY25 deficit projection of -6.3% is similarly little changed: In absolute dollar terms, the deficit widens from US$1.69 trillion in FY23 to US$1.72 trillion in FY24. On the spending side, cost-of-living adjustments for social security and healthcare programs, rising interest outlay expenses, and continued deployment of the Infrastructure Investment and Jobs Act are offset by normalization of individual income and capital gains taxes.

However, American politics have been fairly unpredictable over the past two election cycles, so we must also consider risk scenarios. In a fiscal contraction scenario, one path would include continued uncertainty on House leadership and enactment of the Fiscal Responsibility Act provision whereby discretionary spending reductions are mandated if there is a continuing resolution determining the budget by January 1. In such a scenario we estimate that the FY24 deficit could contract versus our target and narrow to 5.9%, which is about a 1% spending cut split 25% military, 75% non-defense. Fiscal expansion scenarios can come from two sources: either an escalation in military conflict or a strong populist shift in the election trail.

Exhibit **22:** Deficit impact by scenario

Election Outcome	Plausible Policy	Incremental Deficit Impact ($b)	Potential FY2025 Deficit Impact ($b)
Divided Government	• Extension of some individual, some corporate provisions from Tax Cuts & Jobs Act • Some BBB-focused initiatives like the enhanced Child Tax Credit	*Baseline* $793b over 10Y $79b per year	*Baseline* -$1.85t -6.3% of GDP
Republican Sweep	• House GOP Tax Plan (the American Families & Jobs Act)	$1.05tr over 10Y $105b per year	+$26b per year vs. baseline +10bp: -6.4% of GDP
Democrat Sweep	• Select TCJA extensions, other expirations • Increased revenue collection to partially offset tax cut extensions • Social spending & certain tax credits leftover from the Build Back Better plan (including the enhanced Child Tax Credit)	$427b over 10Y $42.7 per year	-$38b per year vs. baseline -13bp: -6.2% of GDP

Source: Morgan Stanley Research forecasts

Exhibit 23: Morgan Stanley alternative scenario GDP growth forecasts

GDP (YoY)	2023E	2024E			2025E		
	Base	Downside	Base	Upside	Downside	Base	Upside
Global*	**3.0**	**1.8**	**2.8**	**3.5**	**2.1**	**2.9**	**3.5**
Global ex US*	**3.2**	**2.0**	**3.0**	**3.7**	**2.3**	**3.2**	**3.8**
G10	**1.5**	**0.4**	**1.2**	**1.9**	**0.8**	**1.3**	**1.8**
US	2.4	0.9	1.9	2.8	1.0	1.4	1.9
Euro Area	0.4	0.0	0.5	1.1	0.6	1.0	1.6
Japan	2.0	0.2	1.0	1.2	0.1	1.1	2.3
UK	0.5	-0.7	-0.1	0.7	0.7	1.0	1.4
EM*	**4.2**	**2.8**	**4.0**	**4.7**	**3.0**	**4.0**	**4.7**
EM ex China*	**3.6**	**2.9**	**3.8**	**4.6**	**3.2**	**4.1**	**4.8**
China	5.1	2.7	4.2	5.0	2.8	4.0	4.5
India	6.6	5.9	6.4	6.9	5.8	6.5	7.2
Brazil	3.1	1.2	1.7	2.0	0.9	1.6	2.1

Source: Haver Analytics, IMF, Morgan Stanley Research forecasts; Note: Aggregates are PPP-based GDP-weighted averages.

Diving into DM government debt

Debt sustainability is increasingly in focus in the advanced economies. Debt is sustainable when the government debt/GDP ratio does not accelerate over time. Exhibit 24 shows the debt/GDP ratios for the United States, Germany, Italy, France, Spain, and Japan, showing the level for 2022 and our baseline forecasts for 2025.

Exhibit 24:Debt and growth forecasts

Countries	Debt/GDP 2022	(r-g); 2022	Debt/GDP 2025 Base Forecast	(r-g); 2025 Base Forecast
US	122.1%	-6.5%	126.2%	-1.0%
Germany	66.1%	-6.1%	64.7%	-1.1%
France	111.8%	-3.7%	111.0%	-1.0%
Spain	111.6%	-7.9%	103.7%	-1.4%
Italy	141.6%	-3.7%	140.5%	0.1%
Japan	260.1%	-0.8%	245.5%	-2.4%

Source: National statistical agencies, Morgan Stanley Research forecasts

The analysis of debt sustainability is conceptually straightforward. The classic way to assess debt sustainability uses the government's budget constraint, relating the primary balance to net interest payments on outstanding debt, nominal growth, and changes in the stock of debt. Intuitively, in order to stabilize the debt/GDP ratio, the economy could run a large primary surplus, have a nominal GDP growth rate (g) that is larger than the nominal interest rate on the outstanding debt (r), or a combination of the two factors. If nominal growth is greater than the cost of debt, that is (r - g) is negative, then debt should decrease when fiscal accounts are in equilibrium and the primary balance is zero. In this case, a primary surplus is also not needed to stabilize debt/GDP ratios, and the economy can be on a sustainable path with primary deficits. However, if deficits are large enough then debt/GDP ratios increase. If (r - g) is positive, then even when the primary deficit is balanced, debt/GDP ratios should increase.

For the case of the United States, in our baseline analysis, even though (r - g) is negative, debt ratios increase, as primary deficits have been large. On average, fiscal balances need to be higher than -2.2% of GDP on average to reduce ratios in 2023-25, but we are forecasting an average of -3.6%. In the long run, a gradual normalization of fiscal deficits to pre-Covid levels of 1.2% of GDP is needed to stabilize debt/GDP ratios.

In the base case scenarios for 2025 in the euro area economies that we consider here, the debt ratios are projected to remain slightly below their levels from 2022. The path of (r - g) reflects the higher interest rates on the average maturity of government debt held across the countries. Italy has the highest debt/GDP ratio among the euro area economies we consider. Even though the average maturity of government debt has lengthened, to approximately seven years, we forecast that the implicit interest rate on government debt will exceed the nominal growth rate by 2025. In this case, reducing the debt ratio will require a large, positive primary surplus.

In Japan, a gradual decreasing trend is expected in the debt ratio. We forecast that (r - g) will become more negative, from -0.8% to -2.4% in 2023-25. In the phase of raising the interest rate, the BoJ's remittances to the government may decrease, resulting in an increase in r. However, given our forecast that the BoJ will adopt a measured pace for raising its policy rate, the average maturity of JGBs is expected to remain at around nine years. Thus, r rises only gradually over our forecast horizon and g is expected to continue to be above trend growth. These factors would expand a negative margin for (r-g).

In the UK, we expect the net debt ratio (ex BoE) to rise towards 95% of GDP by FY2025/26, just about flat-lining in the following three years – thus meeting the self-imposed fiscal framework requirement that the net debt ratio should decline by the end of the fiscal watchdog's forecast period. That said, the long-term fiscal calculus looks challenging for the UK. On our and the OBR's estimates, the effective growth-corrected interest rate (r - g) for the UK is moving into positive territory post-Covid. The debt-stabilizing primary balance is in surplus in every year of the OBR's current forecast, implying an exceptional degree of sustained fiscal effort required to stabilize debt. A third of the UK's outstanding debt is in linkers – implying less ability to inflate away the debt than for most international peers. Considering that the BoE is no longer buying gilts, and that pension sector demand is subsiding as well – given that DB schemes are now much better funded than pre-Covid – attracting marginal buyers for gilts – i.e., international investors – will require a concerted effort to put public finances on a sustainable path post-elections.

Exhibit 25: G4 and selected EM headline government budget balance

General Government Budget Balance (% GDP)						
	2020	2021	2022	2023E	2024E	2025E
Global	**-12.3**	**-7.9**	**-7.0**	**-6.4**	**-6.7**	**-6.1**
G10	**-11.6**	**-7.5**	**-4.2**	**-4.1**	**-4.0**	**-3.9**
US	-15.7	-10.9	-5.5	-6.0	-6.0	-6.3
Euro Area	-7.1	-5.2	-3.6	-3.3	-3.0	-2.7
Japan	-9.1	-6.1	-4.4	-2.9	-3.5	-2.4
UK	-15.0	-5.2	-5.5	-4.3	-3.4	-2.2
Canada	-10.9	-4.4	-0.8	-0.7	-0.6	-0.5
Norway	-2.6	10.6	26.0	18.9	17.2	15.0
Sweden	-2.8	0.0	0.6	0.2	-0.4	-0.2
Australia	-9.4	-2.5	-0.4	-0.2	-1.0	-1.2
EM*	**-12.9**	**-8.3**	**-9.2**	**-8.1**	**-8.6**	**-7.8**
China^	-20.5	-12.7	-16.1	-12.1	-13.6	-12.8
India	-11.8	-10.6	-9.3	-8.9	-8.2	-7.3
Brazil	-13.3	-4.3	-4.6	-9.7	-9.0	-8.3

Source: IMF, national sources, Morgan Stanley Research forecasts; *EM excludes Ukraine; ^China's overall government balance is the augmented balance including both on- and off-budget balances. Note: G4 and EM aggregates are PPP-based GDP-weighted averages.

Exhibit 26: G4 cyclically adjusted fiscal balance

Cyclically Adjusted Primary Government Budget Balance (% of GDP)						
	2020	2021	2022	2023E	2024E	2025E
US	-15.8	-10.6	-3.8	-4.3	-4.4	-4.4
Euro Area	-3.8	-4.3	-3.8	-3.1	-2.6	-2.3
Japan	-7.5	-4.9	-4.1	-2.8	-3.5	-2.3
UK	-14.0	-3.9	-2.5	-1.4	-0.4	0.7
G4	**-10.5**	**-7.3**	**-3.7**	**-3.5**	**-3.4**	**-3.1**

Source: IMF, national sources, Morgan Stanley Research forecasts

Country Snapshots

US: Slowing Growth, Easing Policy – Monetary policy remains on hold until June 2024 to offset continued resilience in the real economy. We forecast that GDP slows from an estimated 2.5% 4Q/4Q (2.4%Y) in 2023 to 1.6% (1.9%Y) in 2024, and 1.4% (1.4%Y) in 2025. In our forecasts, core PCE inflation is an estimated 3.5% 4Q/4Q in 2023, and slows to a still-elevated 2.4% in 2024 with sticky services inflation, before falling further to 2.1% in 2025. The Fed holds the policy rate steady at 5.375% from July 2023 until June 2024 when it delivers the first 25bp cut, followed by 25bp cuts in September, November, and December, and by 25bp cuts at every meeting in 2025. The policy rate falls from 5.375% in 4Q23 to 4.375% in 4Q24 and 2.375% in 4Q25.

Euro Area: Structurally Slow – We see low growth again in 2024, at 0.5%Y, after 0.4%Y in 2023. Private consumption is likely to pick up but restrictive monetary policy and weak global trade should be a drag on exports and investment. 2025 looks more positive (1.0%Y) even though potential is dampened by structural challenges. Inflation is expected to recede, from 5.6%Y in 2023 to 2.4%Y in 2024 and 2.0%Y in 2025. We think that the ECB has reached its terminal rate of 4.0% and will start cutting in June 2024, towards 2.0% in September 2025.

Japan: Great Escape from the Lost Decades – Japan has made a structural shift in nominal growth on the back of solid real growth and sustained wage growth. Inflation has permanently risen, although we see it as slightly undershooting the BoJ's target over time. Consequently, NIRP and YCC should be formally abolished.

UK: Looking for the Exit – The UK economy is stuck in a fragile equilibrium, with a challenging policy mix. We expect a technical recession at the turn of the year and a weak economy over 2024. We see some cause for a more constructive stance in 2025 – namely, policy support and an improving global outlook. The BoE starts cutting in May, accelerating the pace of policy normalization into year-end, as global DM peers start normalizing their policy stances, and as headline inflation approaches the 2%Y target. We see Bank Rate at 2.5% at the end of 2025.

China: A Bumpy Road to Reflation – We expect subpar improvement in both growth and inflation in 2024-25, with real GDP growth reaching a below-consensus 4.2%Y/4.0%Y, as more central government-led stimulus and reforms will likely only cushion the economy against continued housing and LGFV deleveraging.

India: Steady Expansion – We expect the ongoing strength in domestic demand to continue, bolstered by consumption and capex. In this context, we expect growth to be robust at 6.4%Y in 2024 and 6.5%Y in 2025. On the macro-stability front, both inflation and the current account deficit are likely to remain within policymakers' comfort zone.

Brazil: Fiscal Policy Brings Caution – Inflation trends lower, and once it becomes clear that the fiscal expansion will be moderate, the BCB embarks on an easing cycle. After a stronger-than-expected 1Q, Brazil should sustain modest sequential growth over the next quarters.

Key Forecasts

Exhibit 27: Key forecast profile

	Quarterly																Annual			
	2022				2023				2024E				2025E							
Real GDP	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE	2022	2023E	2024E	2025E
Global (YoY)	**4.7**	**3.9**	**3.6**	**2.2**	**3.0**	**3.4**	**2.9**	**2.9**	**2.6**	**2.9**	**2.7**	**2.9**	**3.0**	**2.9**	**2.9**	**2.8**	**3.6**	**3.0**	**2.8**	**2.9**
G10	**4.4**	**2.9**	**2.1**	**1.1**	**1.5**	**1.5**	**1.6**	**1.4**	**1.3**	**1.2**	**1.0**	**1.2**	**1.3**	**1.3**	**1.3**	**1.3**	**2.6**	**1.5**	**1.2**	**1.3**
United States	3.6	1.9	1.7	0.7	1.7	2.4	2.9	2.5	2.4	2.3	1.5	1.6	1.5	1.4	1.4	1.4	1.9	2.4	1.9	1.4
Euro Area	5.5	4.1	2.4	1.8	1.2	0.5	0.1	0.0	0.2	0.2	0.6	1.0	1.0	1.0	1.1	1.1	3.4	0.4	0.5	1.0
Japan	0.6	1.7	1.5	0.4	2.0	1.6	2.3	2.1	1.6	0.6	0.8	1.0	1.1	1.0	1.0	1.2	1.0	2.0	1.0	1.1
UK	11.4	3.9	2.1	0.7	0.5	0.6	0.6	0.4	-0.2	-0.4	-0.1	0.2	0.7	1.0	1.1	1.1	4.3	0.5	-0.1	1.0
EM* (YoY)	**5.0**	**4.7**	**4.8**	**3.1**	**4.0**	**4.8**	**3.9**	**4.1**	**3.5**	**4.3**	**4.0**	**4.2**	**4.3**	**4.1**	**4.0**	**3.8**	**4.3**	**4.2**	**4.0**	**4.0**
China	4.8	0.4	3.9	2.9	4.5	6.3	4.9	4.9	3.6	5.0	3.9	4.1	4.5	4.2	3.8	3.5	3.0	5.1	4.2	4.0
India	4.0	13.1	6.2	4.5	6.1	7.8	6.5	6.0	5.7	6.4	6.7	6.7	6.3	6.5	6.7	6.4	6.7	6.6	6.4	6.5
Brazil	2.4	3.7	3.6	1.9	4.0	3.4	1.9	2.9	1.3	1.8	1.8	2.0	1.6	1.5	1.6	1.7	2.9	3.1	1.7	1.6
Global (%Q, SAAR, Annual Q4/Q4)	**1.8**	**-0.4**	**5.6**	**2.1**	**5.2**	**2.9**	**2.7**	**1.5**	**2.9**	**3.3**	**2.9**	**2.7**	**2.7**	**2.9**	**2.6**	**2.4**	**2.2**	**2.9**	**2.9**	**2.8**
G10 (%Q, SAAR, Annual Q4/Q4)	**0.1**	**1.7**	**1.6**	**1.2**	**1.6**	**1.6**	**2.1**	**0.3**	**1.1**	**1.2**	**1.4**	**1.2**	**1.3**	**1.3**	**1.4**	**1.5**	**1.1**	**1.4**	**1.2**	**1.3**
United States	-2.0	-0.6	2.7	2.6	2.2	2.1	4.9	0.9	1.7	1.7	1.6	1.4	1.4	1.4	1.4	1.4	0.7	2.5	1.6	1.4
Euro Area	2.8	3.3	1.4	-0.1	0.2	0.6	-0.4	-0.4	0.8	0.9	1.0	1.0	1.0	1.0	1.2	1.2	1.8	0.0	1.0	1.1
Japan	-2.3	5.3	-1.2	0.2	3.2	4.8	0.4	0.3	0.9	0.8	1.8	0.3	1.1	1.3	1.2	1.4	0.4	2.1	1.0	1.2
UK	2.1	0.4	-0.3	0.5	1.3	0.8	-0.1	-0.3	-1.1	0.0	0.8	1.0	1.0	1.0	1.2	1.2	0.7	0.4	0.2	1.1
Selected EM* (%Q, SAAR, Annual Q4/Q4)	**4.0**	**-3.2**	**10.6**	**3.4**	**9.7**	**4.4**	**3.5**	**2.9**	**5.0**	**5.8**	**4.8**	**4.4**	**4.3**	**4.8**	**4.1**	**3.6**	**3.1**	**4.1**	**4.2**	**3.8**
China	3.2	-8.9	15.6	3.2	9.5	2.0	5.3	2.6	4.1	4.8	5.1	4.3	3.9	3.6	3.4	3.3	2.9	4.9	4.1	3.5
India	5.8	9.0	0.8	4.8	10.9	10.8	0.3	4.4	8.7	9.1	5.1	5.5	5.6	8.7	7.0	5.1	4.5	6.0	6.7	6.4
Brazil	3.9	4.2	1.8	0.4	7.5	3.7	-0.8	0.0	0.7	3.5	1.8	1.2	3.4	0.9	0.1	0.9	1.9	2.9	2.0	1.7
	2022				2023				2024E				2025E							
Consumer Price Inflation (YoY)	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE	2022	2023E	2024E	2025E
Global*	**5.0**	**6.2**	**6.6**	**6.2**	**5.3**	**3.8**	**3.5**	**2.8**	**2.7**	**2.8**	**2.5**	**2.5**	**2.3**	**2.3**	**2.4**	**2.4**	**6.0**	**3.8**	**2.6**	**2.4**
G10	**6.3**	**7.7**	**8.1**	**8.0**	**6.6**	**5.0**	**4.3**	**3.3**	**2.8**	**2.6**	**2.3**	**2.1**	**2.1**	**2.0**	**2.0**	**2.0**	**7.5**	**4.8**	**2.5**	**2.0**
United States	8.0	8.6	8.3	7.1	5.8	4.1	3.6	3.1	2.5	2.4	1.9	1.8	1.9	2.0	2.1	2.1	8.0	4.1	2.1	2.0
Euro Area	6.1	8.0	9.3	10.0	8.0	6.2	5.0	3.1	2.8	2.6	2.2	2.1	2.0	2.0	2.0	2.0	8.4	5.6	2.4	2.0
Japan	0.9	2.4	2.9	3.9	3.6	3.3	3.2	3.2	3.1	3.5	3.6	2.7	2.5	2.0	1.4	1.2	2.5	3.3	3.2	1.8
UK	6.2	9.2	10.0	10.8	10.2	8.4	6.7	4.3	3.7	2.5	2.6	2.4	1.9	1.8	1.8	1.8	9.0	7.4	2.8	1.8
EM* (YoY)	**3.8**	**5.0**	**5.3**	**4.6**	**4.3**	**2.9**	**2.8**	**2.4**	**2.7**	**2.8**	**2.6**	**2.9**	**2.5**	**2.5**	**2.7**	**2.8**	**4.7**	**3.1**	**2.7**	**2.7**
China	1.1	2.2	2.7	1.8	1.3	0.1	-0.1	-0.1	0.7	1.1	1.2	1.5	1.1	1.2	1.6	1.9	2.0	0.3	1.1	1.5
India	6.3	7.3	7.0	6.1	6.2	4.6	6.4	5.1	5.5	5.7	3.9	5.3	4.7	4.7	4.9	4.9	6.7	5.6	5.1	4.8
Brazil	10.7	11.9	8.7	6.1	5.3	3.8	4.6	4.8	4.4	4.0	4.4	4.3	4.0	3.8	3.6	3.5	9.3	4.6	4.3	3.8
	2022				2023				2024E				2025E							
Core Inflation (YoY)	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE	2022	2023E	2024E	2025E
G4+Selected EM*	**3.5**	**3.8**	**3.8**	**4.0**	**4.0**	**3.7**	**3.5**	**3.0**	**2.5**	**2.3**	**2.2**	**2.3**	**2.2**	**2.2**	**2.2**	**2.2**	**3.8**	**3.5**	**2.3**	**2.2**
G4	**3.7**	**4.2**	**4.6**	**4.9**	**5.0**	**5.0**	**4.6**	**3.8**	**3.0**	**2.5**	**2.4**	**2.2**	**2.1**	**2.1**	**2.1**	**2.0**	**4.3**	**4.6**	**2.5**	**2.1**
United States^	5.5	5.2	5.2	5.1	4.8	4.6	3.9	3.5	3.0	2.6	2.6	2.4	2.3	2.2	2.2	2.1	5.2	4.2	2.7	2.2
Euro Area	2.6	3.7	4.4	5.1	5.5	5.5	5.1	3.9	2.8	2.3	2.1	2.1	2.0	2.0	2.0	2.0	3.9	5.0	2.3	2.0
Japan**	-0.9	0.9	1.5	2.8	3.5	4.2	4.3	3.9	3.3	2.5	1.9	1.7	1.7	1.8	1.8	1.6	1.1	4.0	2.3	1.7
UK	5.1	6.0	6.3	6.4	6.1	6.9	6.4	5.5	4.6	3.2	2.7	2.4	2.2	2.1	2.1	2.0	5.9	6.2	3.2	2.1
Selected EM* (%Q, SAAR, Annual Q4/Q4)	**3.2**	**3.3**	**3.0**	**2.8**	**2.7**	**2.2**	**2.2**	**2.0**	**1.9**	**2.0**	**2.1**	**2.3**	**2.3**	**2.3**	**2.4**	**2.5**	**3.0**	**2.3**	**2.1**	**2.4**
China	1.1	0.9	0.7	0.6	0.8	0.6	0.8	0.7	0.7	0.9	1.0	1.2	1.2	1.2	1.4	1.5	0.9	0.7	1.0	1.3
India	6.3	6.6	6.2	6.3	6.2	5.2	4.8	4.4	4.0	3.9	4.3	4.5	4.5	4.6	4.7	4.6	6.3	5.1	4.2	4.6
Brazil	9.3	11.2	10.6	9.0	7.7	5.6	5.2	5.1	5.1	4.3	3.9	3.6	3.5	3.3	3.3	3.1	10.0	5.9	4.2	3.3
Monetary Policy Rate (% p.a.)																				
G10																				
United States	0.375	1.625	3.125	4.375	4.875	5.125	5.375	5.375	5.375	5.125	4.875	4.375	3.875	3.375	2.875	2.375	4.375	5.375	4.375	2.375
Euro Area (depo rate)	-0.5	-0.5	0.8	2.0	3.00	3.50	4.00	4.00	4.00	3.75	3.50	3.00	2.50	2.25	2.00	2.00	2.00	4.00	3.00	2.00
Japan**	-0.1	-0.1	-0.1	-0.1	-0.10	-0.10	-0.10	-0.10	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	-0.10	-0.10	0.25	0.25
UK	0.75	1.25	2.25	3.50	4.25	5.00	5.25	5.25	5.25	5.00	4.75	4.25	3.75	3.25	2.75	2.50	3.50	5.25	4.25	2.50
Selected EM* (%Q, SAAR, Annual Q4/Q4)																				
China	2.1	2.1	2.0	2.0	2.00	1.90	1.80	1.80	1.70	1.70	1.60	1.60	1.60	1.60	1.60	1.60	2.00	1.80	1.60	1.60
India	4.0	4.9	5.9	6.3	6.50	6.50	6.50	6.50	6.50	6.25	6.00	6.00	6.00	6.00	6.00	6.00	6.25	6.50	6.00	6.00
Brazil	11.75	13.25	13.75	13.75	13.75	13.75	12.75	11.75	10.75	10.25	10.00	10.00	9.50	9.00	8.50	8.50	13.75	11.75	10.00	8.50

**ex. c-tax hike and free education impacts*

Source: IMF, Morgan Stanley Research forecasts; Note: Global and regional aggregates for GDP growth are GDP-weighted averages, using PPP weights excluding Ukraine; Japan policy rate is the interest rate on excess reserves; Global %Q SAAR Growth includes G10 and Selected EMs; CPI numbers are period average; Global* and EM* consumer price inflation aggregates exclude Argentina, Turkey, Egypt and Ukraine; Selected EM includes China, India and Brazil; The global core inflation aggregate consists of G4+Selected EM; ^US core inflation is core PCE., Japan core inflation is core-core and excludes fresh food and energy.

Consumption and Investment Spending Forecasts

Exhibit 28: Consumption and investment spending forecasts

	2022				2023				2024E				2025E				2022	2023E	2024E	2025E
Pvt Consumption (%Q, SAAR)	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE				
Global*	**-0.1**	**-0.3**	**8.7**	**-4.7**	**10.6**	**7.3**	**6.9**	**-1.7**	**2.1**	**5.6**	**3.0**	**1.8**	**2.1**	**5.5**	**2.7**	**2.4**	**2.3**	**5.6**	**2.9**	**3.0**
G4	**-0.3**	**3.2**	**1.9**	**-0.4**	**2.5**	**0.1**	**2.0**	**0.7**	**1.2**	**1.2**	**1.4**	**1.1**	**1.1**	**1.2**	**1.1**	**1.1**	**3.1**	**1.2**	**1.2**	**1.2**
United States	0.0	2.0	1.6	1.2	3.8	0.8	4.0	1.0	1.7	1.7	1.5	1.5	1.4	1.3	1.3	1.3	2.5	2.2	1.8	1.4
Euro Area	-0.1	3.7	4.0	-2.9	0.6	-0.1	0.4	0.6	1.0	1.0	1.0	1.2	1.2	1.2	1.2	1.2	4.2	0.4	0.8	1.2
Japan	-4.1	7.4	-0.1	1.0	2.4	-2.5	0.7	0.5	1.0	0.2	2.3	-0.4	0.3	0.6	0.4	0.4	1.0	0.3	0.8	0.4
UK	3.6	1.7	-3.3	-0.3	2.7	1.4	-1.4	-0.4	-1.0	0.0	0.6	0.6	0.6	0.6	0.8	0.8	5.2	0.4	-0.3	0.6
Key EM	**0.1**	**-3.3**	**15.0**	**-8.3**	**17.8**	**13.6**	**11.3**	**-3.7**	**2.9**	**9.4**	**4.3**	**2.3**	**2.9**	**9.0**	**4.1**	**3.5**	**1.6**	**9.5**	**4.4**	**4.5**
China ^	-2.9	-13.3	25.3	-18.8	31.0	18.2	20.1	-7.9	1.5	11.5	5.2	1.6	1.5	10.4	4.2	2.9	-4.2	14.6	4.8	4.7
India	1.3	5.7	5.4	-3.2	5.8	15.5	4.7	0.7	6.7	13.1	5.2	3.7	5.3	11.4	6.8	5.1	8.1	5.3	6.6	6.8
Brazil	5.9	6.6	3.4	1.5	2.9	3.8	0.3	0.8	2.4	2.8	2.7	1.3	0.0	3.8	2.0	1.3	4.3	2.6	1.4	1.4
Korea	-2.5	11.5	6.3	-2.1	2.4	-0.4	0.9	-6.4	-1.6	6.0	5.6	4.4	2.8	6.0	8.0	8.8	3.3	-1.0	3.6	2.2
Indonesia	6.8	6.8	1.6	2.9	6.5	9.8	2.5	1.0	8.0	8.2	2.5	1.0	11.0	5.2	3.2	0.2	4.5	5.0	5.0	5.0
Taiwan	-4.0	-12.0	15.0	14.4	9.3	5.8	4.9	4.0	5.0	6.0	4.5	7.8	-2.0	18.0	-15.0	9.0	0.0	0.0	0.0	0.0
Mexico	5.9	5.9	2.3	3.0	7.8	4.1	2.4	1.2	1.2	1.2	1.6	2.0	1.6	2.0	2.4	2.8	6.2	4.3	1.6	1.9
Turkey	5.5	17.0	14.7	25.6	11.8	12.1	6.1	3.2	5.3	3.2	0.8	2.0	3.2	4.1	4.1	4.5	18.9	13.4	4.2	3.1
Argentina	7.7	13.4	4.5	-3.3	3.7	-5.0	-2.0	-4.3	-8.1	-6.2	-0.8	2.8	4.5	5.3	3.6	2.8	9.7	0.6	-4.6	2.7
Pvt Consumption (%Y)																				
Global*	**6.2**	**4.0**	**4.0**	**0.7**	**3.3**	**5.3**	**4.9**	**5.7**	**3.5**	**3.3**	**2.2**	**3.0**	**3.0**	**3.0**	**3.0**	**3.1**	**3.6**	**4.8**	**3.0**	**3.0**
G4	**6.5**	**3.6**	**2.1**	**1.1**	**1.8**	**1.0**	**1.0**	**1.3**	**1.0**	**1.3**	**1.1**	**1.2**	**1.2**	**1.2**	**1.1**	**1.1**	**3.3**	**1.3**	**1.2**	**1.2**
United States	5.0	2.2	1.9	1.2	2.1	1.8	2.4	2.4	1.9	2.1	1.5	1.6	1.5	1.4	1.4	1.3	2.5	2.2	1.8	1.4
Euro Area	8.3	5.5	2.3	1.2	1.3	0.4	-0.5	0.4	0.5	0.8	0.9	1.1	1.1	1.2	1.2	1.2	4.2	0.4	0.8	1.2
Japan	1.2	2.7	3.7	1.0	2.7	0.1	0.3	0.3	-0.1	0.6	1.0	0.8	0.6	0.7	0.2	0.4	2.1	0.8	0.6	0.5
UK	16.4	4.6	0.7	0.4	0.2	0.1	0.6	0.6	-0.4	-0.7	-0.2	0.0	0.5	0.6	0.7	0.7	5.2	0.4	-0.3	0.6
Key EM	**6.0**	**4.3**	**5.6**	**0.3**	**4.7**	**8.9**	**8.2**	**9.5**	**5.5**	**5.0**	**3.1**	**4.5**	**4.5**	**4.4**	**4.5**	**4.7**	**3.9**	**7.7**	**4.5**	**4.5**
China^	5.8	-4.5	2.7	-4.2	4.1	11.8	11.0	14.6	7.1	5.9	2.3	4.8	5.0	4.5	4.4	4.7	-0.1	10.3	5.0	4.7
India	4.7	19.8	8.3	2.2	2.8	6.0	6.1	6.2	6.3	6.7	6.7	6.9	6.5	6.7	6.9	6.9	8.1	5.3	6.6	6.8
Brazil	2.5	5.7	4.6	4.3	3.5	3.0	1.8	2.1	0.8	1.4	1.6	1.8	1.4	1.2	1.4	1.5	4.3	2.6	1.4	1.4
Korea	4.0	4.1	5.2	3.3	4.6	1.6	0.3	-1.0	-2.8	0.6	0.9	3.6	0.7	1.5	2.0	2.2	4.1	1.4	0.6	1.6
Indonesia	4.4	5.5	5.4	4.5	4.6	5.2	5.5	5.0	5.4	5.0	5.0	5.0	5.8	5.0	5.2	5.0	5.0	5.1	5.1	5.3
Taiwan	0.7	3.1	7.5	3.1	6.4	12.6	8.9	4.0	3.0	5.0	4.0	4.0	2.0	3.0	3.0	2.0	3.6	7.9	4.0	2.5
Mexico	7.5	7.3	6.0	4.1	4.8	4.3	4.3	3.9	2.2	1.5	1.3	1.5	1.6	1.8	2.0	2.2	6.2	4.3	1.6	1.9
Turkey	19.6	21.5	19.5	15.8	17.3	15.6	13.7	8.3	6.7	4.5	3.1	2.8	2.3	2.5	3.3	4.0	18.9	13.4	4.2	3.1
Argentina	10.3	11.8	11.3	5.4	4.4	-0.1	-1.7	-2.0	-4.9	-5.2	-4.9	-3.2	0.0	2.9	4.1	4.1	9.7	0.6	-4.6	2.7
Investment (%Q, SAAR)																				
Global*	**7.5**	**4.0**	**2.2**	**4.9**	**4.0**	**1.0**	**-0.9**	**4.3**	**1.8**	**3.1**	**3.1**	**3.9**	**2.9**	**3.0**	**3.9**	**3.4**	**4.9**	**2.2**	**2.7**	**3.0**
G4	**1.8**	**2.1**	**3.1**	**-0.7**	**1.7**	**0.4**	**0.5**	**1.5**	**1.4**	**0.8**	**1.1**	**1.3**	**1.6**	**1.7**	**1.8**	**2.1**	**2.2**	**1.3**	**1.0**	**1.7**
United States	2.1	1.0	0.8	-0.2	-0.7	1.1	2.3	3.3	2.8	1.6	1.6	1.7	1.8	2.0	2.2	2.6	0.9	1.5	2.0	2.2
Euro Area	-2.0	2.0	4.7	-1.0	1.7	0.3	0.4	-0.4	-0.4	-0.2	0.4	0.5	0.7	0.8	1.0	1.0	2.8	1.0	-0.1	0.6
Japan	-0.2	8.3	6.2	-2.7	6.6	-4.0	-1.2	1.4	2.5	2.1	1.6	2.0	3.2	3.2	2.8	3.2	2.5	0.5	2.0	3.1
UK	25.0	0.3	5.1	0.1	10.4	3.3	-7.8	-1.9	-1.5	-2.7	0.4	1.2	1.3	1.5	2.0	2.0	7.9	2.6	-1.9	1.1
Key EM	**12.7**	**5.6**	**1.4**	**10.1**	**5.9**	**1.6**	**-2.1**	**6.7**	**2.2**	**5.1**	**4.7**	**6.1**	**3.9**	**4.1**	**5.5**	**4.4**	**7.4**	**2.9**	**4.2**	**4.1**
China	13.0	-0.1	2.0	21.8	0.7	-5.5	-3.4	10.8	3.1	2.1	2.6	4.0	5.7	1.7	3.5	2.1	9.1	0.4	3.0	3.2
India	30.8	20.7	-4.6	-3.5	24.1	15.4	-2.8	4.5	13.4	13.0	4.6	8.9	4.6	12.6	8.2	8.7	10.3	8.3	8.3	8.1
Brazil	-5.3	15.6	8.7	-4.8	-13.0	0.5	-2.4	-0.4	1.6	0.6	2.8	2.6	0.8	2.2	4.4	4.5	0.9	-1.1	2.6	2.1
Korea	-12.8	3.2	17.5	-0.8	-0.7	-4.4	1.3	11.5	-38.8	18.1	30.7	29.8	1.2	5.2	8.0	8.8	1.5	-5.6	9.2	2.2
Indonesia	9.6	-3.1	6.0	1.4	5.1	4.2	10.8	7.1	1.3	2.7	12.4	5.2	-0.6	6.5	12.4	3.3	3.3	7.0	5.5	5.5
Taiwan	2.7	13.8	-9.0	-10.2	-13.2	-23.4	-6.2	-4.0	-5.3	5.5	13.6	12.2	-5.3	-14.7	13.2	13.4	0.0	0.0	0.0	0.0
Mexico	14.9	6.2	3.2	25.3	27.5	28.6	14.8	8.2	1.2	0.8	0.8	2.8	2.8	1.6	4.1	4.9	8.5	19.8	5.6	2.5
Turkey	0.9	-0.2	-4.1	7.7	12.4	8.9	-11.5	-7.8	10.8	4.9	-3.9	2.0	2.0	2.8	3.6	4.1	1.3	3.1	0.6	2.0
Argentina	12.5	21.7	-3.1	-23.1	9.2	16.0	-18.9	-7.8	-27.7	8.7	13.0	11.7	5.3	7.4	2.4	2.8	11.1	-2.2	-7.2	7.4
Investment (%Y)																				
Global*	**3.6**	**3.2**	**2.6**	**3.7**	**4.7**	**4.5**	**2.6**	**2.0**	**2.0**	**2.3**	**3.1**	**2.9**	**2.9**	**3.0**	**3.3**	**3.4**	**3.6**	**2.9**	**2.6**	**3.1**
G4	**4.7**	**0.9**	**1.3**	**-0.1**	**3.1**	**4.1**	**1.0**	**1.0**	**0.6**	**0.6**	**0.9**	**1.0**	**1.4**	**1.7**	**2.0**	**2.3**	**2.2**	**1.4**	**0.9**	**1.6**
United States	5.6	-0.8	-2.7	-2.5	3.5	6.6	1.8	1.4	1.6	1.7	1.8	1.7	2.1	2.3	2.8	3.2	0.9	1.5	2.0	2.2
Euro Area	3.5	2.2	4.6	0.9	1.9	1.4	0.4	0.5	0.0	-0.2	-0.2	0.1	0.4	0.6	0.8	0.9	2.8	1.0	-0.1	0.6
Japan	0.3	0.9	4.0	2.5	4.7	1.4	-0.4	0.5	-0.2	1.2	1.9	2.0	2.3	2.5	2.8	3.1	1.9	1.6	1.2	2.7
UK	11.4	5.7	7.7	7.2	3.9	4.6	1.3	0.8	-2.1	-3.5	-1.4	-0.7	0.0	1.1	1.5	1.7	7.9	2.6	-1.9	1.1
Key EM	**2.6**	**5.3**	**3.7**	**7.1**	**6.1**	**4.9**	**3.9**	**2.9**	**3.1**	**3.7**	**4.9**	**4.5**	**4.0**	**4.1**	**4.4**	**4.2**	**4.9**	**4.1**	**4.1**	**4.3**
China	2.5	0.6	1.7	9.1	6.3	4.3	2.5	0.4	0.8	3.0	4.8	3.0	3.7	3.5	3.6	3.2	3.7	2.8	3.2	3.5
India	4.9	20.4	9.6	8.0	8.9	8.0	7.8	8.4	7.5	7.9	8.6	9.3	7.6	8.3	8.3	8.3	10.3	8.3	8.3	8.1
Brazil	-6.4	1.5	5.0	3.5	0.8	-2.6	-2.2	-0.3	3.0	2.8	2.5	2.2	2.0	1.9	2.2	2.3	0.9	-1.1	2.6	2.1
Korea	-3.6	-3.0	3.6	1.5	6.4	2.3	-1.6	-5.6	2.3	-2.8	2.9	9.2	0.3	1.3	2.0	2.2	-0.5	0.4	2.9	1.5
Indonesia	4.1	3.1	5.0	3.3	2.1	4.6	5.5	7.0	6.0	5.6	6.0	5.5	5.0	6.0	6.0	5.5	5.0	4.8	5.8	5.6
Taiwan	9.4	9.2	-0.9	-0.1	-4.8	-13.4	-14.4	-3.0	-1.0	2.5	1.1	2.5	2.5	1.3	1.2	1.5	4.4	-8.9	1.3	1.6
Mexico	7.4	8.7	6.3	11.8	15.2	21.0	23.9	19.5	12.8	6.1	2.7	1.4	1.8	2.0	2.8	3.3	8.5	19.8	5.6	2.5
Turkey	2.8	3.8	-1.8	0.6	3.7	5.1	4.0	0.0	-0.4	-1.3	0.7	3.3	1.2	0.7	2.6	3.1	1.3	3.1	0.6	2.0
Argentina	1.1	1.9	1.5	0.1	0.0	-0.1	-0.6	-0.1	-1.1	-1.2	-0.5	0.0	1.0	0.9	0.7	0.4	11.1	-2.2	-7.2	7.4

Source: Haver Analytics, IMF, Morgan Stanley Research forecasts; *Global includes G4 and key EM only, and is PPP-weighted; #Euro area investment is gross fixed capital formation excluding intellectual property products and cultivated biological assets, ^China investment is gross capital formation (including change in inventories), total consumption growth for China, as quarterly private consumption data are not available.

DM Scenarios

Downside	Base	Upside
	US: Ellen Zentner & US Economics Team	
Weaker growth in China reduces exports: US exports to China+EM have grown over time and take a direct hit that is offset only somewhat by lower commodity prices. **The Fed has overshot.** A slowdown in consumption in 4Q23 stretches into 2024, and business fixed investment follows suit. We see GDP growth at 0.0% 4Q/4Q in 2024 and 1.7% 4Q/4Q in 2025. Payrolls are falling, consistent with a mild recession, and the unemployment rate rises by 0.8pp to 4.8% by 4Q24. The deterioration in domestic activity, coupled with the US importing deflation from China, works to slow inflation sharply. The Fed cuts rates rapidly to 1.875% by 4Q24. In 2025, low rates, labor slack, and pent-up demand for consumption and equipment lead to some reacceleration in activity.	**Monetary policy becomes more restrictive over time, offsetting continued resilience in the real economy:** We forecast that 2024 GDP growth slows from an estimated 2.5% 4Q/4Q (2.4%Y) in 2023 to 1.6% 4Q/4Q (1.9%Y) in 2024, and 1.4% 4Q/4Q (1.4%Y) in 2025. In our forecasts, core PCE increases by an estimated 3.5% 4Q/4Q in 2023, and slows to a still-elevated 2.4% 4Q/4Q in 2024 on sticky services prices, before falling further to 2.1% 4Q/4Q in 2025. The Fed holds the policy rate steady at 5.375% from July 2023 until June 2024, when it delivers the first 25bp cut. With four 25bp cuts in 2024 and eight in 2025, the policy rate falls from 5.375% in 4Q23 to 4.375% in 4Q24 and 2.375% in 4Q25.	**Short-run r* is higher; the Fed has undershot:** This year's strength in consumption and investment extends into next year. GDP increases by a similar 2.5% 4Q/4Q. Payroll growth remains strong at 180k/month and the unemployment rate continues to fall back to a low of 3.4%. Strong demand and inflation pressures force Fed hikes, and it follows through with an additional 100bp in 2024. Slowing in consumption, BFI, job growth, and inflation in 2025 is accompanied by Fed easing.
	Euro Area: Jens Eisenschmidt & EA Economics Team	
Weaker prospects in China would keep euro area exports at a low level in 2024. Increasing uncertainty would also weigh on households and corporates' willingness to consume and invest. **GDP would be flat in 2024.** Lower demand would be disinflationary and the deterioration of the labor market would weigh on wage negotiations in early 2024. All this would push inflation prospects down further, with a **very significant risk of undershooting the target in 2025.** However, the ECB would still wait to gauge the strength of wages at the beginning of 2024 to change its stance. **From June 2024, it would then engage in more aggressive cuts** than in our base scenario, reducing rates by 50bp from June onwards. It would reach neutral, 2%, in March 2025 and cut further to 1.25% in September 2025.	We see **low growth again in 2024,** at 0.5%Y, after 0.4%Y in 2023. Private consumption is likely to pick up but restrictive monetary policy and weak global trade are a drag on exports and investment. 2025 looks more positive (1.0%Y) even though **potential is dampened by structural challenges. We expect inflation to recede,** from 5.6%Y in 2023 to 2.4%Y in 2024 and 2.0%Y in 2025. We think that the ECB has reached its terminal rate of 4.0% and will **start cutting in June 2024, towards 2.0% in September 2025.**	**More robust activity in the US** would be a significant boost for the euro area, lifting GDP to 1.1%Y in 2024 and 1.6%Y in 2025. With a tight labor market and improved growth prospects, **wages and inflation would surprise on the upside in early 2024.** Inflation would turn out more sticky than expected, printing at 3.1%Y in 2024, and projections would show a high probability to remain above target in 2025. This would lead the ECB to **hike again in June and September 2024, to 4.50%.** The first cuts would be delayed to June 2025, with rates at 3.75% by end-2025.
	Japan: Takeshi Yamaguchi, Masayuki Inui	
China enters a debt-deflation cycle, which adversely affects Japan's exports: A sharp yen appreciation with the Fed cutting rates earlier and more aggressively could appreciate the yen sharply, lowering Japan's headline inflation. **This hurts inflation expectations of households and firms in an adaptive manner.** The BoJ maintains its existing monetary policy, both the short-term and long-term rates, to end-2024. **Then, the BoJ removes NIRP in 1H25 as a one-off move,** based on side-effects/reversal-rate reasons.	**We expect Japan's economic recovery, driven by domestic demand, to continue at trend, +1.0%Y in 2024 and +1.1%Y in 2025, indicating that real GDP growth will continue to be above its trend:** On an average basis, we see headline CPI at 3.2%Y in 2024 and 1.8%Y in 2025. Core CPI will likely remain at 2.3%Y in 2024 and 1.7%Y in 2025. **We expect the BoJ remove NIRP and YCC in January 2024.** That said, after a NIRP removal, the BoJ would take a measured approach, i.e., **a 25bp rate hike in July 2024 and remain on hold in terms of the short-term policy rate in 2025.** We expect gradual QT to start with abolition of the monetary base commitment in 2Q25.	**With faster US growth, stronger global growth puts upward pressure on inflation and wage growth, resulting in above 2%Y inflation continuing in 2025:** This raises inflation expectations of households and firms, resulting in a reinforcement of a virtuous cycle of rising wages and prices. The BoJ first removes NIRP and YCC in January 2024 and then follows with two additional 25bp rate hikes in 2H24 and three 25bp hikes in 2025. The short-term policy rate reaches 1.25% by end-2025.
	UK: Bruna Skarica	
A weaker global outlook and faster pace of labor market slackening result in a more **severe recession over 2024, with growth declining by 0.7%Y.** With growth picking up only gradually over 2025, we would expect headline **inflation to undershoot the target in 2025,** on average. The BoE would cut more aggressively than in our base scenario, with **Bank Rate at 3.75% at the end of next year, and 2.25% at the end of 2025.**	We expect a **technical recession** at the turn of the year, with **GDP down by 0.1%Y over 2024.** While improving real wage growth provides a boost, the lagged impacts of monetary policy are a drag on the consumer and capex. With little fiscal space, the pre-election fiscal easing boost is moderate too. We see inflation at the 2%Y-handle by mid-2024, and the **BoE cutting from May** next year. We expect cuts at forecast meetings initially, followed by an acceleration in the normalization of the policy stance from the end of 2024. **We see the end-2025 Bank Rate at 2.5%.** On a policy stance change and improving global growth, **we see growth accelerating over 2025.**	In case of a stronger global economy, we think that a **pick-up in growth in early 2024** would be likely – although fewer cuts from the BoE over 2H24 in this scenario would weigh on the outlook in 2025. In such an upside scenario – and with the Fed hiking by an additional 100bp in 2024 – **the BoE would likely hike by another 50bp over 1H24. Cuts would be postponed to 2025.**

EM Scenarios

Downside	Base	Upside
	China: Robin Xing & China Economics Team	
The housing crisis deepens, creating non-linear spillovers: Economic entities that borrowed 165% of GDP (local government, property developers, households) face balance sheet contraction, exacerbating deflation pressures. **Real GDP growth could slow to 2.7%Y in 2024 and 2.8%Y in 2025.** The GDP deflator could dip further, to -1.5% in 2024 and -0.8% in 2025.	The pace of reflation remains slow and bumpy. **We expect real GDP growth to improve slightly to 4.2%Y in 2024** from ~4% 2Y CAGR in 2022-23, and the GDP deflator would pick up to 0.6% in 2024 (from -0.8% in 2023), but is still sub-par and lower than desirable levels of 2-3%. While we expect more central government-led fiscal stimulus (1.5pp of GDP widening in the augmented deficit) and LGFV debt resolution, this would only cushion the economy against continued housing and LGFV deleveraging.	**More forceful reflation policies and accelerated structural reforms to rebalance the economy** lead to a faster rebound in aggregate demand. We expect **real GDP growth to pick up to 5.0%Y in 2024 and 4.5%Y in 2025,** with the GDP deflator strengthening to a desirable 1.8% in 2024 and 2.5% in 2025.
	India: Upasana Chachra, Bani Gambhir	
The downside scenario is driven by **tighter global financial conditions** and an **adverse global funding environment** that may impair business confidence and consequently delay the capex cycle. Furthermore, **instability in the political environment** may have ramifications for strength in domestic demand.	We expect the ongoing **strength in domestic demand** to continue, bolstered by support from consumption and capex. In this context, we expect growth to be at a robust level of **6.4%Y in 2024 and 6.5%Y in 2025.** On the **macro-stability front,** both inflation and the current account deficit are likely to remain within **policymakers' comfort zone.**	The upside scenario entails a **faster-than-anticipated recovery in the private capex cycle** driven by a stronger business environment and policy reform momentum. Furthermore, stronger-than-expected **global growth conditions** lead to higher **export income** and also support the **domestic capex cycle,** pushing growth higher.
	Brazil: Thiago Machado, Fernando Sedano	
Following the global upside scenario with a fundamentally strong US economy, the **BCB stops the easing cycle earlier,** keeping monetary policy in a contractionary stance at 11.50% in 2024 and 13.00% in 2025, **supporting the currency and avoiding a de-anchoring of inflation expectations.** We should see reduced growth, although improved China growth dynamics help to offset the downturn in activity partially. **We see reduced growth** at 1.2%Y in 2024 and 0.9%Y in 2025.	In light of **tighter global financial condition** and a **more lenient fiscal approach,** we expect the central bank to cautiously lower rates to 10.00% in 2024 and 8.50% in 2025. As **rates remain in a contractionary stance** and with the prospect of slower growth in China, we expect Brazil's **growth to decelerate to 1.7%Y in 2024 and further to 1.6%Y in 2025.**	As **financial conditions ease globally** amid a weaker growth environment in the US and China, this opens room for the **BCB to cut rates more aggressively,** bringing rates to expansionary territory (8.00% in 2024 and 7.00% in 2025). A stronger currency helps to anchor inflation expectations. Facing lower rates, the **government does not see the need to boost spending** to stimulate growth, lowering fiscal risks. **We see growth at 2.0%Y in 2024 and 2.1%Y in 2025.**

US: Slowing Growth, Easing Policy

Ellen Zentner US Economics Team
(1 212) 296 4882

Monetary policy stays restrictive well into 2024 to offset continued resilience in the real economy. We forecast that GDP slows from an estimated 2.5% 4Q/4Q (2.4%Y) in 2023 to 1.6% (1.9%) in 2024, and 1.4% (1.4%) in 2025. Core PCE inflation falls from 3.5% 4Q/4Q this year to 2.4% in 2024, ending the forecast horizon at 2.1% in 2025. The Fed holds the policy rate steady at 5.375% from July 2023 until June 2024, when it delivers the first 25bp cut. Four 25bp cuts in 2024 and eight in 2025 lower the policy rate to 4.375% in 4Q24 and 2.375% in 4Q25, returning to neutral.

Monetary policy weighs increasingly on growth into 2024: High rates for longer cause a persistent drag, more than offsetting the fiscal impulse and bringing growth sustainably below potential from 3Q24. Policy tightening has had to overcome less interest rate sensitivity among households as well as more willingness to draw down savings, but consumer spending begins to slow more meaningfully in 2024. Residential investment is weak in 1H24, but activity picks up in 2H and further in 2025 as affordability improves on lower mortgage rates and prices. Business investment in equipment finally turns positive by 2H24, following two years of decline, while the surge in non-residential construction moves into a lower, more sustainable pace. A further increase in participation coupled with slowing job gains raises the unemployment rate somewhat to 4.1% at end-2024 from an estimated 3.9% at end-2023. In 2025, policy restraint slows job creation further below breakeven and participation improves marginally, which increases the unemployment rate to 4.3%.

A disinflationary cycle has been under way, mainly driven by core goods deflation and disinflation in housing CPI: We expect negative monthly prints in core goods inflation through the forecast horizon. In addition, our models point to a moderate decrease in housing inflation, coming closer to but still above pre-Covid rates over the forecast horizon. In our forecasts, core PCE increases by 3.5% 4Q/4Q in 2023 and slows to a still-elevated 2.4% in 2024 on sticky services prices, before falling further to 2.1% in 2025.

The Fed holds policy at a 5.375% peak of this cycle until June 2024, when we expect a cutting cycle to normalize rates to begin: Holding rates steady for an extended period is an active policy decision that results in further increase in the real policy rate from 2.9% in 4Q23 to a peak of 3.1% in 1Q24. June 2024 marks the first cautious step with a 25bp cut, followed by 25bp in September. In 4Q24 the Fed begins cutting 25bp every meeting as incoming data point to a growing degree of slack. The real rate moves down to 2.3% by 4Q24 and 0.4% by 4Q25 when core inflation, GDP growth, and unemployment are near neutral. A policy stance in line with our forecast lowers the policy rate from 5.375% in 4Q23 to 4.375% in 4Q24 and 2.375% in 4Q25.

A drop in the RRP to around US$500-750 billion triggers Fed discussion of tapering around the time of the April 2024 meeting. In September, the Fed begins to reduce the runoff caps on Treasuries by US$10 billion per month. We maintain the view that the Fed continues QT while cutting rates, as well as continues to reinvest mortgages into Treasuries.

Downside scenario | A protracted debt-deflation cycle in China drags the global economy into recession: US exports to China + EM have grown over time and take a direct hit that is offset only somewhat by lower commodity prices. Tighter financial conditions trigger a monetary policy response. To ensure a mild recession the Fed cuts rates rapidly to 1.875% from 1Q24-4Q24. We expect no growth in 2024 on a 4Q/4Q basis, which belies a contraction in 2H24. In 2025, low rates and pent-up demand for consumption and equipment lead to some reacceleration in activity.

Upside scenario | Short-run r* is higher, the Fed has undershot: This year's strength in consumption and investment extend into next year, and GDP increases by a similar 2.5% 4Q/4Q. Payroll growth remains strong at 180k/month and the unemployment rate continues to fall back to a low of 3.4%. Strong demand and inflation pressures lead the Fed to a further 100bp in hikes in 2024. Slowing in consumption, BFI, job growth, and inflation in 2025 is accompanied by Fed easing.

United States: Forecast summary

	2022	2023E	2024E	2025E
Real GDP (% 4Q/4Q)	**0.7**	**2.5**	**1.6**	**1.4**
Private consumption	1.2	2.4	1.6	1.3
Government consumption	0.8	3.9	1.1	0.6
Gross fixed investment	-2.5	1.4	1.7	3.2
Contribution to GDP (pp)				
Final domestic demand	0.8	2.7	1.6	1.5
Net exports	0.1	0.1	0.0	-0.1
Inventories	-0.3	-0.4	0.0	0.0
Unemp. rate (eop, % labor force)	3.6	3.9	4.1	4.3
CPI (% 4Q/4Q)	7.1	3.1	1.8	2.1
Core PCE (% 4Q/4Q)	5.1	3.5	2.4	2.1
Policy rate (eop, %)	4.375	5.375	4.375	2.375
General govt. balance (% GDP)	-5.5	-6.0	-6.0	-6.3
Gross govt. debt (% GDP)	122.5	121.3	118.0	116.1
Current account balance (% GDP)	-3.8	-3.0	-2.7	-2.5

Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Morgan Stanley Research forecasts

Euro Area: Structurally Slow

Jens Eisenschmidt
(49) 69 2166 2817

European
Economics Team

We see low growth again in 2024, at 0.5%Y, after 0.4%Y in 2023. Private consumption is likely to pick up but restrictive monetary policy and weak global trade should be a drag on exports and investment. 2025 looks more positive (1.0%Y) even though potential is dampened by structural challenges. Inflation is expected to recede, from 5.6%Y in 2023 to 2.4%Y in 2024 and 2.0%Y in 2025. We think the ECB has reached its terminal rate of 4.0% and will start cutting in June 2024, towards 2.0% in September 2025.

Growth | Not a lot better in 2024: GDP growth should only increase marginally from 2023 to 2024 even though its composition is evolving. Real income gains should start to push consumption up, and after a very weak 2023 we expect exports to pick up and the inventories cycle to be less of a drag next year. But fiscal policy will be consolidating while investment is likely to start falling as restrictive monetary policy makes its way to the real side. In 2025, monetary and fiscal policies should continue to weigh on demand, in a context where supply is limited by adverse demographics and the energy transition.

Labor market | Still tight: We think that the labor market will continue to be tight. Despite subdued growth in 2023 and 2024, we expect employment to increase, keeping the unemployment rate at a low level. Wages are in the process of catching up with past inflation – we project significant increases in 2023 (5.1%Y) and 2024 (4.0%Y), which would allow real wages to be back to their 2019 level in early 2025.

Inflation | On the way to 2%Y: Euro area inflation is resolutely on its way down. It printed at 2.9%Y in October 2023 and we forecast that it will fall further towards target, averaging 2.4%Y in 2024 and 2.0%Y in 2025. We think that profit margins will cushion wage increases, limiting the pass-through of costs to end-consumers. Besides global risk to activity and prices, euro area inflation remains exposed to surges in natural gas prices. Last winter showed that the price reaction to supply-demand imbalances might be sudden.

Fiscal policy | Consolidating slowly: We expect only a mild improvement in the euro area's public deficit from 3.6% of GDP in 2022 to 2.7% in 2025. And while the fiscal impulse turns negative, the level of fiscal support still appears exceptionally high. As for the reform of the Stability and Growth Pact, our baseline scenario remains that it could be finalized in early 2024, before the European elections, and apply to 2025 national budgets.

ECB | First cuts in June 2024... We think that the ECB has reached its peak rate at 4%. From here, it is slowly pivoting away its attention from contemporaneous inflation to forecasts. But inflation data have to come in line with the ECB's expectations to reinforce the credibility of the projections and euro area wage developments need to show some moderation before the ECB´s next move. The ECB will wait to observe a deceleration of wages in early 2024, which means it's unlikely to change policy rates before next June. We expect a first rate cut in June 2024 by 25bp. Rate cuts would go all the way down to 2.0%, expected to be reached in September 2025.

...and APP tapering in April 2024: On the balance sheet side, we expect PEPP reinvestments forward guidance to be adjusted in January 2024, contingent on an orderly development of BTP-Bund spreads, with tapering starting in April 2024.

Risks: In our downside scenario, a more material slowdown in China and global trade leads to weaker growth and inflation. Because the ECB waits for data on wages in 2024, we think that its first cut will remain in June 2024 but cuts will then be more rapid and more prolonged than in our base scenario, reaching 1.25% by end-2025. In our upside scenario, more robust activity in the US and the Fed resuming its hiking cycle would have the ECB increasing rates in June and September 2024, to 4.50%. The first cuts would be delayed to June 2025, with rates at 3.75% by end-2025.

Euro area: Forecast summary

	2022	2023E	2024E	2025E
Real GDP (%Y)	**3.4**	**0.4**	**0.5**	**1.0**
Private consumption	4.2	0.4	0.8	1.2
Government consumption	1.6	0.1	1.0	1.0
Gross fixed investment	2.8	1.0	-0.1	0.6
Contribution to GDP (pp)				
Final domestic demand	3.1	0.4	0.6	1.0
Net exports	0.0	0.2	-0.1	0.0
Inventories	0.3	-0.2	-0.1	0.0
Unemp. rate (eop, % labor force)	6.7	6.5	6.7	6.0
HICP (%Y)	8.4	5.6	2.4	2.0
Core HICP (%Y)	3.9	5.0	2.3	2.0
Policy rate (eop, %)	2.0	4.0	3.0	2.0
General govt. balance (% GDP)	-3.6	-3.3	-3.0	-2.7
Gross govt. debt (% GDP)	90.7	88.7	88.8	88.7
Current account balance (% GDP)	-0.7	1.5	1.6	1.6

Source: ECB, Eurostat, Morgan Stanley Research forecasts

Japan: Great Escape from the Lost Decades

Takeshi Yamaguchi
(81 3) 6836 5404

Masayuki Inui
(81 3) 6836 7407

Japan has made a structural shift in nominal growth on the back of solid real growth and sustained wage growth. Inflation has permanently risen, although we see it as slightly undershooting the BoJ's target over time. Consequently, NIRP and YCC should be formally abolished.

Japan's great escape from the lost decades: After an above-5%Y surge in 2023, we expect Japan's nominal GDP growth to remain solid above 3%Y in 2024 on the back of sustained domestic inflation accompanied by wage growth, and solid real growth led by domestic demand. This is a momentous change for Japan, where nominal growth had been in a flat range for decades. The revival of nominal growth implies simultaneous growth for employee compensation and corporate earnings. It also improves fiscal sustainability, with a large increase in tax revenue and a decline in the debt/GDP ratio, despite higher interest rates.

Domestic demand to support real growth: Private consumption should be backed by real income recovery in 2024 with another round of strong spring wage negotiations. It should also be supported by the government's economic package including extended energy subsidies and a temporary income tax cut with transfers to households. Inbound consumption by foreign tourists should continue to recover. Despite heightened uncertainty about external demand, domestic private capex will likely remain resilient, supported by labor-saving investment including IT investment and pent-up demand for digitalization. Onshoring/reshoring moves with the government's support for inward FDI and real interest rates remaining negative should also support capex. Housing investment may temporarily see some rushed demand in 2024 on expectations of additional rate hikes by households.

Exit from the deflationary equilibrium: Headline inflation should stabilize gradually, as the lagged impact from previous high import prices wanes. That said, Japan's moderate inflation should continue with the US-style core (excluding all food and energy) remaining in the range of 1-2%Y over the medium term. Japan's underlying inflation should be supported by sustained wage growth and solid service prices, though it will likely take time for Japan's long-term expectations among households and firms to be well-anchored at around 2%Y. The government may formally announce an exit from deflation in 2024, which should support consumer confidence, if realized.

Formal NIRP/YCC exit is coming soon: In October 2023, the BoJ decided to regard the upper bound of 1.0% for 10-year JGB yields as a "reference", not a strict limit. As a result, the BoJ's Yield Curve Control framework is effectively coming to an end. We continue to expect the BoJ to formally end the framework by removing the NIRP and long-term rate target in January 2024, with the risk of an early move in December 2023. We expect a 25bp rate hike in July 2024, given a one-off income tax cut from the summer, but we do not expect additional rate hikes, as we expect inflation to remain below 2% in 2H24 and 2025. That said, we expect the BoJ to abolish the monetary base commitment in 2Q25, starting gradual QT with a reduction in JGB purchases.

Potential catalysts and themes: We think that the BoJ's first workshop as a part of "the review of monetary policy from a broad perspective" in early December 2023 will be important in gauging the likelihood of an early NIRP/YCC exit. Other potential catalysts include the government's promotion of growth in financial income such as expansion of NISA (Nippon Individual Savings Accounts) in January 2024, improving labor market mobility, a five-year plan for nurturing start-ups, the ruling LDP's leadership election in September 2024, the risk of the administration shifting to faster fiscal consolidation in 2025, and so on.

Japan: Forecast summary

	2022	2023E	2024E	2025E
Real GDP (%Y)	**1.0**	**2.0**	**1.0**	**1.1**
Private consumption	2.1	0.8	0.6	0.5
Government consumption	1.2	0.4	0.7	0.9
Gross fixed investment	-0.8	1.9	1.1	1.8
Contribution to GDP (pp)				
Final domestic demand	1.1	1.3	0.7	0.9
Net exports	-0.5	0.8	0.3	0.2
Inventories	0.4	-0.1	-0.1	0.0
Unemp. rate (eop, % labor force)	2.6	2.6	2.6	2.4
CPI (%Y)	2.5	3.3	3.2	1.8
Core-core CPI (%Y)*	1.1	4.0	2.3	1.7
Policy rate (eop, %)	-0.10	-0.10	0.25	0.25
General govt. balance (% GDP)	-4.4	-2.9	-3.5	-2.4
Gross govt. debt (% GDP)	260	250	244	240
Current account balance (% GDP)	2.1	3.7	4.5	4.7

Source: BoJ, CAO, MIAC, MoF, Morgan Stanley Research forecasts; Note: Figures show calendar-year basis. *BoJ-style core-core (excluding fresh food and energy).

UK: Looking for the Exit

Bruna Skarica
(44 20) 7425 9110

The UK economy is stuck in a fragile equilibrium, with a challenging policy mix. We expect a technical recession at the turn of the year and a weak economy over 2024. We see some cause for a more constructive stance in 2025. The BoE starts cutting in May, accelerating the pace of policy normalization into year-end.

Growth | Recession, take 2: After a flat 3Q23, we see a mild 0.1%Q drop in activity in 4Q23, and a more pronounced correction over 1H24, as the impact of policy tightening peaks. The technical recession we are pencilling in is not severe – a ~0.4% peak-to-trough correction. Improving real wage growth should help, although lagged impacts of BoE tightening should restrain the consumer, with a slackening labor market spurring more cautious behavior too. Residential and business capex remain a sizable drag on growth, with net trade a mild positive, as imports growth lags exports growth on soft domestic demand. In 2025, we see a mild acceleration in growth, towards the 1.2%Y potential at the end of the year, driven by policy support and an improving global outlook.

Inflation | Fasten your seat belts: Energy deflation should bottom out in October, with food and core prices then driving disinflation. Core goods prices should enter deflation by mid-2024. Services inflation should slow too, albeit a bit more gradually, as we look for continued strength in hospitality sector wage growth and somewhat more resilient consumer demand. Overall, a likely steeper post-Brexit price Phillips curve implies that disinflation is possible even without a severe recession, and this remains our base scenario. It also implies more volatile inflation outcomes – in case downside risks to growth materialize, faster disinflation is very likely. We see headline inflation at a 2%-handle by mid-2024, and sub-target in 2H25. We expect core to be a bit more resilient over our forecast horizon, hitting the 2%Y target at the end of 2025.

Monetary policy | Matterhorn, actually? We think that in February the MPC will be able to plausibly forecast inflation at ~2%Y within a year's time. With higher-frequency inflation measures supporting convergence to target and with the unemployment rate on a continued upward trajectory, the question of restrictiveness of the policy rate at 5.25% will likely come into focus. We see the BoE delivering 100bp of cuts next year, starting the moves at forecast meetings first (May, August, and November), and then accelerating into year-end – from December 2024 to November 2025, we see the BoE cutting at every meeting until it hits a 2.5% rate – closer to the conventional estimate of the UK's long-run neutral rate. Once the cutting cycle starts, we think that active sales will end – with passive roll-off remaining in place.

Fiscal policy | There is no free lunch: While FY 2023/24 will likely see a cut in projected gilt issuance on better-than-expected tax receipts, the uplift in debt-servicing costs will likely leave fiscal space broadly depleted. In addition, we think that the government is reluctant to ease policy as soon as November, given still-elevated inflation and a BoE that could yet hike rates in response to a fiscal boost. With that, we expect £15 billion in easing from April, concentrated on tax cuts, and largely aimed at higher-income earners with a lower marginal propensity to consume (e.g., abolition of inheritance tax). With that, we see only a modest impact on the economy (~20bp). Post-elections, we see higher current spending outlays combined with a higher tax burden.

Risks | Upside global, downside local: In the downside scenario, labor market slack increases rapidly and consumers increase their savings more aggressively; as a result, there is a prolonged and sharp correction in activity over 2024. 2H24 BoE cuts would be more aggressive than in our base scenario. In the case of a stronger global economy, we think that a pick-up in growth in early 2024 would be likely, but fewer cuts from the BoE in 2H24 would weigh on growth in 2025. In such an upside scenario with the Fed hiking by an additional 100bp in 2024, we forecast that the BoE would likely hike by another 50bp over 2024 and cuts would be postponed to 2025.

UK: Forecast summary

	2022	2023E	2024E	2025E
Real GDP (%Y)	**4.3**	**0.5**	**-0.1**	**1.0**
Private consumption	5.2	0.4	-0.3	0.6
Government consumption	2.5	-0.1	1.6	1.5
Gross fixed investment	7.9	2.6	-1.9	1.1
Contribution to GDP (pp)				
Final domestic demand	5.1	0.7	-0.2	0.9
Net exports	-1.7	0.3	0.1	0.1
Inventories	0.9	-0.5	0.0	0.0
Unemployment rate (eop, %)	3.7	4.5	5.1	5.1
CPI	9.0	7.4	2.8	1.8
Core CPI	5.9	6.2	3.2	2.1
Policy rate (eop, %)	3.50	5.25	4.25	2.50
General govt. balance (% GDP)*	-5.5	-4.3	-3.4	-2.2
Gross govt. debt (% GDP)*	85.6	88.7	91.1	92.2
Current account balance (% GDP)	-3.1	-3.0	-3.0	-3.1

Source: ONS, BoE, Morgan Stanley Research forecasts; *Fiscal balance = PSNB-ex; gross government debt = debt ex BoE; fiscal data = fiscal year balances.

Australia: A Slower Cycle

Chris Read
(61 2) 9770 1513

The RBA continues hiking to 4.60% by February, but this is still only moderately restrictive, such that growth stabilizes below trend and disinflation is gradual. Unemployment rises steadily. Fiscal easing comes next year through tax cuts, pushing rate cuts into 2025.

Growth weakness to continue: We expect 2024 GDP growth of 1.6%Y (1.8% 4Q/4Q), unchanged from our prior forecast and a touch above consensus expectations. Our 2025 GDP growth forecast is initiated at 2.2%Y (2.3% 4Q/4Q). Sequentially, we expect domestic activity to continue to slow over the coming quarters, troughing in 2Q24 and not returning to trend growth until 2H25. We expect current record levels of population growth (2.2%Y) to slow in 2024 and 2025 but stay above pre-Covid levels (~1.7%Y). As such, the recovery in per capita GDP growth is more pronounced, although it only stabilizes in 2025.

The consumer is key: We expect consumer weakness to be an important drag on the economy over the next few quarters. Real income growth is expected to improve as real wage growth turns positive and the peak impact of rate tightening passes, although this will mostly be offset by a rise in the savings rate. Key here will be the wealth impact from housing, where we expect flat prices next year as listing supply improves, migration slows, and the expectation for rate cuts is pushed out. Income tax cuts in 3Q24 should be a meaningful boost to household incomes and allow a stronger (but still below-trend) consumer spending path over 2H24 and 2025.

Labor market weakness to accelerate: The labor market has been resilient over 2023, absorbing the record increase in labor supply with limited loosening in spare capacity. Forward labor demand indicators do still suggest some rise in the unemployment rate, and we expect this to accelerate through 2024 with unemployment increasing to 4.5%, and 4.9% in 2025. Importantly, we expect this to occur with still-positive employment growth. We expect wage growth to continue to increase through 1H24 given more inertial wage-setting arrangements and a broadening impact from the minimum wage increase, peaking at 4.2%Y in 2Q24 before easing to 3.8%Y by end-2024.

Inflation's tricky road back to target: Core inflation reaccelerated in 3Q23 with domestic and service inflation measures sticky around ~5% annualized rates. We see disinflation resuming in 2024 as the economy slows further, but expect this to be gradual. We forecast headline inflation of 4.3%Y and core inflation of 4.4%Y for end-2023, with both falling to 3.2%Y by end-2024 and into the top half of the inflation target in 2025. Goods deflation drives a significant portion of the slowing through 2024, but softer service inflation trends (and therefore a weaker labor market and higher productivity) are necessary for a return to the inflation target to be sustainably achieved.

The RBA has more to do: The RBA has placed a much greater emphasis on policy rate smoothing this hiking cycle, which has seen it set policy less restrictive than most other central banks. This, coupled with recent demand and inflation resilience, is the key reason why we expect a further rate hike in February, taking the cash rate to 4.60% – still only modestly restrictive. From there, we expect an extended pause – still-low real rates and income tax cuts in 2024 raise the bar for a pivot to easing, and we expect this to only come through in 2025, with four cuts from February, leaving the cash rate at 3.60% by year-end.

Risks – behind the curve: The key risk to the outlook is that inflation and demand are more resilient and the RBA is forced to move to a similar level of restriction as other central banks (i.e., cash rate >5%). We would expect this degree of tightening to be effective at slowing demand, and increase the likelihood of rate cuts in late 2024. Conversely, the lagged effect of prior hikes could be larger than expected, with weakening balance sheets and labor markets driving non-linear spending impacts. This would also likely see an earlier pivot to cuts from the RBA, but much lower levels of rates.

Australia: Forecast summary

	2022	2023E	2024E	2025E
Real GDP (%Y)	**3.7**	**1.9**	**1.6**	**2.2**
Private consumption	6.5	1.7	1.3	2.1
Government consumption	5.2	1.0	1.5	1.7
Gross fixed investment	1.2	3.9	1.4	2.4
Contribution to GDP (pp)				
Final domestic demand	5.2	1.2	1.5	2.0
Net exports	-1.6	1.0	0.1	0.1
Inventories	0.5	-0.8	0.2	0.0
Unemp. rate (eop, % labor force)	3.5	3.8	4.5	4.9
CPI (%Y)	6.6	5.7	3.5	2.9
Core CPI (%Y)	5.5	5.5	3.7	2.9
Policy rate (eop, %)	3.10	4.35	4.60	3.60
General govt. balance (% GDP)	-0.4	-0.2	-1.0	-1.2
Gross govt. debt (% GDP)	39.0	34.9	35.0	35.1
Current account balance (% GDP)	1.1	0.8	-0.8	-1.9

Source: ABS, RBA, Morgan Stanley Research forecasts

Canada: Sailing into the Wind

Lenoy Dujon
(1 212) 761 2779

Similar to the US, monetary policy stays restrictive well into 2024, but the rebound in 2025 on the back of rate cuts is much greater. We forecast GDP to slow from 1.2%Y in 2023 to 0.7%Y in 2024, before rebounding to 2.0%Y in 2025. In our forecasts, core inflation falls to a still-elevated 2.5%Y in 2024 from 3.8%Y in 2023, before falling further to 2.3%Y in 2025. The BoC holds the policy rate steady at 5.00% from July 2023 until July 2024, when it delivers the first 25bp cut, followed by an additional 75bp of cuts to finish the year at 4.00%. Confident that inflation is heading convincingly towards the 2%Y target, the BoC lowers the policy rate further to a neutral stance of 2.50% by end-2025.

Tight monetary policy weighs on growth and keeps risks skewed to the downside in 2024. Falling interest rates lead to a growth spurt in 2025: Rising mortgage renewals raise debt ratios, reducing consumer buying power. High costs remain a damper on housing activity through 1H24, before bouncing back through the forecast horizon as interest rates fall. Balance sheet exposure to variable interest rates in Canada stands in stark contrast to the US, which makes the impact on Canada's households more pronounced – both on the way up and the way down. Sluggish business investment in 2024 is staved off by strength in energy capex. Policy restraint slows job gains below the monthly replacement rate in 2024, before picking up in 2025. The unemployment rate increases to 6.0% in 2024, then further to 6.2% in 2025, as a rebound in economic activity encourages increased participation.

Firm commodity prices and easing supply chains present cross-currents for headline inflation, but the decline picks up speed in 2H24 through 2025: Elevated shelter inflation keeps domestic inflationary pressures sticky through 1H24, while goods and services prices ex shelter soften as excess demand continues to ease. We forecast that headline CPI slows from 3.9%Y in 2023 to 2.7%Y in 2024, and reaches 2.1%Y in 2025. Core CPI slows to 3.8%Y in 2023, 2.5%Y in 2024, and 2.3%Y in 2025.

The BoC holds the policy rate at its current 5.00% peak until July 2024, when we expect the first 25bp cut: At the time of the first cut, core inflation has fallen significantly against a backdrop of below-potential GDP. The BoC cuts by an additional 75bp to end the year at 4.00%. Alongside inflation moving towards target, the BoC cuts by an additional 150bp to reach 2.50% by the end of 2025.

Based on prior guidance, QT is expected to end once settlement balances are between C$20-60 billion. We expect the BoC to begin phasing out QT concurrently with the first rate cut in July 2024. Should persistent upward pressure on repo rates emerge, the BoC would take it as a sign that the steady state of settlement balances is likely larger than previously thought and end QT early.

Downside scenario – a protracted debt-deflation cycle in China leads the global economy into recession: Canada in particular feels the crunch through reduced trade and high unemployment. The economy enters recession from 1Q24 to 3Q24, pulling inflation down more quickly. The BoC ends QT early, and cuts rates by 300bp in 2H24, then another 50bp in early 2025 to revitalize growth.

Upside scenario – with no slowdown in the US, Canada growth rebounds. Exports are robust, as is the commodity complex on renewed global strength: The BoC hikes 25bp in December 2023, followed by an additional 50bp in 1Q24 to a peak of 5.75%, where it remains through the rest of the year. In 2025, lower inflation and higher household stress point to a lower near-term r*. The BoC cuts rates by 100bp.

Canada: Forecast summary

	2022	2023E	2024E	2025E
Real GDP (%Y)	**3.4**	**1.2**	**0.7**	**2.0**
Private consumption	4.8	2.2	0.2	1.9
Government consumption	2.0	0.6	1.4	1.8
Gross fixed investment	-0.6	-2.6	0.0	2.2
Contribution to GDP (pp)				
Final domestic demand	3.0	0.8	0.4	2.0
Net exports	-1.6	1.6	-0.4	0.0
Inventories	2.1	-1.2	0.6	-0.1
Unemp. rate (eop, % labor force)	5.0	5.7	6.0	6.2
CPI (%Y)	6.8	3.9	2.7	2.1
Core CPI (%Y)	5.0	3.8	2.5	2.3
Policy rate (eop, %)	4.25	5.00	4.00	2.50
General govt. balance (% GDP)	-0.8	-0.7	-0.6	-0.5
Gross govt. debt (% GDP)	107.4	106.4	103.3	100.6
Current account balance (% GDP)	0.53	-0.23	-0.39	-0.98

Source: Statistics Canada, Bank of Canada, IMF, Morgan Stanley Research forecasts

China: A Bumpy Road to Reflation

Robin Xing
(852) 2848 6511

China Economics Team

We expect subpar improvement in both growth and inflation in 2024-25, with real GDP growth reaching a below-consensus 4.2%Y/4.0%Y, as more central government-led stimulus and reforms will likely only cushion the economy against continued housing and LGFV deleveraging.

Modest growth recovery: We expect real GDP growth to improve slightly to 4.2%Y in 2024 from ~4% 2Y CAGR in 2022-23 (5.1%Y in 2023), but nominal GDP growth could return to a healthier 4.8%Y (versus 4.3%Y in 2023) with a rebound in the GDP deflator to 0.6% (versus -0.8% in 2023). This is predicated on endogenous resilience in consumption, as well as stronger policy easing to counter demand deficiency and deflation pressures. After strong post-reopening growth of 10.3%Y in 2023 (2Y CAGR of 5.3%), private consumption growth is set to remain robust at 5.0%Y in 2024, as disposable income growth will likely continue to outpace GDP amid further recovery in the labor-intensive contact-based service segments. We expect infrastructure investment (including green capex) to remain robust, while urban village rebuilding and social housing construction should cushion continued weakness in investment by developers – a natural consequence of weak new starts in the past two years. For 2025, we expect real GDP growth to moderate to 4.0%Y but nominal growth to pick up further to 5.3%Y, as a potential stabilization in the housing market after four years of sharp adjustment would firm up the reflation path.

From deflation to lowflation… Reflation in 2024-25 will likely be a gradual process (unlike 2016-17) in view of continued housing market stress and spillovers to local governments. We expect the GDP deflator to pick up to 0.6% in 2024 and 1.3% in 2025 (from -0.8% in 2023), but still sub-par and lower than desirable levels of 2-3%. Within this, CPI will likely improve gradually to 1.1%Y in 2024 and 1.5%Y in 2025 from 0.3%Y in 2023, as the negative output gap narrows. Meanwhile, with a much lower entry point (-2.6%Y in October), year-on-year PPI will likely decisively exit deflation only from 2025, though temporarily turning positive in 2Q/3Q24 from a low base.

…amid coordinated fiscal and monetary easing: To break the debt-deflation loop, more debt is needed initially to support aggregate demand and stabilize prices. As the rare mid-year expansion of the central budget shows that Beijing is willing to depart from past norms to stabilize the economy, we expect policymakers to accelerate reflationary policies next year, expanding the augmented fiscal deficit by another 1.5pp of GDP. This would be led by the official deficit (to ~4% of GDP from 3.8%) and the local government special bond quota (to Rmb 5 trillion from Rmb 3.8 trillion), both structurally higher than in the past, to support public spending and facilitate de-risking in LGFV debt. We have pencilled in two 25bp RRR cuts and a cumulative 20bp policy rate cut in 2024, which could maintain sufficient liquidity and accommodate fiscal stimulus.

RMB to weaken: We expect the RMB CFETS index to depreciate by 1.2% in 2024 and 0.9% in 2025, reflecting a bumpy reflation journey and associated capital outflow pressures. Given a stronger USD amid 'higher for longer' real rates, Beijing may allow USD/CNY to exceed 7.30, reaching 7.50 by mid-2024 (the weakest level in 16 years) before coming down to 7.45 by end-2024 and 7.28 by end-2025.

Risks are skewed to the downside: The downside scenario assumes the housing crisis deepens, creating non-linear spillovers. Economic entities that borrowed 165% of GDP (local government, property developers, households) face balance sheet contraction, exacerbating deflation pressures. Real GDP growth could slow to 2.7%Y in 2024 and 2.8%Y in 2025. In the upside scenario, more forceful reflation policies and accelerated structural reforms to rebalance the economy mean real GDP growth of 5.0%Y in 2024 and 4.5%Y in 2025, with the GDP deflator strengthening to 2.5% in 2025.

China: Forecast summary

	2022	2023E	2024E	2025E
Real GDP (%Y)	**3.0**	**5.1**	**4.2**	**4.0**
Private consumption	0.5	10.3	5.0	4.7
Government consumption	4.8	4.5	4.0	4.0
Gross fixed investment	3.4	3.2	3.2	3.5
Contribution to GDP (pp)				
Final domestic demand	2.5	5.8	3.9	4.0
Net exports	0.5	-0.7	0.3	0.0
Inventories	0.2	-0.1	0.0	0.1
Unemp. rate (eop, % labor force)^	5.6	5.3	5.1	5.0
CPI (%Y)	2.0	0.3	1.1	1.5
Core CPI (%Y)	0.9	0.7	1.0	1.3
Policy rate (eop, %)*	2.0	1.8	1.6	1.6
General govt. balance (% GDP)**	-16.1	-12.1	-13.6	-12.8
Gross govt. debt (% GDP)^	95	101	107	112
Current account balance (% GDP)	2.2	1.8	1.2	0.7

Source: CEIC, Wind Morgan Stanley Research forecasts; ^Survey-based urban unemployment rate, available from 2017; *7-day PBOC reverse repo rate; **Sum of budget deficit, transfers of fiscal reserves, local government special bonds, social security fund, LGFV funding and net land sales. ^Including central govt. debt, local govt. debt, and Wind statistics on LGFV debt, which includes LGFVs with bond-issuing capability.

India: Steady Expansion

Upasana Chachra
(91) 22 618 2246

Bani Gambhir
(91) 22 618 3027

We expect growth to track at around 6.5%Y over the next two years, supported by sustained domestic demand momentum. Macro stability is likely to improve and remain within the comfort range. We expect a shallow rate cut cycle in 2024. General elections in May 2024 are a key risk.

Domestic demand sustaining the momentum: Domestic demand remains resolute, with key indicators such as PMIs tracking above the 50 mark since August 2021 and real credit growth averaging at 14%Y, and real GST collections at 9.8%Y in 2023 so far. Looking ahead, we expect the robust trend in domestic demand to sustain, supported by strength in corporate and financial sector balance sheets and the follow-through of policy reform measures. We expect consumption to recover further in 2024, driven by the narrowing gap between rural and urban demand and strength in services demand. Improvement in consumer sentiment back to pre-pandemic levels bodes well for the consumer recovery while rural consumption is likely to be supported by the improving trend in real rural wages. We expect public sector capex to continue to grow in double digits, led by central and state government spending, while private investment picks up further momentum in 2024. We expect growth to sustain at robust level of 6.4%Y in 2024 and 6.5%Y in 2025.

Macro stability to remain within the comfort range: We expect macro-stability indicators to track within policymakers' comfort zone in 2024-25. On the inflation front, we anticipate a decelerating trend in headline CPI, supported by moderation in cost-push inflation (normalizing supply chains) and food inflation. As such, we expect headline inflation to moderate gradually to 5.1%Y in 2024 and 4.8%Y in 2025 from 5.6%Y in 2023. Within core inflation, we expect core goods inflation to moderate, albeit slowly, driven by normalizing supply chains, while core services could potentially firm up marginally, driven by strength in the service economy. As such, we anticipate core inflation to likely remain sub-5%Y in both 2024 and 2025. Key risks to the CPI trajectory stem from volatility in food prices and global commodity prices. We remain watchful of risks emerging from the stronger-than-expected trend in domestic demand. On the external balance sheet side, we expect the current account deficit to remain range-bound at 1.6-1.8% of GDP in 2024-25, driven by improving terms of trade and strength in net service exports. The inclusion of India in the GBI-EM index from June 2024 is likely to support the balance of payments, by augmenting capital flows and thus aiding the funding profile.

Monetary policy – a shallow rate cut cycle: We expect the RBI to remain cautious and keep rates steady until 1H24 even as inflation remains range-bound to assess any pass-through impact of potential external risks. Furthermore, we expect the easing cycle to commence from 2Q24, premised on inflation moderating to around 5-5.5%Y in 1Q24 and remaining around 5%Y thereafter. We maintain our expectation of a shallow rate cut cycle of two rate cuts of 25bp each. This is likely to ensure real policy rates average ~100-150bp in 2024. Moreover, the RBI will likely actively use liquidity management as a policy lever, to ensure price and financial stability. Risks of a delayed start to the easing cycle could emerge from higher commodity prices (especially oil) pushing up inflation and/or tighter global financial conditions weighing on the currency and adversely impacting macro stability. With regard to fiscal policy, we expect the fiscal consolidation trend to continue as the consolidated fiscal deficit moderates to 8.2%Y in 2024 and 7.3%Y in 2025 from 8.9% in 2023, supported by a buoyant trend in receipts, even as the government continues to focus on capex spending.

Risks remain balanced: The key event to track in 2024 are the union government elections in May 2024, which in our base scenario assumes continuity both in government and policy. As such, any surprise outcome is likely to have implications for growth and macro stability. A strong political mandate that supports reform measures alongside an improvement in external demand would drive faster growth. The downside scenario is driven by a delay in the capex cycle from weaker business confidence because of a surprise political outcome and/or a drag from the external environment.

India: Forecast summary

	2022	2023E	2024E	2025E
Real GDP (%Y)	**6.7**	**6.6**	**6.4**	**6.5**
Private consumption	8.1	5.3	6.6	6.8
Government consumption	2.7	3.3	6.0	6.1
Gross fixed investment	10.3	8.3	8.3	8.1
Contribution to GDP (pp)				
Final domestic demand	7.7	6.2	7.3	7.3
Net exports	-0.7	-1.8	-0.9	-0.4
Inventories	0.2	0.0	0.0	0.0
CPI (%Y)	6.7	5.6	5.1	4.8
Core CPI (%Y)	6.3	5.1	4.2	4.6
Policy rate (repo, %)	6.25	6.5	6.0	6.0
General govt. balance (% GDP)	-9.3	-8.9	-8.2	-7.3
Gross govt. debt (% GDP)	82.8	82.9	81.5	79.3
Current account (% GDP)	-2.5	-1.3	-1.8	-1.6

Source: RBI, CEIC, budget documents, Morgan Stanley Research forecasts

Indonesia: Robust Domestic Demand

Derrick Kam
(65) 6834 8272

Growth momentum is strong and should remain supported by structural tailwinds. We see capex momentum picking up and taking over as a growth driver. Inflation should stay within the target range. We expect rate cuts to commence once external funding conditions turn favorable.

Structural positives to support growth momentum: We have been constructive on Indonesia's macro outlook, highlighting that Indonesia is one of the economies within Asia which can offer domestic demand alpha. Indeed, a prudent fiscal and conventional monetary policy mix has helped to anchor macro stability and created a conducive environment for the growth momentum in domestic demand to be sustained at healthy levels. So far in this cycle, the recovery has been driven by a boom in commodity exports and a robust rebound in private consumption post-reopening. As we look to the next phase of the recovery, we expect that growth momentum will stay relatively strong, with capex taking over as the key growth driver.

Inflation to stay well within the target range: Inflation dynamics in Indonesia have been far better behaved than those of other major economies. In previous cycles, Indonesia's inflation tended to be well above global inflation, but this time around we have seen the reverse happen. Inflation has already moved to within the central bank's 2023 target range of 2-4%Y for the past six months. With inflation expectations anchored and real rates staying relatively elevated, we think that this will put a lid on inflationary pressures. We expect that inflation will still stay within the central bank's lower inflation target of 2.5%Y +/-1pp for 2024.

Monetary policy should be tighter for a while longer: Notwithstanding the benign inflation backdrop, Bank Indonesia surprised by hiking rates at its October meeting, citing how shifts in the global funding environment have meant that it had to pivot from cuts to hikes. We have been highlighting how domestic considerations for a rate cut have been met already, with macro stability well in check, and real rates are already elevated relative to their historical trends. However, the external funding environment has emerged as a constraint to the rate cut cycle. We still expect this constraint to remain in 1H24, and so we now only expect rate cuts to begin from late 2Q24 onwards.

Elections and US rates are key swing factors: We highlight two key swing factors. First, we have presidential elections to be held on February 14, 2024. An inconclusive outcome in the first round of voting would lead to a second round to be held in June, which may lead to increased uncertainty, dampen private sector confidence, and weigh on domestic demand. Second, if US rates move even higher from here, it could lead to further rate hikes. In this scenario, real rates in Indonesia would move higher and weigh on rate-sensitive areas of spending, especially capex. On the downside capex is also sensitive to the commodity complex, which ties into our global downside scenario/risk from China.

Indonesia: Forecast summary

	2022	2023E	2024E	2025E
Real GDP (%Y)	**5.3**	**5.1**	**5.1**	**5.2**
Private consumption	5.0	5.1	5.1	5.3
Government consumption	-4.6	6.0	4.0	5.0
Gross fixed investment	5.0	4.8	5.8	5.6
Contribution to GDP (pp)				
Final domestic demand*	3.5	4.7	4.9	5.0
Net exports	0.8	0.3	-0.2	-0.4
Inventories	0.1	0.1	0.2	0.2
Unemp. rate (% labor force)	5.9	5.6	5.4	5.3
CPI (%Y)	4.2	3.6	3.0	2.7
Core CPI (%Y)	2.8	2.5	2.8	2.4
Policy rate (eop, %)	5.50	6.00	5.00	5.00
General govt. balance (% GDP)	-2.3	-2.2	-2.2	-2.2
Gross govt. debt (% GDP)	40.6	40.4	40.0	39.7
Current account balance (% GDP)	1.0	-0.3	-0.5	-0.7

Source: CEIC, Morgan Stanley Research forecasts; *Excluding inventories.

Korea: Aiming for Above-Potential Growth

Kathleen Oh
(852) 2848 5200

Korea has underperformed its potential in 2023 on the back of fading consumption and an exports downturn. As we expect exports to recover in 2024, an above-potential rebound is likely achievable, although weak consumption faces headwinds from the tight monetary environment.

Growth recovery to 2.2%Y (1.9% 4Q/4Q) in 2024 from 1.5%Y (2.5% 4Q/4Q) in 2023: Faced with a major downcycle in exports in 1H23 and fading momentum in consumption in the second half, both external and domestic activities have struggled to expand meaningfully in 2023. Thanks to the tech upcycle leading to exports recovery from year-end through 2024, we believe that Korea is now set on a path towards an above-potential recovery. However, issues around mounting household debt and growing pressure from the elevated rate environment are likely to allow only limited room for a recovery above potential.

Switching of growth drivers: In 2024, we expect the lead growth driver to switch from consumption to exports. An external demand recovery is set to lead overall growth on the tech upcycle after a deep downturn in 1H23. Decelerating imports on slower consumer demand and more stable energy imports are likely to improve the boosting effect from the positive net exports account. Meanwhile, we expect households to start feeling major pain from the prolonged elevated rate environment. Gross capital formation is likely to remain mixed amid a slow recovery in facilities investment versus slowing construction investment. Government spending likely remains conservative through 2025 with the government's laissez-faire stance.

Fast to climb, slow to stabilize: CPI inflation is set to stabilize at 2.5%Y in 2024 from 3.5%Y in 2023. Headline CPI inflation has reaccelerated above 3%Y in 3Q23 although it has eased from a peak of 6.3%Y in early 2023. Due to increased uncertainty around oil prices and a weaker FX, supply-side inflationary pressure appears to be abating only incrementally. Meanwhile, demand-pull pressure from services spending and consumption activity is likely to stabilize as domestic activity weakens. We expect a meaningful stabilization towards the BoK's target of 2%Y to materialize from mid-2024. What poses a risk to the upside for core is the potential electricity and gas price hike that has been postponed since a small hike in April 2023.

Removing of tightening bias from 3Q24: We now expect the BoK to start cutting in 3Q24 due to delayed pace of inflation stabilization. We expect mortgage-driven household debt growth to slow throughout 1H24 now that the government's stance on preventing a hard landing in the property market has shifted to capping the upward move in 2H23. Absent government support, we believe that the BoK has room to overlook a temporary rise in household debt growth. Plus, the BoK likely prefers accommodating local financial institutions to prevent negative spillover onto market sentiment due to PF loan exposure.

In fact, we believe that the BoK can start cutting with less sensitivity to the timing of the Fed as long as USD remains neutral. As we expect markets to price in the Fed cutting 1-2 months ahead of the action, a stable FX move and softer US growth should guide the BoK to focus on domestic issues. As the members look at the medium-term outlook for inflation, where it is likely to stabilize throughout 2024, the dovish members within the MPC are likely to start dissenting votes for cuts, leading to a cut to 3.25% in July 2024.

Balanced risks both domestically and externally: Another year of weak China demand is likely to drag largely on external demand, especially when we expect that offsetting demand from developed markets is likely to slow. As for policy, the parliamentary election in April 2024 should increase policy uncertainty and bring a more interventionist stance by the government in controlling the property market. Potential electricity price hikes and changes to the administered price trajectory pending the election result remain risks, potentially delaying the BoK's forecast of the timing of inflation stabilization.

Korea: Forecast summary

	2022	2023E	2024E	2025E
Real GDP (%Y)	**2.6**	**1.5**	**2.2**	**2.1**
Private consumption	4.1	1.4	0.6	1.6
Government consumption	4.0	0.7	1.5	1.7
Gross fixed investment	-0.5	0.4	2.9	1.5
Contribution to GDP (pp)				
Final domestic demand*	2.5	0.9	0.6	1.5
Net exports	0.1	0.5	1.6	0.6
Inventories	0.1	0.1	0.1	0.0
Unemp. rate (% labor force)	2.9	2.9	3.2	3.0
CPI (%Y)	5.1	3.5	2.5	2.0
Core CPI (%Y)	3.6	3.5	2.3	2.2
Policy rate (eop, %)	3.25	3.50	3.00	2.50
General govt. balance (% GDP)*	-3.3	-1.1	-1.9	-0.9
Gross govt. debt (% GDP)	-3.3	-2.6	-3.9	-2.9
Current account balance (% GDP)	1.5	1.2	2.3	2.3

Source: BoK, MoEF, Korea Statistics, Morgan Stanley Research forecasts; *Central government only, excluding social security funds balance.

Saudi Arabia: Oil Output Cuts Dominate

Hande Kucuk
(44) 20 7677 3270

Alina Slyusarchuk
(44) 20 7677 6869

The duration and extent of current oil production cuts should determine the outlook, including the progress on Vision 2030 projects. Growth should turn positive from next year, but the fiscal balance will likely remain in deficit.

Oil production is at its lowest in two years: In response to declining oil prices, Saudi Arabia initially lowered its oil supply by 0.5 mb/d from May, but then unilaterally deepened the cuts to 1 mb/d per day from July, announcing an extension until year-end, which has put downside pressure on exports, growth, and the fiscal balance. In tune with our oil strategists, we assume voluntary cuts continue throughout 1Q24 before production reaches 10 mb/d again in 3Q. In line with our in-house forecasts, we assume oil prices average US$85.6/barrel in 2023 (US$95 in 4Q23), US$88.8 in 2024, and US$85 in 2025.

Negative real GDP growth likely in 2023: Real GDP shrunk by 4.5%Y in 3Q23, driven by the oil output cuts that brought oil sector activity down by 17.3%Y. Growth in the non-oil sector also slowed substantially, coming in at 0.1%Q (1H23 average: 1.1%Q) and 3.6%Y in 3Q (1H23: 5.4%Y). This likely reflects a high correlation between manufacturing and oil sectors, but should be absorbed by higher government spending in 4Q23 given a policy aim to support non-oil growth. We expect GDP to shrink by 0.5%Y this year despite robust growth in the non-oil sector at 4.9%Y, which is reflected as a strong domestic demand contribution driven by public capex (16.7%Y) versus a weak private one (1.4%Y). Real GDP growth recovers to 3.5%Y in 2024 and 4.5%Y in 2025, as oil production stabilizes at 10 mb/d and Brent trades in a US$85-90/barrel range. More generally, we see structural reforms and investment in line with the Vision 2030 strategy.

Fiscal balance returns to deficit: The budget deficit widened to SAR 35.8 billion in 3Q23 (from SAR 5.3 billion in 2Q23), bringing the four-quarter trailing budget balance/GDP ratio to -2.3%, down from -1.0% in 2Q23 and +2.5% in 2022. Year to date as of 3Q23, oil and total revenues are down by 24%Y and 10%Y, respectively. Meanwhile, expenditures are up by 12%Y, driven by strong capex growth (21%Y) and purchases of goods and services (25%Y), as well as a rise in social benefits (27%Y). The projected rise in oil prices in 4Q23 to US$95/barrel and Saudi Aramco's 3Q performance dividend payout should keep the budget deficit/GDP ratio at 2.4% in 2023 despite increased spending to support non-oil GDP. We see the budget remaining in deficit in 2024 (2.2%) and 2025 (2.0%). On the external front, we expect the current account to be almost halved to US$70 billion (or 7% of GDP) in 2023, from US$153 billion (or 13.9%) in 2022, recovering to 8.1% of GDP in 2024 and 7.7% in 2025.

Inflation and monetary policy: Inflation has declined to 1.7%Y in September from 3.3%Y in December 2022, with food and transport inflation turning negative, while housing inflation has remained elevated at 8.2%Y. We see headline CPI slowing down to 1.5%Y by end-2023, averaging 2%Y in 2024 and 2.2%Y in 2025. As the SAMA follows the Fed due to the USD peg, we expect rates on hold until June 2024 at 6.00%, implying a quite restrictive stance relative to inflation, posing a headwind to lending growth. 25bp cuts at every meeting through 4Q25 lower the policy rate to 5.00% in 4Q24 and 3.00% in 4Q25.

Where are the risks? A global upside scenario does not directly translate into a local upside scenario, as higher oil prices (+US$10/barrel) support fiscal space to deliver on Vision 2030 projects on one hand, but a more restrictive Fed rate path drags bank lending on the other. Nevertheless, higher oil prices should push GDP growth higher to 5.0%Y in 2024 and 6.1%Y in 2025. In a global downside scenario, a less restrictive Fed rate path potentially supports bank lending, but given oil prices US$15 lower compared to the base scenario, progress towards Vision 2030 slows, implying subdued growth at 1.3%Y in 2024 and 2.1%Y in 2025.

Saudi Arabia: Forecast summary

	2022	2023E	2024E	2025E
Real GDP (%Y)	**8.7**	**-0.5**	**3.5**	**4.5**
Private consumption	4.8	2.8	1.9	4.3
Government consumption	6.7	1.8	5.2	2.1
Gross fixed investment	24.1	2.9	6.1	7.6
Contribution to GDP (pp)				
Final domestic demand	8.9	2.3	3.4	4.4
Net exports	4.4	-2.1	0.1	0.4
Inventories	-4.6	-0.6	0.0	-0.3
Unemp. rate (eop, % labor force)	5.6	5.2	5.9	6.1
CPI (%Y)	2.5	2.3	2.0	2.2
Policy rate (eop, %)	5.00	6.00	5.00	3.00
General govt. balance (% GDP)	2.5	-2.4	-2.2	-2.0
Gross govt. debt (% GDP)	23.8	26.4	28.8	30.9
Current account balance (% GDP)	13.9	7.0	8.1	7.7

Source: Haver Analytics, Bloomberg, SAMA, Ministry of Finance of Saudi Arabia, Morgan Stanley Research forecasts

Egypt: Reverting to the Roadmap

Hande Kucuk
(44) 20 7677 3270

Despite the improvement in the balance of payments and continued privatization efforts, Egypt still faces challenges, with additional uncertainty related to recent geopolitical developments. Strengthening the IMF anchor would be key for Egypt's macro stabilization post-elections.

IMF reviews have been delayed: Egypt's US$3 billion EFF agreement with the IMF has been on hold since December. Progress on the privatization program and transition to a flexible exchange regime are the two main pillars of the EFF agreement, among others. While Egypt has made progress on the former, it has kept the official spot FX fixed since January, which has slowed official reserve accumulation and kept banks' NFA under pressure despite a better-than-expected current account adjustment in FY23. Given sizeable net repayments to the IMF, we expect the IMF program to continue post-elections conditional on further progress on structural reforms.

Our baseline is one in which the official spot FX rate is kept constant at least until the elections are over: Given pending IMF reviews and large external finance needs, we think that policymakers will likely allow another FX adjustment in 1Q24, while the timing remains uncertain as policymakers would prefer to act under better FX liquidity conditions to contain the size of a potential FX adjustment. Such a baseline implies downward pressure on economic activity in FY24, initially due to import compression, then due to tighter financial conditions as rates adjust to FX and inflation. Hence, we see real GDP growth at 3.8%Y in FY24, similar to FY23. Growth should pick up in FY25 to 4.8%Y as FX liquidity improves and inflation declines, supporting domestic demand, and gross fixed investment in particular.

We see inflation remaining above target in FY24: Despite a stable official spot FX rate for most of the year, inflationary pressures have been high, driven by expectations of a weaker currency, higher food and fuel prices, and ongoing supply shortages. Headline inflation stands at a historical high of 37.9%Y while core and food inflation are at 39.8%Y and 73.5%Y, respectively. We expect monthly inflation to gain momentum following the FX adjustment we factor in for 1Q24, but base effects from last year plus easing supply constraints should keep year-on-year inflation on a slight downward trend. We see inflation at 25.4%Y in December 2024, lower compared to December 2023 (34.3%Y), but well above the CBE's inflation target of 7%+/-2pp at year-end.

An adjustment in official spot FX will likely be followed by further CBE tightening steps: We factor in another 200bp of hikes in 1Q24 to support EGP and contain inflationary pressures. We think the authorities will resort to additional measures such as reserve requirement hikes and certificates of deposits at higher rates to limit the size of the rate adjustment in view of fiscal considerations.

Geopolitics increase risks to the current account deficit through a lower oil balance and tourism revenues: We expect the current account deficit to widen to US$9.4 billion (2.3% of GDP) in FY24 from US$4.7 billion (1.2% of GDP) in FY23, but bilateral financial support will likely increase given Egypt's critical role in the region. Continued inflows through FDI and a high rollover ratio of medium and long-term debt should contain potential downward pressure on official reserves in the short term, until the government's structural reform agenda gains momentum.

What are the risks? Higher-for-longer US yields associated with a global upside scenario imply subdued financial inflows to Egypt. While higher oil prices imply pressure on fiscal accounts due to fuel subsidies, improved growth prospects in the GCC should support workers' remittances and other funding, offsetting some of the potential funding pressures. In a global downside scenario, weaker world growth slows Egypt's external adjustment, and lower oil prices might reduce inflows from the GCC, implying continued FX shortages. Idiosyncratic risks are related to momentum in the government's structural reform agenda.

Egypt: Forecast summary

	2022	2023E	2024E	2025E
Real GDP (%Y)	**6.7**	**3.8**	**3.8**	**4.8**
Private consumption	3.8	5.9	2.3	4.4
Government consumption	-17.3	5.0	5.9	2.9
Gross fixed investment	30.5	-33.7	3.6	7.1
Contribution to GDP (pp)				
Final domestic demand	5.9	-0.4	2.7	4.6
Net exports	0.8	4.3	1.2	0.3
Inventories	0.0	-0.1	-0.1	-0.1
Unemp. rate (eop, % labor force)	7.3	7.2	7.5	7.3
CPI (eop, %Y)	13.2	33.0	29.0	16.3
Policy rate (eop, %)	11.25	18.25	21.25	17.25
General govt. balance (% GDP)	-6.1	-6.1	-7.8	-6.5
Gross govt. debt (% GDP)	87.2	95.7	92.1	91.5
Current account balance (% GDP)	-3.5	-1.2	-2.3	-2.6

Source: CBE, MinFin, Haver Analytics, Morgan Stanley Research forecasts; Note: Numbers represent fiscal year from July 1 to June 30.

Turkey: A Gradual Rebalancing

Hande Kucuk
(44) 20 7677 3270

Alina Slyusarchuk
(44) 20 7677 6869

Turkey's shift towards a more conventional macro policy framework post-elections has involved significant tightening in monetary policy and financial conditions. Locals' demand for FX has eased and domestic demand has shown signs of moderation, putting Turkey on a path towards gradual disinflation.

New economic policies aim to engineer a soft landing: Pre-election fiscal and credit stimulus pushed domestic demand well above trend during 1H23, at the cost of a wider current account deficit and a decline in official FX reserves. Following the appointment of a new economics team in June, Turkey has adopted a new macro policy framework to rebalance the economy and bring inflation down. Monetary and macro-prudential policies were tightened and a series of tax hikes were introduced. While a tighter macro policy mix has started to moderate domestic demand, planned fiscal stimulus related to earthquake reconstruction efforts will likely counteract some of these restrictive impacts in 4Q23 and into 2024. We expect selective credit easing and front-loading of government spending to support growth ahead of municipal elections in March, but we see overall financial conditions remaining tight to contain risks to inflation and the external balance. Along with a projected slowdown in global growth, and more importantly in the euro area, we see real GDP growth slowing to 3.5%Y in 2024 from 4.1%Y in 2023. Gradual rate hikes and earthquake-related fiscal stimulus in 2024 mean that the adjustment in domestic demand will likely extend into 2025, which implies below-potential growth at 3.1%Y despite a projected recovery in the euro area.

Disinflation to start in 2H24: A combination of cost-push factors, i.e., spillovers from FX depreciation, fuel price hikes, and minimum wages, coupled with strong domestic demand and higher inflation expectations, pushed inflation to 61.4%Y in October from 38.2%Y in June. Despite a declining monthly inflation trend, we see headline inflation rising to 66.5%Y by year-end, peaking at 73.5%Y in May 2024. Price stickiness in services, another strong minimum wage hike in January, and projected fiscal stimulus will likely put upside pressure on inflation until the effects of tightening steps and favorable base effects kick in from 2H24. We see headline inflation declining to 42.5%Y at end-2024 and 28.4%Y at end-2025.

Further tightening in the pipeline: The CBT brought the policy rate to 35% in October, delivering 26.5pp of hikes in five consecutive meetings since May, and signalled further tightening steps in rates and macro-prudential instruments until it achieves a significant improvement in the inflation outlook. At 35%, the policy rate is close to the CBT's inflation forecast for end-2024 at 36%Y, but this implies a negative real rate relative to expected inflation, since 12-month ahead survey expectations currently standing at 45%Y. Given FinMin Simsek's remarks that signalled a preference to reach a positive ex ante real policy rate relative to inflation expectations, we expect another 250bp hike to 37.5% in November. We then forecast a CBT pause to gauge the impact of the cumulative rate hikes on the determinants of inflation and inflation expectations. We expect the policy rate to reach a terminal 40% in April, as the CBT responds to potential inflationary pressures after March elections. Given a policy preference to unwind FX-protected deposits (KKM) and accumulate reserves, financial conditions should continue to be tighter than implied by the policy rate until there is a significant improvement in the inflation outlook.

Where are the risks? In an upside scenario, the cushion from stronger external demand emboldens the CBT to adopt a tighter monetary stance, implying credibility gains. But higher growth and higher oil prices relative to the baseline slow disinflation and limit the improvement in the current account balance. In a downside scenario, prospects of a sharper downward adjustment in growth prompt policymakers to introduce measures to ease financial conditions, i.e., by relaxing credit growth caps and ending the hiking cycle at a lower terminal rate. This slows the adjustment in domestic demand, but lower oil prices driven by weaker global growth keep the pressures on inflation and the current account deficit contained.

Turkey: Forecast summary

	2022	2023E	2024E	2025E
Real GDP (%Y)	**5.5**	**4.1**	**3.5**	**3.1**
Private consumption	18.9	13.4	4.2	3.1
Government consumption	4.2	4.7	5.0	1.8
Gross fixed investment	1.3	3.1	0.6	2.0
Contribution to GDP (pp)				
Final domestic demand	12.5	10.8	3.9	3.0
Net exports	0.7	-3.8	-0.8	0.2
Inventories	-7.7	-2.9	0.4	-0.1
Unemp. rate (eop, % labor force)	10.4	10.1	10.5	10.6
CPI (eop, %Y)	64.3	66.5	42.5	28.4
Policy rate (eop, %)	9.00	37.50	40.00	30.00
Central govt. balance (% GDP)	-0.9	-5.8	-6.4	-3.4
Gross govt. debt (% GDP)	26.9	30.4	34.3	34.4
Current account (% GDP)	-5.4	-4.2	-2.8	-2.5

Source: Haver Analytics, Morgan Stanley Research forecasts

Israel: Alleviating Economic Hardship

Georgi Deyanov
(44) 20 7425 7006

Alina Slyusarchuk
(44) 20 7677 6869

The economic outlook is dominated by the ongoing conflict. We expect GDP growth to turn negative in 4Q23 but to recover rather quickly. Near-term pro-inflationary effects should fade in early 2023 due to the negative output gap, opening the door to rate cuts.

Growth, driven by conflict dynamics: While we expect the Israeli economy to contract in 4Q23 on the back of the negative effects from the conflict, we still see annual GDP growing by 2.3%Y in 2023. Yet, the growth outlook for 2024 looks more challenging, as it will depend on how quickly economic activity can return to the pre-conflict level. Based on our current assumption for the conflict-related supply disruptions and labor force shortages to be contained within the last quarter of this year, we think that GDP will start recovering rather quickly in 1Q24 but take up to mid-2024 to reach its pre-conflict level. In the very near term, consumption and goods exports are likely to see the strongest declines, which would be partly offset by higher public consumption and lower imports demand. With the effects of the conflict fading in 2H24, we expect GDP growth to improve and come out at 1.8%Y in 2024 and 3.5%Y in 2025. Of course, the duration, scope, and intensity of the conflict remain major sources of uncertainty to the growth outlook.

Fiscal support to partly alleviate the economic hardship: We expect the government to retain its broad-based support for the economy for as long as the conflict-induced business disruptions last and to help sectors to recover selectively afterwards. Overall costs remain uncertain but, based on our assumption for a contained conflict, we estimate the budget deficit this year at 3.5% of GDP, followed by a gradual consolidation to 3.0% in 2024 and 2.5% in 2025. Risks to the outlook remain skewed to larger deficits, based on potential prolongation or intensification of the conflict. The trajectory of the fiscal deficit and its impact on financial conditions in Israel are likely to influence the BOI's rates decisions as well, we think.

Inflation to remain elevated in the near term: Inflation pressures were already easing before the conflict as the BOI's past monetary tightening was gaining traction through a cooling housing market. Yet, supply disruptions and shortages, coupled with a weaker currency, are likely to push inflation higher in the very near term. At the same time, reduced discretionary consumption and below-potential economic growth in the medium term are likely to result in a broad-based disinflationary tendency. More precisely, we expect inflation to remain close to 4%Y by year-end and to start decelerating gradually in early 2024 to reach 2.3%Y at year-end. Further ahead, weaker global price pressure but recovering domestic demand in 2025 are likely to balance each other out and keep inflation within the upper end of the BOI's tolerance band.

BOI to keep playing defense until the recovery phase: We expect the BOI to remain focused on containing FX and financial stability risks for as long as the future path of the conflict remains unknown. Yet, once the uncertainty subsides and the economy embarks on a sustainable path to recovery, we expect it to ease monetary policy to accommodate the negative output gap and the lower inflation dynamics. We currently expect this to happen in 1Q24, when we see 50bp of cumulative easing. Further ahead, we anticipate the BOI to proceed with 50bp of easing in 2Q24 before slowing down the pace of easing to 25bp per quarter until 2Q25 for its key policy rate to reach 3.25% by end-2024 and 2.75% by end-2025.

Risks to the outlook: The conflict uncertainty together with fiscal-sustainability risks create the most substantial risks to our outlook. Global risk scenarios can have a meaningful impact as well. In our global downside scenario, weaker global growth and lower inflation pressures would allow for the BOI to lower its key policy rate to 2.75% in 2023 and 2.50% in 2024. In our global upside scenario, tighter global monetary conditions are likely to prompt the BOI to tighten monetary policy to 5.25% in the very near term and initiate a more gradual easing cycle only in 2H24.

Israel: Forecast summary

	2022	2023E	2024E	2025E
Real GDP (%Y)	**6.4**	**2.3**	**1.8**	**3.5**
Private consumption	7.4	0.7	1.4	2.8
Government consumption	0.1	3.4	3.4	1.3
Gross fixed investment	10.4	3.8	1.6	3.7
Contribution to GDP (pp)				
Final domestic demand	6.2	2.0	1.8	2.6
Net exports	-1.0	1.3	-0.3	0.0
Inventories	1.1	-0.9	0.3	1.0
Unemp. rate (eop, % labor force)	3.8	4.4	3.9	3.8
CPI (%Y)	4.4	4.4	2.9	2.3
Policy rate (eop, %)	3.25	4.75	3.25	2.75
Central govt. balance (% GDP)	0.6	-3.5	-3.0	-2.5
Gross govt. debt (% GDP)	60	59.4	58.7	56.8
Current account (% GDP)	3.9	3.4	3.5	3.7

Source: Haver Analytics, Morgan Stanley Research forecasts.

Brazil: Fiscal Policy Brings Caution

Thiago Machado
(55 11) 3048 6249

Fernando Sedano
(55 11) 3048 6605

Tighter global financial conditions combined with a looser fiscal stance prompt the BCB to ease cautiously. High domestic rates and slower growth in China imply a slowdown for Brazil over the next couple of years.

Growth decelerates as monetary policy remains tight: Despite a strong 1H23, driven by the strongest growth in agriculture since the mid-1990s, we expect more muted growth in 2H23 as the agricultural sector decelerates, with 2023 growth at 3.1%Y (2.9% 4Q/4Q). For 2024, with the Fed cutting only in June, and fiscal policy expected to be loosening, we think that the BCB stays restrictive, which weakens growth over the year. The opposing forces imply 2024 growth at 1.7%Y (2.0% 4Q/4Q). In 2025, the BCB should bring rates below neutral levels after the fiscal impulse fades and spending returns to the current fiscal framework, with resulting 1.6%Y growth in 2025 (1.7% 4Q/4Q).

Over the forecast horizon, weaker growth and a softer labor market are key in the disinflation process: Inflation should keep converging towards the target, yet never fully getting there (closing 2023 at 4.7%Y, 2024 at 4.2%Y, and 2025 at 3.5%Y). Industrial goods and services drive the inflation deceleration over the coming years as some slack is created in the economy. Specifically for 2024, we expect food inflation to accelerate, partially affected by El Niño, while pressures on services inflation are likely to soften as we expect the unemployment rate to rise again, as the lagged effects of monetary policy affect aggregate demand. For 2025, we still see slower inflation driven by services and lower government-controlled prices, yet still above target.

A more cautious easing cycle ahead: We expect policymakers to keep the pace of easing (50bp cuts) until 2Q24, when we expect the pace to be reduced to 25bp cuts as the Fed stays higher for longer and the BCB gets closer to neutral levels. For 2024, we expect some 175bp of cuts through July, finishing the year with rates at 10.00% (from 8.50% previously). Policy remains in restrictive territory next year, as we do not see inflation expectations back to the target. In 2025, a new BCB governor will be appointed and most board members will have been appointed by the current administration. We believe that the BCB's shift of its inflation-targeting framework to a rolling window from the current calendar year-targeting could imply a more accommodative reaction to inflation, taking rates to 8.50% and making the policy stance expansionary.

Fiscal dynamics remain the main idiosyncratic risk in Brazil: With the fiscal framework finalized, efforts will likely concentrate on increasing revenues to reach the primary fiscal targets for the next three years. However, boosting revenues is likely to prove difficult. Several measures require congressional approval and legislators have been reluctant to increase the tax burden. Of the BRL 168 billion the government is planning to collect to close the fiscal deficit next year, we expect just BRL 60 billion.

What are the risks? Paradoxically, our downside scenario in Brazil is associated with the global upside scenario that has a fundamentally strong US economy and an even more restrictive Fed policy. In this scenario, we have the BCB stopping the easing cycle earlier, keeping monetary policy contractionary to support BRL and avoid a de-anchoring of inflation expectations. Consequently, we should see reduced growth, although improved China growth dynamics help to offset the downturn in activity partially. Conversely, our upside scenario for Brazil encompasses the Fed easing monetary policy amid a weaker growth environment in the US and China, opening room for the BCB to ease monetary conditions. Indeed, the effect of easier monetary policy offsets the drag on exports and investment associated with a weaker Chinese economy. This reduces the chances for the government to boost spending to stimulate growth, lowering fiscal risks and increasing confidence in the fiscal framework.

Brazil: Forecast summary

	2022	2023E	2024E	2025E
Real GDP (%Y)	**2.9**	**3.1**	**1.7**	**1.6**
Private consumption	4.3	2.6	1.4	1.4
Government consumption	1.6	2.0	0.6	1.3
Gross fixed investment	0.9	-1.1	2.6	2.1
Contribution to GDP (pp)				
Final domestic demand	3.3	1.8	1.5	1.5
Net exports	0.9	1.3	0.3	0.1
Inventories	NA	NA	NA	NA
Unemp. rate (eop, % labor force)	8.5	7.8	8.4	8.9
CPI (%Y)	9.3	4.6	4.3	3.8
Core CPI (%Y)	10.0	5.9	4.2	3.3
Policy rate (eop, %)	13.75	11.75	10.00	8.50
General govt. balance (% GDP)	-4.6	-9.7	-9.0	-8.3
Gross govt. debt (% GDP)	73.4	75.0	76.9	78.7
Current account balance (% GDP)	-2.9	-1.7	-2.0	-2.1

Source: IBGE, BCB, Morgan Stanley Research forecasts

Mexico: Stronger and Tighter

Fernando Sedano
(55 11) 3048 6605

Teo Lotito
(55 11) 3048 6637

Growth remains resilient. Tight labor markets, strong remittances, and rising government transfers drive consumption, while nearshoring and government capex boost investment. Inflation is somewhat persistent amid a stronger and tighter economy. Banxico easing is delayed.

Activity in Mexico remains solid on the back of strong domestic demand: Consumption is lifted by a combination of factors, including a record-low unemployment rate, still-elevated remittances from Mexican workers in the US, and the government's boost to social transfers. Employment gains and a combination of lower inflation and still-sizeable upward adjustments in minimum wages and social transfers (well above inflation) are likely to keep consumption resilient. And consumer credit – typically a lagging indicator in Mexico – keeps expanding, in line with a multi-decade record-high in consumer sentiment. Investment is benefiting from a boost to public spending and from nearshoring. The 2024 budget proposal – as well as recent budget reports – point to an acceleration in public investment as we approach the June 2024 presidential elections. High capacity utilization in important manufacturing industries is leading to a significant expansion in fixed business structures – the nearshoring-driven investment cycle we anticipated more than a year ago. We forecast GDP growth at 3.4%Y in 2023 and 2.3%Y in 2024 amid a US soft landing, most likely impacting Mexico in 2H24. We see growth at potential (2.2%Y) in 2025 as the US economy recovers at the margin and as the monetary restraint is reduced gradually.

Disinflation to proceed gradually, with some persistence in key core metrics: Goods disinflation keeps driving the fall in CPI amid a relatively stable currency. Yet, we see core services portraying some persistent price pressures amid tight labor markets and strong consumer spending. Indeed, we think that amid tight labor markets and high capacity utilization rates in some key industries, a positive output gap will likely emerge over the coming quarters. This is unlikely to change next year amid a soft landing scenario in the US and as the authorities boost spending on key infrastructure projects and on social programs ahead of elections. Also, risks to the inflation outlook remain to the upside on the back of higher oil prices and potential supply shocks from El Niño. We see inflation finishing this year at roughly 4.7%Y and next year at 4%Y, still above target. We see convergence to 3.5%Y at end-2025.

We expect the easing cycle to only begin in June 2024: We think that Banxico can start reducing the monetary policy restraint along with the Fed and right after Mexico's presidential elections in early June 2024. The reduction of the monetary restraint will likely be very gradual given potential FX volatility associated with the elections in Mexico and the US, a Fed that stays high for longer, and the domestic risks associated with an economy that will be likely in overheating mode. We expect rates at 8.75% by December 2024, still in contractionary stance as Banxico is forced to keep rates differentials wide. We see further rate cuts in 2025, yet the policy should remain slightly restrictive at the end of the forecasting horizon (7.25% by 25YE).

Risks are skewed to the downside: Our global downside scenario entails weak China and US growth, the latter affecting Mexico's external and domestic demand, taking GDP growth to 0.7%Y in 2024. Some of the nearshoring-driven investments are postponed and consumption suffers from weaker labor income and remittances. Banxico has room to take monetary policy to neutral levels as early as next year as weaker growth helps to reduce core services inflation. Inflation reaches 3.5%Y by late 2024 and remains around target (3.1%Y) in 2025. In our global upside scenario of a fundamentally strong US economy, Mexico's growth reaches 3.3%Y next year and then 2.5%Y in 2025. Strong US growth supports external demand and domestic demand remains robust amid nearshoring-driven investment and still strong labor markets. Banxico hikes further in 1H24 as the Fed resumes its tightening cycle. Rates finish next year at 11.75%, but policymakers cut by some 150bp in 2025 as the Fed starts to normalize policy.

Mexico: Forecast summary

	2022	2023E	2024E	2025E
Real GDP (%Y)	**3.9**	**3.4**	**2.3**	**2.2**
Private consumption	6.2	4.3	1.6	1.9
Government consumption	1.3	2.0	2.1	-1.0
Gross fixed investment	8.5	19.8	5.6	2.5
Contribution to GDP (pp)				
Final domestic demand	6.2	7.5	2.8	1.9
Net exports	-0.1	-5.2	-0.6	0.4
Inventories	-2.1	1.1	0.1	-0.1
Unemp. rate (% labor force)	3.3	2.8	3.1	3.4
CPI (%Y)	7.9	5.5	4.3	3.3
Policy rate (eop, %)	10.50	11.25	8.75	7.25
Fiscal balance (% GDP)	-3.2	-3.6	-4.8	-3.9
Gross govt. debt (% GDP)	49.5	46.6	48.6	50.4
Current account balance (% GDP)	-1.2	-1.4	-1.6	-1.5

Source: Banxico, INEGI, SHCP, Morgan Stanley Research forecasts

GDP Forecasts: Alternative Scenarios

For 2023, our global forecast has been revised marginally higher to 3.0%Y, versus 2.9% in our previous outlook. We forecast 2024 growth to be the same at 2.8%Y, and for 2025, our global forecast is at 2.9%Y.

Exhibit 29: GDP forecasts: Alternative scenarios (%Y)

GDP (YoY)	2023E	2024E			2025E			2026-28E
	Base	Downside	Base	Upside	Downside	Base	Upside	Base
Global*	**3.0**	**1.8**	**2.8**	**3.5**	**2.1**	**2.9**	**3.5**	**3.0**
Global ex US*	**3.2**	**2.0**	**3.0**	**3.7**	**2.3**	**3.2**	**3.8**	**3.2**
G10	**1.5**	**0.4**	**1.2**	**1.9**	**0.8**	**1.3**	**1.8**	**1.6**
US	2.4	0.9	1.9	2.8	1.0	1.4	1.9	1.8
Euro Area	0.4	0.0	0.5	1.1	0.6	1.0	1.6	1.6
Japan	2.0	0.2	1.0	1.2	0.1	1.1	2.3	0.8
UK	0.5	-0.7	-0.1	0.7	0.7	1.0	1.4	1.3
Canada	1.2	0.0	0.7	1.4	1.2	2.0	2.2	2.0
Norway	1.2	0.6	1.0	1.5	1.1	1.5	2.1	1.5
Sweden	-0.5	-0.8	-0.3	0.4	0.9	1.5	2.1	1.5
Australia	1.9	0.6	1.6	2.5	0.8	2.2	2.3	2.5
EM*	**4.2**	**2.8**	**4.0**	**4.7**	**3.0**	**4.0**	**4.7**	**3.9**
EM ex China*	**3.6**	**2.9**	**3.8**	**4.6**	**3.2**	**4.1**	**4.8**	**4.2**
CEEMEA*	**2.0**	**1.6**	**3.1**	**4.4**	**1.9**	**3.5**	**4.8**	**3.8**
Poland	0.7	2.5	3.4	4.5	1.5	2.6	4.3	3.5
Czech Rep	-0.4	-0.1	1.3	3.0	0.8	2.5	4.5	2.5
Hungary	-0.5	0.8	2.2	3.8	1.1	2.8	5.2	3.0
Turkey	4.1	1.9	3.5	4.9	2.1	3.1	4.1	4.0
South Africa	0.9	0.4	1.3	1.8	-0.2	2.0	2.7	2.0
Saudi Arabia	-0.5	1.3	3.5	5.0	2.1	4.5	6.1	4.5
Egypt	3.8	2.4	3.8	4.9	3.3	4.8	6.3	4.5
Israel	2.3	-0.1	1.8	2.9	1.8	3.5	4.0	4.0
AXJ	**5.0**	**3.4**	**4.6**	**5.2**	**3.5**	**4.5**	**5.0**	**4.2**
China	5.1	2.7	4.2	5.0	2.8	4.0	4.5	3.4
India	6.6	5.9	6.4	6.9	5.8	6.5	7.2	6.5
Hong Kong	3.2	-0.5	0.5	1.0	0.5	2.0	3.0	1.8
Korea	1.5	1.4	2.2	2.7	1.6	2.1	2.5	2.0
Taiwan	1.5	2.3	3.2	3.7	1.7	2.5	3.0	2.2
Singapore	0.8	0.5	1.6	2.5	0.8	2.1	2.8	2.5
Indonesia	5.0	4.6	5.1	5.4	4.7	5.2	5.5	5.1
Malaysia	4.0	2.7	3.6	3.7	2.3	3.0	3.4	3.5
Thailand	2.4	2.0	3.4	4.2	2.0	3.0	3.6	2.5
Philippines	5.5	4.5	5.4	6.0	5.0	5.6	6.2	5.5
LatAm	**2.0**	**0.3**	**1.6**	**2.3**	**1.4**	**2.2**	**2.5**	**2.2**
Brazil	3.1	1.2	1.7	2.0	0.9	1.6	2.1	1.8
Mexico	3.4	0.7	2.3	3.3	1.2	2.2	2.5	2.4
Chile	-0.6	0.2	1.9	2.2	1.7	2.6	2.7	2.5
Colombia	1.1	0.4	1.8	2.3	2.2	3.0	3.3	3.2
Argentina	-3.1	-3.7	-1.2	1.0	2.7	2.9	3.2	2.0

Source: MF, Morgan Stanley Research forecasts; Note: Global and regional aggregates for GDP growth are GDP-weighted averages, using PPPs. Average annual growth rates. Egypt represents fiscal year from July 1 to June 30

Exhibit 30: GDP forecasts: Alternative scenarios (% 4Q/4Q)

GDP (4Q/4Q)	2023E	2024E			2025E			2026-28E
	Base	Downside	Base	Upside	Downside	Base	Upside	Base
Global	**2.9**	**1.7**	**2.9**	**3.6**	**2.3**	**2.8**	**3.5**	**3.0**
Global ex US	**3.0**	**2.1**	**3.2**	**3.8**	**2.4**	**3.1**	**3.8**	**3.2**
G10	**1.4**	**0.1**	**1.2**	**2.0**	**1.2**	**1.3**	**1.8**	**1.6**
US	2.5	0.0	1.6	2.5	1.7	1.4	1.7	1.8
Euro Area	0.0	0.3	1.0	1.6	0.7	1.1	1.6	1.6
Japan	2.1	-0.1	1.0	1.3	0.2	1.2	2.4	0.8
UK	0.4	-0.4	0.2	1.2	1.1	1.1	1.4	1.3
Canada	0.8	0.0	1.1	1.5	1.7	2.6	2.8	2.0
Norway	0.5	0.9	1.3	1.9	1.1	1.5	2.1	1.5
Sweden	-0.9	0.2	0.8	1.4	1.0	1.6	2.2	1.5
Australia	1.4	0.5	1.8	2.5	1.0	2.3	2.2	2.5
EM	**4.1**	**2.9**	**4.2**	**4.8**	**3.1**	**3.8**	**4.6**	**3.9**
EM ex China	**3.6**	**3.3**	**4.2**	**4.8**	**3.2**	**4.0**	**4.8**	**4.2**
CEEMEA*	**1.9**	**2.9**	**4.3**	**4.8**	**1.8**	**3.3**	**4.9**	**3.9**
Poland	3.8	1.2	2.4	3.5	1.8	2.9	4.3	3.5
Czech Rep	0.1	0.1	2.0	3.7	1.0	2.6	4.2	2.5
Hungary	1.4	-0.1	1.8	3.5	1.4	3.0	5.1	3.0
Turkey	3.6	2.4	3.2	4.4	2.8	4.1	5.1	4.0
South Africa	2.8	0.7	1.7	2.2	1.0	2.0	2.4	2.5
Saudi Arabia	-2.4	5.7	7.4	4.9	0.5	3.1	7.2	4.5
Egypt	3.1	4.7	6.5	8.1	2.1	3.3	4.3	4.5
Israel	-1.7	3.2	5.6	6.8	1.8	3.4	3.5	4.0
AXJ	**4.9**	**3.2**	**4.5**	**5.2**	**3.6**	**4.2**	**4.9**	**4.2**
China	4.9	2.3	4.1	4.8	3.0	3.6	4.4	3.4
India	6.0	6.3	6.8	7.3	5.7	6.4	7.1	6.5
Hong Kong	4.3	0.1	1.2	1.6	0.4	2.4	3.8	1.8
Korea	2.5	1.3	1.9	2.3	1.7	2.4	2.6	2.0
Taiwan	5.5	2.2	2.5	2.7	1.8	2.0	2.2	2.2
Singapore	1.5	0.7	1.5	2.7	1.0	2.2	3.0	2.5
Indonesia	5.0	4.3	5.2	5.5	4.5	5.1	5.5	5.1
Malaysia	4.1	1.9	2.8	4.3	2.0	2.6	3.3	3.5
Thailand	3.5	1.0	2.0	4.6	1.6	2.6	3.4	2.5
Philippines	5.0	4.6	5.7	6.2	4.5	6.0	6.5	5.5
LatAm	**1.9**	**0.6**	**2.0**	**2.5**	**2.0**	**2.2**	**2.6**	**2.2**
Brazil	2.9	1.5	2.0	2.3	1.1	1.7	2.3	1.8
Mexico	3.3	0.0	1.9	2.5	1.7	2.6	3.0	2.4
Chile	0.4	-0.3	2.4	2.9	2.8	2.7	1.8	2.5
Colombia	1.0	1.5	2.0	2.4	2.0	3.0	3.2	3.2
Argentina	-3.6	-1.0	1.9	3.2	5.3	2.2	2.7	2.0

Source: IMF, Morgan Stanley Research forecasts; Note: Global and regional aggregates for GDP growth are GDP-weighted averages, using PPPs. Annual growth rates are 4Q versus 4Q of previous year. Egypt represents fiscal year from July 1 to June 30

CPI Forecasts: Alternative Scenarios

We continue to expect disinflation to continue through 2023 and 2024 at almost the same pace as our previous outlook. We see inflation at 3.8%Y in 2023 and 2.6%Y in 2024. By 2H25, we expect inflation to be close to target for most economies.

Exhibit 31: CPI forecasts: Alternative scenarios (%Y)

CPI (YoY)	2023E	2024E			2025E			2026-28E
	Base	Downside	Base	Upside	Downside	Base	Upside	Base
Global*	**3.8**	**2.1**	**2.6**	**3.0**	**1.8**	**2.4**	**2.8**	**2.4**
G10	**4.8**	**2.0**	**2.4**	**3.1**	**1.5**	**2.0**	**2.4**	**2.0**
US	4.1	2.1	2.1	2.8	1.5	2.0	2.2	2.0
Euro Area	5.6	1.7	2.4	3.1	1.6	2.0	2.5	2.0
Japan^^	3.3	2.7	3.2	3.5	1.0	1.8	2.8	1.5
UK	7.4	2.0	2.8	3.4	1.1	1.8	2.4	2.0
Canada	3.9	1.4	2.7	3.0	1.6	2.1	2.4	2.0
Norway	5.5	3.1	3.6	4.0	1.9	2.3	2.7	2.0
Sweden	8.6	3.1	3.6	4.1	1.9	2.4	2.9	2.0
Australia	5.7	2.9	3.5	4.1	2.3	2.9	3.3	2.5
EM*	**3.1**	**2.1**	**2.7**	**3.0**	**2.0**	**2.6**	**3.1**	**2.8**
CEEMEA*	**7.2**	**2.9**	**3.7**	**4.5**	**2.1**	**3.3**	**4.3**	**2.6**
Poland	11.6	4.2	5.9	7.4	2.3	4.2	6.1	2.5
Czech Rep	10.8	0.9	2.3	3.5	1.2	2.7	4.2	2.0
Hungary	17.7	2.7	4.8	6.6	2.0	3.9	5.6	3.0
Turkey	54.2	51.4	57.1	66.4	27.9	32.6	40.3	20.0
South Africa	5.8	6.1	4.7	4.5	4.2	4.9	4.7	4.8
Saudi Arabia	2.3	1.5	2.0	2.4	1.5	2.2	2.7	2.0
Egypt	24.4	30.0	32.9	38.1	18.4	21.8	29.7	15.0
Israel	4.4	1.5	2.9	4.1	0.8	2.3	3.8	2.0
AXJ	**2.2**	**1.6**	**2.4**	**2.7**	**1.7**	**2.4**	**2.9**	**2.7**
China	0.3	0.1	1.1	1.4	0.5	1.5	2.0	2.0
India	5.6	4.4	5.1	5.8	4.1	4.8	5.5	4.5
Hong Kong	1.9	1.4	2.0	2.2	1.5	2.2	2.5	2.2
Korea	3.5	1.7	2.5	2.7	1.8	2.0	2.3	1.9
Taiwan	2.5	1.8	2.3	2.5	2.0	2.1	2.2	2.0
Singapore	4.8	3.4	2.7	2.4	1.5	2.0	2.2	2.0
Indonesia	3.6	2.2	3.0	2.8	2.4	2.7	3.1	3.0
Malaysia	2.6	3.2	2.4	2.2	2.2	2.0	1.5	3.0
Thailand	1.7	2.2	1.7	1.4	1.0	1.9	2.5	1.5
Philippines	6.1	5.5	5.0	4.0	4.4	3.4	2.5	3.5
LatAm*	**5.9**	**4.7**	**4.5**	**4.3**	**4.0**	**3.6**	**3.5**	**3.3**
Brazil	4.6	5.1	4.3	3.7	5.0	3.8	3.0	3.0
Mexico	5.5	4.0	4.3	4.3	3.1	3.3	4.0	3.7
Chile	7.6	2.9	3.1	3.4	3.3	3.5	3.6	3.0
Colombia	11.7	6.0	6.4	6.8	3.4	3.7	3.9	3.7
Argentina	130.4	388.1	237.5	197.3	82.3	57.7	42.0	40.0

Source: Haver Analytics, Morgan Stanley Research forecasts; Note: Global and regional aggregates for inflation are PPP-based GDP-weighted averages, using PPPs; CPI numbers are period average. LatAm*, CEEMEA*, Global* and EM* consumer price inflation aggregates exclude Argentina, Turkey and Egypt; ^^Japan CPI includes impact of VAT and free child education. Egypt represents fiscal year from July 1 to June 30.

Exhibit 32: CPI forecasts: Alternative scenarios (4Q/4Q)

CPI (4Q/4Q)	2023E	2024E			2025E			2026-28E
	Base	Downside	Base	Upside	Downside	Base	Upside	Base
Global*	**2.8**	**1.9**	**2.5**	**3.0**	**1.9**	**2.4**	**2.8**	**2.4**
G10	**3.3**	**1.7**	**2.1**	**2.8**	**1.5**	**2.0**	**2.3**	**2.0**
US	3.1	1.7	1.8	2.7	1.6	2.1	1.9	2.0
Euro Area	3.1	1.5	2.1	2.6	1.6	2.0	2.5	2.0
Japan^^	3.2	2.0	2.7	3.1	0.2	1.2	2.6	1.5
UK	4.3	1.5	2.4	3.0	1.3	1.8	2.6	2.0
Canada	3.4	1.0	2.2	2.6	1.9	2.1	2.4	2.0
Norway	4.3	2.1	2.5	2.9	1.9	2.2	2.7	2.0
Sweden	5.5	2.2	2.6	3.0	1.7	2.2	2.8	2.0
Australia	4.3	2.6	3.2	3.9	2.1	2.8	3.0	2.5
EM*	**2.4**	**2.1**	**2.9**	**3.2**	**2.2**	**2.8**	**3.3**	**2.8**
CEEMEA*	**4.6**	**3.3**	**3.9**	**4.6**	**1.7**	**3.1**	**4.1**	**2.6**
Poland	6.6	4.9	6.2	7.4	1.6	3.5	5.3	2.5
Czech Rep	7.7	1.6	2.6	3.6	0.7	2.2	3.7	2.0
Hungary	8.1	3.5	5.0	6.5	1.4	3.3	5.0	3.0
Turkey	63.9	37.5	44.0	55.5	24.6	28.8	35.0	20.0
South Africa	5.2	5.6	4.4	4.1	4.3	5.1	5.5	4.6
Saudi Arabia	1.5	2.0	2.3	2.8	1.0	2.2	2.6	2.0
Egypt	33.0	26.4	29.0	33.5	13.7	16.3	22.2	15.0
Israel	3.9	1.4	2.4	3.4	1.0	2.5	4.0	2.0
AXJ	**1.7**	**1.7**	**2.6**	**2.9**	**2.1**	**2.7**	**3.2**	**2.7**
China	-0.1	0.2	1.5	1.8	1.1	1.9	2.4	2.0
India	5.1	4.6	5.3	6.0	4.2	4.9	5.6	4.5
Hong Kong	1.9	1.2	2.0	2.2	2.1	2.5	2.9	2.2
Korea	3.2	1.6	2.4	2.7	1.8	2.0	2.2	1.9
Taiwan	2.8	2.0	2.3	2.5	2.0	2.2	2.4	2.0
Singapore	3.9	3.6	2.0	2.0	1.7	2.0	2.2	2.0
Indonesia	2.5	1.7	3.2	2.7	2.5	2.7	3.2	3.0
Malaysia	2.0	3.4	2.2	2.0	2.5	1.9	1.6	3.0
Thailand	1.2	2.4	1.3	1.3	1.2	1.8	2.7	1.5
Philippines	4.7	5.7	4.8	3.8	4.0	3.0	2.0	3.5
LatAm*	**5.2**	**4.4**	**4.3**	**4.0**	**3.7**	**3.3**	**3.6**	**3.4**
Brazil	4.8	5.2	4.3	3.4	4.5	3.5	3.5	3.0
Mexico	4.5	3.5	4.2	4.2	3.1	3.0	3.8	3.7
Chile	4.5	2.8	3.0	3.4	3.2	3.3	3.4	3.0
Colombia	9.8	4.8	5.2	5.7	3.1	3.3	3.5	3.9
Argentina	162.5	328.8	191.1	142.9	61.1	41.6	25.9	30.0

Source: Haver Analytics, IMF, Morgan Stanley Research forecasts; Note: Global and regional aggregates for inflation are PPP-based GDP-weighted averages, using PPPs; CPI numbers are 4Q versus 4Q of previous year. LatAm*, CEEMEA*, Global* and EM* consumer price inflation aggregates exclude Argentina, Turkey and Egypt; ^^Japan CPI includes impact of VAT and free child education. Egypt represents fiscal year from July 1 to June 30.

Monetary Policy Forecasts: Alternative Scenarios

We see higher policy rates at the end of 2023 compared to our previous outlook. Policy rate cuts are expected to start in 2Q24 in the US and euro area.

Exhibit 33: Monetary policy forecasts: Alternative scenarios (%)

Policy Rate (%)	2023E		2024E			2025E		2026-28E
	Base	Downside	Base	Upside	Downside	Base	Upside	Base
G10								
US	5.375	1.875	4.375	6.375	2.125	2.375	5.625	2.375
Euro Area^	4.00	2.50	3.00	4.50	1.25	2.00	3.75	2.00
Japan	-0.10	-0.10	0.25	0.50	0.00	0.25	1.25	0.75
UK	5.25	3.75	4.25	5.75	2.25	2.50	5.25	2.00
Canada	5.00	2.00	4.00	5.75	1.50	2.50	4.75	2.50
Norway	4.50	3.25	4.00	4.50	1.50	3.00	3.75	2.00
Sweden	4.25	3.25	3.50	4.25	1.50	2.50	3.75	2.00
Australia	4.35	2.85	4.60	5.50	2.10	3.60	5.50	3.00
CEEMEA								
Poland	5.75	4.00	4.75	6.25	3.00	3.75	6.00	3.00
Czech Rep	6.75	3.00	4.50	6.75	2.00	3.50	5.75	3.00
Hungary	10.75	5.75	6.25	9.25	3.00	4.00	8.00	4.00
Ukraine	15.00		12.00			12.00		
Turkey	37.50	33.00	40.00	45.00	25.00	30.00	37.50	20.00
South Africa	8.25	8.75	7.75	7.50	8.00	7.25	7.75	7.50
Saudi Arabia	6.00	2.50	5.00	7.00	2.75	3.00	6.25	3.00
Egypt	18.25	20.25	21.25	24.25	14.75	17.25	23.25	16.25
Israel	4.75	2.75	3.25	4.75	2.50	2.75	4.25	2.00
AXJ								
China*	1.80	1.30	1.60	1.70	1.40	1.60	1.80	1.50
India	6.50	5.50	6.00	7.50	5.50	6.00	7.00	5.75
Hong Kong	5.75	2.25	4.75	6.75	2.50	2.75	6.00	2.75
Korea	3.50	2.00	3.00	3.75	2.00	2.50	3.50	2.50
Taiwan	1.88	1.50	1.88	1.88	1.33	1.63	1.75	1.50
Indonesia	6.00	4.50	5.00	6.50	4.50	5.00	6.00	5.00
Malaysia	3.00	2.50	3.00	3.50	2.00	2.50	3.00	2.50
Thailand	2.50	2.00	2.50	3.25	1.00	1.50	2.75	1.50
Philippines	6.50	5.00	5.50	6.75	4.50	5.00	6.75	5.00
LatAm								
Brazil	11.75	11.50	10.00	8.00	13.00	8.50	7.00	9.00
Mexico	11.25	6.50	8.75	11.75	6.00	7.25	10.25	6.50
Chile	8.50	9.50	6.00	4.00	8.00	5.25	5.00	4.50
Colombia	12.75	7.75	8.75	12.50	5.50	7.00	10.50	6.00
Argentina^^	160.00	80.00	65.00	50.00	55.00	40.00	30.00	40.00

Source: Haver Analytics, Morgan Stanley Research forecasts; Note: ^ECB depo rate. *1-week repo rate. ^^Argentina no longer follows inflation targeting. Egypt represents fiscal year from July 1 to June 30.

Monetary Policy Rate Forecasts

Data dependency will define 2H23, as key central banks feel around for their peak rates amid slowing but still-sticky core inflation.

Exhibit 34: Monetary policy forecasts (%)

Policy Rates	Current	2023				2024				2025			
		1Q	2Q	3Q	4QE	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE
US	5.375	4.875	5.125	5.375	5.375	5.375	5.125	4.875	4.375	3.875	3.375	2.875	2.375
Euro Area^	4.00	3.00	3.50	4.00	4.00	4.00	3.75	3.50	3.00	2.50	2.25	2.00	2.00
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25
UK	5.25	4.25	5.00	5.25	5.25	5.25	5.00	4.75	4.25	3.75	3.25	2.75	2.50
Canada	5.00	4.50	4.75	5.00	5.00	5.00	5.00	4.50	4.00	3.50	3.00	2.50	2.50
Norway	4.25	3.00	3.75	4.25	4.50	4.50	4.50	4.25	4.00	3.75	3.50	3.25	3.00
Sweden	4.00	3.00	3.50	4.00	4.25	4.25	4.00	3.75	3.50	3.25	3.00	2.75	2.50
Australia	4.35	3.60	4.10	4.10	4.35	4.60	4.60	4.60	4.60	4.35	4.10	3.85	3.60
Poland	5.75	6.75	6.75	6.00	5.75	5.50	5.25	5.00	4.75	4.50	4.25	4.00	3.75
Czech Republic	7.00	7.00	7.00	7.00	6.75	6.25	5.25	4.75	4.50	4.25	4.00	3.75	3.50
Hungary	12.25	13.00	13.00	13.00	10.75	8.50	6.25	6.25	6.25	5.50	5.25	4.75	4.00
Ukraine	16.00	25.00	25.00	16.00	15.00	13.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00
Turkey	35.00	8.50	15.00	30.00	37.50	37.50	40.00	40.00	40.00	37.00	33.50	31.50	30.00
South Africa	8.25	7.75	8.25	8.25	8.25	8.25	8.25	8.00	7.75	7.25	7.25	7.25	7.25
Saudi Arabia	6.00	5.50	5.75	6.00	6.00	6.00	5.75	5.50	5.00	4.50	4.00	3.50	3.00
Egypt	19.25	11.25	16.25	18.25	18.25	19.25	19.25	21.25	21.25	20.25	19.25	18.25	17.25
Israel	4.75	4.25	4.75	4.75	4.75	4.25	3.75	3.50	3.25	3.00	2.75	2.75	2.75
China*	1.80	2.00	1.90	1.80	1.80	1.70	1.70	1.60	1.60	1.60	1.60	1.60	1.60
India	6.50	6.50	6.50	6.50	6.50	6.50	6.25	6.00	6.00	6.00	6.00	6.00	6.00
Hong Kong	5.75	5.25	5.50	5.75	5.75	5.75	5.50	5.25	4.75	4.25	3.75	3.25	2.75
S. Korea	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.25	3.00	2.75	2.50	2.50	2.50
Taiwan	1.88	1.88	1.88	1.88	1.88	1.88	1.88	1.88	1.88	1.75	1.75	1.63	1.63
Indonesia	6.00	5.75	5.75	5.75	6.00	6.00	5.75	5.25	5.00	5.00	5.00	5.00	5.00
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	2.75	2.75	2.50
Thailand	2.50	1.75	2.00	2.50	2.50	2.50	2.50	2.50	2.50	2.25	2.00	1.75	1.50
Philippines	6.50	6.25	6.25	6.25	6.50	6.50	6.50	6.00	5.50	5.00	5.00	5.00	5.00
Brazil	12.25	13.75	13.75	12.75	11.75	10.75	10.25	10.00	10.00	9.50	9.00	8.50	8.50
Mexico	11.25	11.25	11.25	11.25	11.25	11.25	10.75	9.75	8.75	8.25	7.75	7.25	7.25
Chile	9.00	11.25	11.25	9.50	8.50	8.00	7.00	6.50	6.00	5.75	5.25	5.25	5.25
Colombia	13.25	13.00	13.25	13.25	12.75	11.75	10.75	9.75	8.75	8.25	7.75	7.25	7.00
Argentina^^	133.00	78.00	97.00	118.00	160.00	150.00	110.00	80.00	65.00	60.00	50.00	45.00	40.00

Source: Haver Analytics, Morgan Stanley Research forecasts; Note: ^ECB depo rate. *1-week repo rate. ^^Argentina no longer follows inflation targeting. Current rates as of November 10, 2023. Egypt represents fiscal year from July 1 to June 30.

Government Budget Balance Forecasts

Exhibit 35: Fiscal balance (% of GDP)

General Government Budget Balance (% GDP)						
	2020	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Global	**-12.3**	**-7.9**	**-7.0**	**-6.4**	**-6.7**	**-6.1**
G10	**-11.6**	**-7.5**	**-4.2**	**-4.1**	**-4.0**	**-3.9**
US	-15.7	-10.9	-5.5	-6.0	-6.0	-6.3
Euro Area	-7.1	-5.2	-3.6	-3.3	-3.0	-2.7
Japan	-9.10	-6.1	-4.4	-2.9	-3.5	-2.4
UK	-15.0	-5.2	-5.5	-4.3	-3.4	-2.2
Canada	-10.9	-4.4	-0.8	-0.7	-0.6	-0.5
Norway	-2.6	10.6	26.0	18.9	17.2	15.0
Sweden	-2.8	0.0	0.6	0.2	-0.4	-0.2
Australia	-9.40	-2.5	-0.4	-0.2	-1.0	-1.2
EM*	**-12.9**	**-8.3**	**-9.2**	**-8.1**	**-8.6**	**-7.8**
CEEMEA*	**-7.1**	**-3.7**	**-2.0**	**-4.7**	**-4.9**	**-3.5**
Poland	-6.9	-1.8	-3.7	-5.1	-4.6	-3.5
Czech Rep	-5.8	-5.1	-3.2	-2.3	-1.7	-1.2
Hungary	-7.6	-7.2	-6.2	-5.3	-3.2	-2.6
Ukraine	-6.0	-3.7	-25.1	-25.0	-18.0	-15.0
Turkey	-3.5	-2.8	-0.9	-5.8	-6.4	-3.4
South Africa	-9.8	-5.1	-4.5	-4.8	-4.5	-4.3
Saudi Arabia	-10.7	-2.3	2.5	-2.4	-2.2	-2.0
Egypt	-7.4	-6.8	-6.1	-6.1	-7.8	-6.5
Israel	-11.3	-4.4	0.6	-3.5	-3.0	-2.5
AXJ	**-14.9**	**-10.0**	**-11.5**	**-9.1**	**-9.7**	**-9.0**
China^	-20.5	-12.7	-16.1	-12.1	-13.6	-12.8
India	-11.8	-10.6	-9.3	-8.9	-8.2	-7.3
Hong Kong	-8.6	3.0	-7.2	-3.2	-2.2	-0.7
Korea	-3.9	-1.6	-3.3	-1.1	-1.9	-0.9
Taiwan	-1.1	1.2	-1.2	-1.1	1.1	1.0
Singapore	-10.5	0.2	-0.7	-0.3	-0.2	0.0
Indonesia	-6.1	-4.5	-2.3	-2.2	-2.2	-2.2
Malaysia	-4.9	-5.8	-5.9	-4.7	-4.4	-4.2
Thailand	-4.5	-7.0	-4.6	-2.9	-3.6	-3.0
Philippines	-5.5	-6.2	-5.5	-5.0	-4.5	-4.3
LatAm	**-8.5**	**-4.4**	**-3.9**	**-6.3**	**-6.2**	**-5.3**
Brazil	-13.3	-4.3	-4.6	-9.7	-9.0	-8.3
Mexico	-2.7	-2.9	-3.2	-3.6	-4.8	-3.9
Chile	-7.3	-7.7	1.1	-2.8	-2.3	-1.6
Colombia	-7.8	-7.0	-5.3	-4.4	-4.5	-4.0
Argentina	-8.4	-4.5	-4.5	-5.2	-3.6	-2.0

Source: IMF, national sources, Morgan Stanley Research forecasts; Note: *EM and CEEMEA Excludes Ukraine; ^China's overall government balance is an augmented balance that includes both on-budget and off-budget transactions. Global and regional aggregates for inflation are PPP-based GDP-weighted averages, using PPPs. Egypt represents fiscal year from July 1 to June 30.

Exhibit 36: Primary balance (% of GDP)

Primary Government Budget Balance (% of GDP)	2020	2021	2022	2023E	2024E	2025E
Global	**-10.0**	**-5.7**	**-4.4**	**-3.6**	**-3.7**	**-3.2**
G10	**-10.3**	**-6.2**	**-2.5**	**-2.3**	**-2.1**	**-2.0**
US	-14.1	-9.4	-3.5	-3.7	-3.4	-3.7
Euro Area	-5.6	-3.8	-1.9	-1.6	-1.2	-0.9
Japan	-8.40	-5.6	-4.1	-2.8	-3.4	-2.3
UK	-14.1	-3.0	-1.7	-0.9	-0.2	0.7
Canada	-10.5	-5.0	-1.3	-1.0	-0.7	-0.5
Norway	-4.6	9.5	24.4	17.2	15.5	13.4
Sweden	-2.5	0.2	1.1	0.9	0.3	0.5
Australia	-8.90	-1.0	0.0	0.2	-0.5	-0.7
EM	**-9.7**	**-5.3**	**-5.8**	**-4.5**	**-4.9**	**-4.1**
CEEMEA	**-4.1**	**-0.8**	**0.6**	**-1.7**	**-1.5**	**-0.1**
Poland	-5.6	-0.7	-2.2	-3.0	-2.5	-1.4
Czech Rep	-5.0	-4.3	-2.5	-1.2	-0.4	0.1
Hungary	-5.2	-4.9	-3.5	-1.3	1.0	1.0
Turkey	-1.8	-0.3	1.1	-3.3	-3.4	-0.3
South Africa	-5.7	-0.9	0.1	0.5	1.0	1.3
Saudi Arabia	-9.8	-1.4	3.2	-1.7	-1.7	-1.6
Egypt	1.7	1.3	1.3	1.5	1.5	2.5
AXJ	**-11.6**	**-7.0**	**-8.1**	**-5.6**	**-6.1**	**-5.4**
China^	-16.8	-9.2	-12.3	-8.3	-9.6	-8.8
India	-6.4	-5.8	-4.1	-3.5	-2.8	-1.9
Hong Kong	-8.6	1.3	-7.9	-6.2	-4.5	-1.5
Korea	-6.1	-4.7	-3.3	-2.6	-3.9	-2.9
Taiwan	-0.9	1.1	-1.0	-1.0	1.0	0.8
Singapore	-10.0	0.7	-0.2	0.2	0.3	0.0
Indonesia	-4.1	-2.5	-0.4	-0.2	-0.1	-0.2
Malaysia	-3.1	-3.7	-3.8	-2.3	-1.8	-1.6
Thailand	-3.9	-6.1	-3.5	-1.7	-1.5	-1.6
Philippines	-3.7	-4.4	-3.5	-2.6	-1.8	-1.4
LatAm	**-5.4**	**-1.0**	**0.1**	**-1.0**	**-1.0**	**-0.6**
Brazil	-9.2	0.7	1.3	-1.0	-0.8	-0.4
Mexico	0.1	-0.3	-0.5	-0.2	-1.4	-0.8
Chile	-6.3	-6.8	2.1	-1.9	-1.2	-0.9
Colombia	-5.1	-4.1	-1.0	0.0	-0.5	-0.9
Argentina	-6.4	-3.0	-2.6	-3.0	-1.3	0.0

Source: IMF, national sources, Morgan Stanley Research forecasts; Note: ^China's overall government balance is an augmented balance that includes both on-budget and off-budget transactions. Global and regional aggregates for inflation are PPP-based GDP-weighted averages, using PPP. Egypt represents fiscal year from July 1 to June 30.

Global Currency Forecasts

Exhibit 37: Global currency forecasts

	2023	2024				2025			
	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
EUR/USD	1.0	1.0	1.0	1.0	1.0	1.1	1.1	1.1	1.1
USD/JPY	147.0	145.0	142.0	140.0	140.0	140.0	139.0	139.0	138.0
GBP/USD	1.2	1.1	1.1	1.1	1.2	1.2	1.2	1.2	1.3
USD/CHF	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
USD/SEK	11.1	11.8	11.6	11.4	11.1	10.9	10.7	10.5	10.3
USD/NOK	11.5	11.9	11.5	11.1	10.6	10.4	10.2	10.0	9.9
USD/CAD	1.4	1.4	1.4	1.4	1.4	1.3	1.3	1.3	1.3
AUD/USD	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7
NZD/USD	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
EUR/JPY	153.0	145.0	143.0	143.0	146.0	147.0	149.0	150.0	152.0
EUR/GBP	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
EUR/CHF	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0	1.0
EUR/SEK	11.5	11.8	11.7	11.6	11.5	11.5	11.4	11.3	11.3
EUR/NOK	12.0	11.9	11.6	11.3	11.0	11.0	10.9	10.9	10.9
USD/CNY	7.3	7.5	7.5	7.5	7.5	7.4	7.4	7.3	7.3
USD/HKD	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8
USD/IDR	15700.0	15900.0	15700.0	15600.0	15500.0	15356.0	15213.0	15069.0	14926.0
USD/INR	83.4	83.7	83.6	83.0	82.5	81.5	80.4	79.4	78.4
USD/KRW	1320.0	1350.0	1340.0	1320.0	1290.0	1281.0	1271.0	1262.0	1253.0
USD/MYR	4.7	4.8	4.8	4.7	4.7	4.6	4.5	4.5	4.4
USD/PHP	56.5	57.5	57.0	56.5	56.0	56.0	56.0	56.0	56.0
USD/SGD	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
USD/TWD	32.4	32.8	32.6	32.4	31.8	31.6	31.4	31.2	30.9
USD/THB	35.8	36.5	36.3	36.0	35.2	35.2	35.2	35.1	35.1
USD/BRL	5.0	5.1	5.2	5.3	5.3	5.3	5.2	5.2	5.1
USD/MXN	17.8	19.0	20.0	19.5	19.3	19.3	19.3	19.3	19.3
USD/ARS	672.0	858.0	1022.0	1172.0	1318.0	1461.0	1612.0	1762.0	1898.0
USD/CLP	920.0	930.0	950.0	930.0	925.0	900.0	875.0	850.0	825.0
USD/COP	4150.0	4300.0	4400.0	4450.0	4500.0	4350.0	4200.0	4050.0	3900.0
USD/ZAR	19.0	19.5	19.0	18.5	18.0	17.9	17.8	17.7	17.6
USD/TRY	30.0	31.5	35.0	36.5	38.0	39.0	41.0	43.0	45.0
USD/ILS	4.0	4.1	4.0	3.9	3.9	3.9	3.8	3.8	3.7
EUR/PLN	4.5	4.5	4.4	4.3	4.2	4.2	4.1	4.1	4.0
EUR/CZK	24.8	25.0	24.5	24.0	23.5	24.2	24.9	25.6	26.3
EUR/HUF	385.0	390.0	395.0	400.0	400.0	395.0	384.0	376.0	367.0
DXY Index	107.0	111.0	110.0	109.0	107.0	106.0	104.0	103.0	102.0
Fed's Broad USD	124.0	128.0	128.0	127.0	125.0	124.0	123.0	122.0	121.0
ECB EUR TWI	96.3	95.1	95.5	95.7	96.3	96.9	97.3	97.8	98.2

Source: Morgan Stanley Global FX forecasts

Global Economics Team

Global			
Seth Carpenter	Chief Economist and Global Head of Economics	Seth.Carpenter@morganstanley.com	+1 212 761 0370
Rajeev Sibal	Global	Rajeev.Sibal@morganstanley.com	+971 4 709 7201
Cristina Arbelaez	Global/Colombia	Cristina.Arbelaez@morganstanley.com	+1 212 761 2045
Mayank Phadke	Global	Mayank.Phadke@morganstanley.com	+91 22 6514-3452
Americas			
Ellen Zentner	US	Ellen.Zentner@morganstanley.com	+1 212 296 4882
Sam Coffin	US	Sam.Coffin@morganstanley.com	+1 212 761-4630
Diego Anzoategui	US	Diego.Anzoategui@morganstanley.com	+1 212 761 8573
Sarah Wolfe	US	Sarah.Wolfe@morganstanley.com	+1 212 761 0857
Lenoy Dujon	US/Canada	Lenoy.Dujon@morganstanley.com	+1 212 761 2779
Fernando Sedano	Latam, Brazil, Mexico, Argentina, Chile, Colombia	Fernando.Sedano@morganstanley.com	+55 11 3048 6605
Thiago Machado	Brazil	Thiago.Machado@morganstanley.com	+55 11 3048 6249
Teo Lotito	Mexico, Argentina, Chile	Teo.Lotito@morganstanley.com	+55 11 3048 6637
Europe, Middle East & Africa			
Jens Eisenschmidt	Euro Area/ECB, UK	Jens.Eisenschmidt@morganstanley.com	+49 69 2166 2817
Jean-Francois Ouvrard	Euro Area/ECB, France, Belgium	Jean-Francois.Ouvrard@morganstanley.com	+49 69 2166 2813
Bruna Skarica	UK, Sweden, Norway	Bruna.Skarica@morganstanley.com	+44 (0)20 7425 9110
Chiara Zangarelli	Euro Area/ECB, Italy, Greece	Chiara.Zangarelli@morganstanley.com	+44(0) 20 7677 3644
Gabriela Silova	Euro Area/ECB, Sweden, Norway	Gabriela.Silova@morganstanley.com	+49 69 2166 2832
Claire Thürwächter	Euro Area/ECB, Germany, Netherlands, Austria	Claire.Thuerwaechter@morganstanley.com	+49 69-21662842
Skander Garchi Casal	Euro Area/ECB, Spain, Portugal	Skander.Garchi.Casal@morganstanley.com	+44 20 7425-0034
Alina Slyusarchuk	CEEMEA, Saudi Arabia, Turkey, Ukraine, Israel	Alina.Slyusarchuk@morganstanley.com	+44 (0)20 7677 6869
Georgi Deyanov	Poland, Hungary, Czech Republic, Israel, Ukraine	Georgi.Deyanov@morganstanley.com	+44 (0)20 7425 7006
Andrea Masia	South Africa	Andrea.Masia@rmbmorganstanley.com	+27 11 282 1593
Hande Küçük	Turkey, Egypt, Saudi Arabia	Hande.Kucuk@morganstanley.com	+44 (0)20 7677 3270
Asia			
Chetan Ahya	Asia	Chetan.Ahya@morganstanley.com	+852 2239 7812
Derrick Kam	Asia, ASEAN	Derrick.Kam@morganstanley.com	+65 6834 8272
Kathleen Oh	Korea, Taiwan	Kathleen.Oh@morganstanley.com	+852 2848 7340
Qiusha Peng	Asia	Qiusha.Peng@morganstanley.com	+852 3963 0376
Jonathan Cheung	Asia	Jonathan.Cheung@morganstanley.com	+852 2848 5652
Robin Xing	China	Robin.Xing@morganstanley.com	+852 2848 6511
Jenny Zheng	China, Hong Kong	Jenny.L.Zheng@morganstanley.com	+852 3963 4015
Zhipeng Cai	China	Zhipeng.Cai@morganstanley.com	+852 2239 7820
Chen Kan	China	Chen.Kan@morganstanley.com	+852 3963-0975
Takeshi Yamaguchi	Japan	Takeshi.Yamaguchi@morganstanleymufg.com	+81 3 6836 5404
Masayuki Inui	Japan	Masayuki.inui@morganstanleymufg.com	+81 3 6836-5407
Upasana Chachra	India	Upasana.Chachra@morganstanley.com	+91 22 6118 2246
Bani Gambhir	India	Bani.Gambhir@morganstanley.com	+91 22 6118 3027
Chris Read	Australia	Chris.Read@morganstanley.com	+61 2 9770 1513
Robert Feldman	Senior Advisor	Robert.Tokyo.Feldman@morganstanleymufg.com	+81 3 6836 8400

Disclosure Section

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	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1337	37%	270	43%	20%	594	39%
Equal-weight/Hold	1664	46%	299	47%	18%	700	46%
Not-Rated/Hold	3	0%	0	0%	0%	1	0%
Underweight/Sell	588	16%	61	10%	10%	220	15%
Total	3,592		630			1515	

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The Americas
1585 Broadway
New York, NY 10036-8293
United States
Tel: +1 (1) 212 761 4000

Europe
20 Bank Street, Canary Wharf
London E14 4AD
United Kingdom
Tel: +44 (0) 20 7 425 8000

Japan
1-9-7 Otemachi, Chiyoda-ku
Tokyo 100-8104
Japan
Tel: +81 (0) 3 6836 5000

Asia/Pacific
1 Austin Road West
Kowloon
Hong Kong
Tel: +852 2848 5200