BOC Research Institute

Global Economic and Financial Outlook

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Highlights

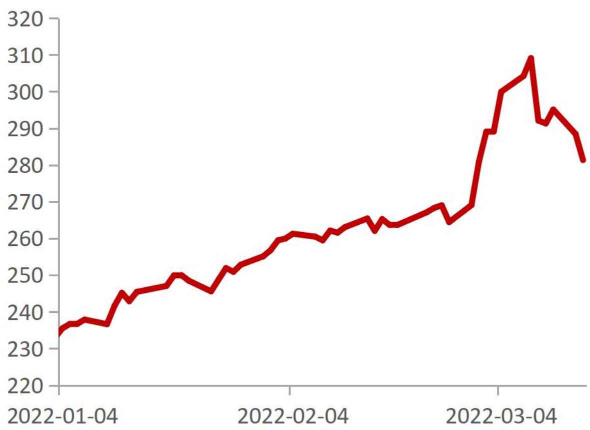
● Affected by the protracted pandemic and the Russia-Ukraine conflict among other factors, the global supply and demand imbalances worsened, trade in goods slowed down, and the inflation has significantly increased, resulting in a slowing economic recovery in 2022Q1.

● The global financial markets fluctuated greatly, along with a more volatile US Dollar Index, major stock markets fluctuating downward, and commodity prices hitting new record highs.

● Looking into 2022Q2, the global inflation will continue to climb, and the economic growth might accelerate due to low base effect. Tightening monetary policies of major economies will speed up a narrowing liquidity and increase the costs of aggregate financing, curbing investment and consumption in turn. Throughout the year, the global economy will face higher risk of stagnation, and the financial markets will continue the fluctuation.

● Hot issues such as risks faced by emerging economies currently, and the coming era of comprehensive financial regulation require attention.

RJ/CRB Commodity Price Index Fluctuated Upward in 2022



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New Changes in Global Economy and Finance: Stagflation and Divergence

-- Global Economic and Financial Outlook (2022Q2)

In 2022Q1, affected by the recurring pandemic and the Russia-Ukraine conflict, the global supply-demand imbalance intensified, accompanied by the slowing lowered growth of trade in goods, a significant rise in inflation and a slow down in economic recovery in the economy. International financial markets experienced significant turbulence, with the US Dollar Index fluctuating stronger, major stock markets shaking to the downside, and commodity prices reaching record highs. Looking ahead to Q2, global inflation will continue to rise, and the economic growth rate may pick up due to the low base effect. The tighter monetary policies in major economies will also accelerate the tightening of the liquidity and raise the social financing costs, and the negative effects on investment and consumption will gradually come to the fore. From a year-round perspective, the global economy is expected to see a greater risk of "stagflation", and the international financial markets will continue to fluctuate. This report provides a special analysis of the risks faced by emerging economies in the current situation and the latest trends in the era of comprehensive financial regulation respectively.

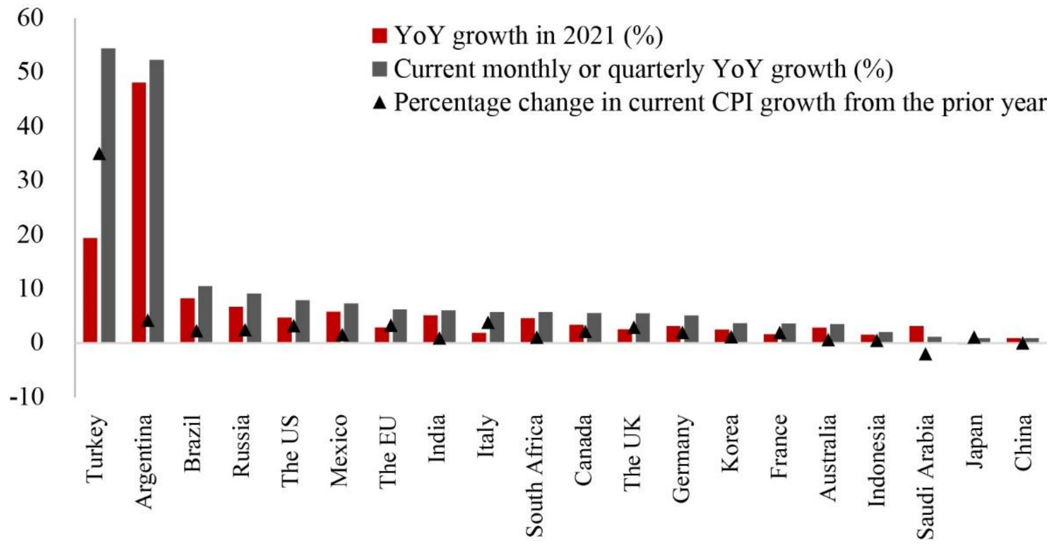
I. Quarterly Review and Outlook for Global Economy

I.1 Global economic growth to see a rebound in 2022Q2 with a higher risk of stagflation in 2022 due to the low base effect

Since the global financial crisis in 2008, the world has gone through more than a decade of recovery, but failed to completely get rid of the impact of the crisis, with a slowdown in the total factor productivity growth and an undermined potential for economic growth. The outbreak of the COVID-19 pandemic in 2020 and the conflict between Russia and Ukraine in 2022 have further weakened the sluggish global economic growth, aggravating the recovery prospect and increasing the risk of "stagflation".

From the perspective of "inflation", the subsequent effect of ultra-loose fiscal and monetary policy, especially monetary policy, is gradually emerging, and global inflation is expected to continue to rise in Q2. Stimulated by the proactive fiscal policies and aggressive monetary policies worldwide, the total demand witnessed a rapid recovery in 2021. At the same time, the supply capacity of the global economy was declining under the impact of the pandemic, and other sectors such as energy were facing severe supply-chain bottlenecks, sparking a continuing supply shortfall and an exacerbated upward pressure on prices. Russia and Ukraine are major global suppliers of commodities, and the outbreak of the Russia-Ukraine conflict in 2022Q1 has further worsened the supply-demand imbalance, while the escalation of the conflict exacerbates the supply crisis. Therefore, the oil prices are expected to remain significantly higher than the average level of 2021 in 2022Q2 until substantial progress is made in the resolution of the Russia-Ukraine conflict. Given the large weight of energy and food in each country's inflation basket, relevant commodity prices are expected to stabilize as market sentiment gradually returns to rationality, weakening the direct pull effect on inflation in Q2. However, the upward pressure of future PPI prices will gradually pass downstream to production and end-use consumption industries, which will indirectly push up inflation in all countries (Fig. 1).

Fig. 1: CPI Growth of G20 Economies

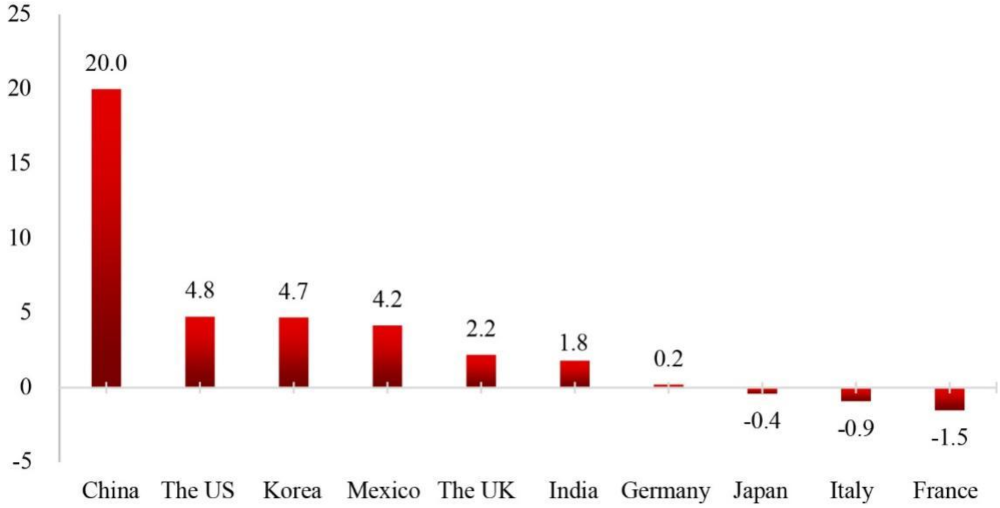


Source: Wind, BOC Research Institute.

From the perspective of "stagnation", due to the low base in Q1, global economic growth is expected to pick up in Q2, but the downward pressure will gradually come to the fore in 2022H2, with an annual growth rate lower than 2021. Crude oil and industrial metals are the basic key materials of industrial production, and an increase in their rising prices will bring a significant impact on global economic recovery and household consumption. Global economic growth is facing constraints in terms of production, consumption, trade and the liquidity environmentcondition.

In terms of industrial production, global energy spending accounted for nearly 8% of GDP in 2021. With rising energy prices, higher energy spending will push up production costs of enterprises and scale down investment in capital goods and other intangible assets. In addition, the rise in PPI will also lead to a decrease in the production and marketing capacity of industrial products. Looking at the world's top 10 industrial powers (accounting for about 72% of the global industrial added value), most Asia-Pacific economies have seen a rise in their industrial production indexes in January 2022 on a year-on-year basis, with the industrial production in Japan and EU countries remaining relatively sluggish (Figure 2). Considering the energy supply bottlenecks, price rise and hysteresislagged effect as a result of the Russia-Ukraine conflict, the 2022Q2 is likely to see a fall in the industrial output of more many countries.

Fig. 2: Changes in Industrial Production Index of Global Top 10 industrial Countries



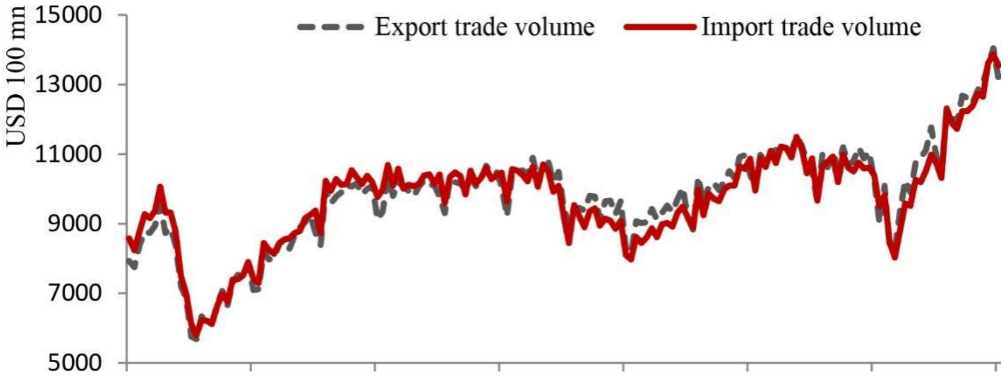
Note: All data are from January 2022, except for China, which is from February. China's industrial production index is measured by the fixed base index of industrial added value.

Source: Wind, BOC Research Institute.

In terms of consumption, the growth of household consumption slowed down in Q1 with a weaker stimulation on the economy due to the impact of the recurring global pandemic and fluctuating financial market. With the consumer demand remaining stable, high inflation and rising price levels will increase consumer spending in the short term, but if inflation persists, the uncertainty and pessimism will be exacerbated in the medium to long term, undermining consumer confidence and gradually pulling back the demand and consumer spending. Therefore, it is expected that the gradual liberalization of pandemic prevention and control measures in Europe and the US in Q2 will bring a certain boost to consumption. But in 2022H2, with the weakening prospect of economic recovery, rising borrowing costs and tightening global monetary policy, the growth rate of consumption will slow down.

In terms of international trade, the global trade in goods in 2021 experienced a strong rebound in 2021, emerging as an important driver of the global economic recovery. In January 2022, with the resurgence of a new round of the COVID-19 pandemic worldwide, the aggregate value of imports and exports of the world's 20 major economies fell from the previous month by 2.3% and 6.1%, respectively (Fig. 3). In Q2, global supply chain bottlenecks in areas such as logistics and shipping are expected to ease, and the short-term impact of the Russia-Ukraine conflict on international trade will gradually soften. High commodity prices will push up the volume of commodity trade, and the price factors in international trade will play a more active role, which will enable a moderate improvement in the growth of global trade in Q2 compared with the previous quarter.

Fig. 3: Aggregate Monthly Import and Export Trade Value of the World's Major Economies



Source: Wind, BOC Research Institute.

In terms of liquidity, under the influence of the Fed's tightening monetary policy, global liquidity will come to an inflection point. Wwith the interest rate drifting upward, the financing cost for the real economy climbing higher, and the burden of corporate debt getting heavier, which is expected to dampen the growth of global investment and consumption is expected to dampen. As the scale of global debt and the leverage ratio of non-financial enterprises are at historical highpeaks, the monetary policy adjustmentshift by of major central banks will add to the risks of corporate defaults, and bankruptcy and restructuring, which will cast a shadow on economic growth. Emerging economies, in particular, will see a deterioration increased economic vulnerability and financial volatility. Besides, the increase in commodity prices and the violent volatility in financial markets will also scale up the liquidity risk in related areas, which may be exacerbated in the context of tightening global monetary policy.

Overall, the global economy is expected to grow at an annualized QoQ rate of about 4.0% in 2022Q2, up by 2.2 percentage points from Q1. However, given the increasingly severe shortage of energy supply in the global economy, the great uncertainty still faced by the pandemic prevention and control, the intensified global inflation, the accelerated tightening of monetary policy by the Fed, and the greater economic vulnerability of emerging economies, the global economic recovery in Q2 will be mainly driven by the low base effect as well as the stimulus effect of short-term consumption as a result of the liberalization of pandemic prevention and control measures in Q1. As time advances, the relevant benefits will fade away, with a number of constraints gradually surfacing, the economic downward risks continuing to rise, and the "stagflation" pressure keeping growing.

I.2 Economic outlook for major countries/regions

The economic performance of different regions still varies to some extent. Especially when it comes to external shocks such as the tightening monetary policy and the geopolitical conflicts, the future growth prospects of different regions will depend on their responding capabilities.

Inflation in the US continues to move higher, raising the uncertainty of economic recovery. The healthy balance sheets of consumers and enterprises underpin the sustained growth of the US economy in 2022Q1, albeit at a slower pace. The intensifiedrising inflation in the US also poses constraints on the resident's purchasing power. Labor shortages and supply chain bottlenecks continue to hamper the recovery, and the rapid spread of the Omicron variant is once again disrupting the tourism and other services sectors which are in a state of recovery. Looking into Q2, the US economic growth remains uncertain. On the production side, rising international energy prices will drive US inflation to a higher level on a sustained basis. The rate hike announced by the Fed on March 16 will boost production and investment costs and pose an effect on the recovery of manufacturing and service industries. However, higher energy prices will also fuel the domestic investment of the US in mining exploration, shafts and oil wells, helping hedge against the downward pressures on the economy. On the consumption consumer side, the excessive saving of US households will remain as high as USD2.6 trillion, and the easing of the pandemic situation and the continuous recovery of employment will support the growth of consumer spending. The Russia-Ukraine conflict has imposed a huge impact on crude oil and commodity markets, but its direct impact on the economic growth of the US is relatively limited. **It is estimated that in 2022Q2, the US GDP will grow at an annualized QoQ rate of 3.4%, up by 1.8 percentage points from Q1, and the full-year GDP growth is projected to be 3.0%.**

European consumption continues to recover but faces a significant shock from the Russia-Ukraine conflict. Driven by optimism about the lifting of the lockdown, the European countries are seeing a recovery in consumer confidence, signs of easing in supply chain disruptions, and continuous growth in retail consumption, with the consumer confidence remaining generally stable. The job market maintains stablestability in spite of generally sluggish performance in wage growth, and the household consumption growth is supported by the improvement in employment. Influenced by the surging energy prices, the European trade balance is dramatically hit with the inflation rate reaching a record high. Looking ahead to Q2, with European countries gradually lifting various pandemic prevention and control measures and the proportion of the labor force returning to work continuing to grow, Europe is expected to see an accelerated economic recovery in the short term. However, with the deterioration of Russian-Ukrainian tension and the relations between Russia and major European countries, some European countries dependent on Russian energy supply are facing the growing threat of “gas cut”, and European consumers may encounter shortages of living necessities. If the euro area introduces fiscal reliefs measures such as energy subsidies, it may again push up the public debt of its member countries, laying a hidden danger for the long-term improvement of the European economy. **The GDP of the euro area is expected to grow at an annualized QoQ rate of 2.8% in Q2, up by 1.6 percentage points from the previous quarter, with a full-year GDP growth of about 3.6%; the UK GDP is expected to grow at an annualized QoQ rate of 2.2%, down by 0.2 percentage points from Q1, with a full-year GDP growth of about 4.1%.**

The Japanese economic recovery comes to a standstill as external shocks constrained growth prospects. Since 2022, the resurgence of the COVID-19 pandemic across Japan has constrained the production, and life life style as well as theand mobility of people, further contracting the individual consumption for services and bringing economic growth to a standstill. Soaring crude oil prices have driven up the Japanese price index, prodding Japan’s PPI to reach a 40-year high with a YoY increase of 9.3% in February. Looking ahead to Q2, the relaxation of pandemic control will be conducive to the economic recovery, but the Russia-Ukraine conflict, the rate hike by Fed and the earthquake in Japan may impose constraints. **The Japanese real GDP growth is expected to reach an annualized QoQ rate of 4.1% in Q2 and around 2.9% for the year.**

The economic recovery in Asia-Pacific builds up sound momentum, but the prospect of future growth is mixed. In 2022Q1, Asia-Pacific economies gradually have gradually gotten rid of the shadow of the pandemic starting from 2021H2. Specifically, the Australian economy has maintained rapid growth, and the economies of Vietnam and Malaysia have recorded demonstrated good performances as a whole. The comprehensive relaxation of pandemic-related policy has promoted the economic recovery of Singapore, while the economic development in Thailand was relatively sluggish. Looking ahead to Q2, the geopolitical situation and regional economic cooperation will become the major factors affecting the economic performance of the Asia-Pacific region. On the one hand, the Russia-Ukraine conflict has exacerbated the uncertainty of the global economic recovery, and the rising prices and tight supply of some primary products have brought a greater negative impact on the imports of ASEAN economies. On the other hand, the regional trade agreement has exerted a positive impact on regional economic development. The Asia-Pacific region, especially Southeast Asia, is one of the most active regions in global economic cooperation, and the entry into force of the Regional Comprehensive Economic Partnership (RCEP) will greatly promote the process of regional economic integration and attract more external investment, which will bring long-term benefits to regional economic development. In addition, countries such as Malaysia and the Philippines are recently facing a new round of political elections, which requires ongoing concerns about the impact of political pattern changesfactors on each country's economic growth.

Table 1: Forecasts for Key Indicators of Major Economies in 2022 (%)

Region/country		GDP growth			CPI growth			Unemployment rate		
		2020	2021	2022f	2020	2021	2022f	2020	2021	2022f
Americas	US	-3.4	5.7	3.0	1.2	4.7	6.1	8.1	5.4	3.6
	Canada	-5.2	4.6	3.4	0.7	3.4	4.3	9.6	7.4	5.9
	Mexico	-8.2	4.8	1.9	3.4	5.7	5.3	4.4	4.1	4.0
	Brazil	-4.2	4.8	0.3	3.2	8.3	7.6	13.8	13.2	12.4
	Chile	-5.8	12.0	2.5	3.1	4.5	7.2	10.6	9.1	7.6
	Argentina	-9.9	10.2	3.2	42.0	48.4	51.8	11.6	9.5	9.4
Asia Pacific	China	2.2	8.1	5.3	2.5	0.9	2.1	4.2	4.0	3.8
	Japan	-4.5	1.6	2.9	0	-0.3	1.3	2.8	2.8	2.6
	Australia	-2.2	4.4	4.1	0.9	2.9	3.3	6.5	5.1	4.0
	India	-7.4	9.2	7.0	6.6	5.1	5.4	8.0	—	—
	South Korea	-0.9	4.0	3.0	0.7	2.5	2.9	4.0	4.6	4.0
	Indonesia	-2.1	3.3	5.6	2.0	1.6	3.0	7.1	—	—
Europe and Africa	Euro area	-6.6	5.3	3.6	0.3	2.6	5.0	8.0	7.7	7.1
	UK	-9.4	7.1	4.1	0.9	2.6	6.1	4.4	4.6	4.0
	Russia	-2.9	4.7	-10.1	3.4	6.7	8.7	5.8	4.8	4.5
	Turkey	1.8	11.0	3.3	12.3	19.4	44.3	13.1	12	12.1
	Nigeria	-1.8	2.7	3.4	13.2	17.0	14.5	33.3	—	—
	South Africa	-6.4	4.9	2.1	3.3	4.6	5.1	29.2	34.3	33
Global		-3.1	5.9	3.6	3.2	4.3	5.1	—	—	—

Source: BOC Research Institute. Note: "f" stands for forecast.

II. Quarterly Review and Outlook of Global Finance

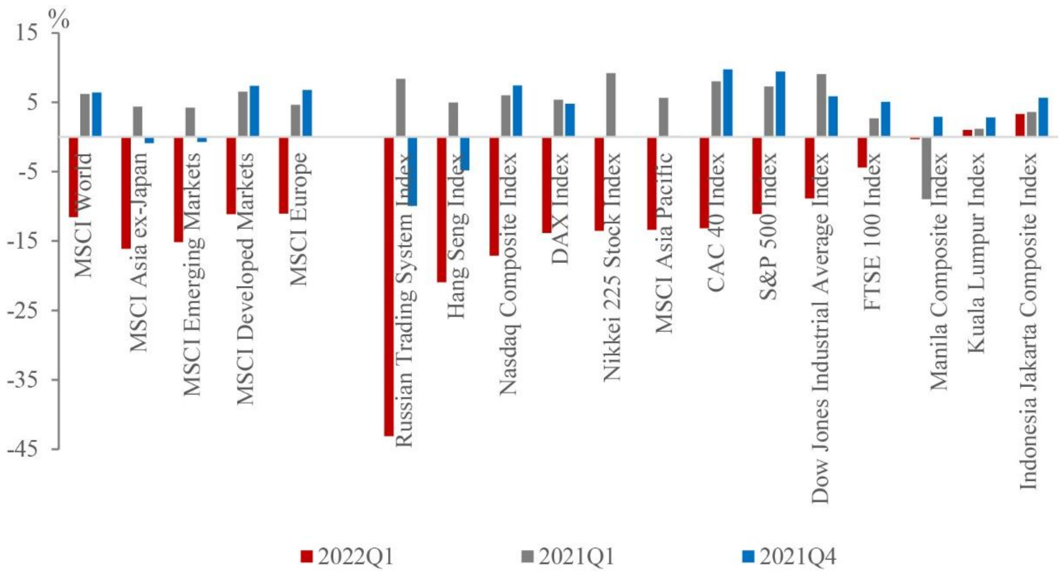
II.1 Characteristics of international financial markets

The Russia-Ukraine conflict along with monetary policy adjustments leads to tighter global liquidity. Since the outbreak of the Russia-Ukraine conflict, the US and Europe have introduced a series of sanctions against Russia, which created a tightening effect on global liquidity. Major economies set off a wave of rate hikes. Specifically, the Fed raised its target range for the federal funds rate by 25 basis points to 0.25%-0.5%. On March 17, the Bank of England raised its benchmark interest rate by 25 basis points to 0.75%. Along with the tighter monetary policy, the money market rates in major economies are showing a divergent upward trend. At the same time, the speed of asset expansion in major central banks has slowed down. In the context of the tightening global monetary policy in general, the balance sheets of central banks in major economies continue to "cool down" in their paces of asset expansion.

The US dollars and euro show a divergent trend with the Russian ruble depreciating dramatically. Influenced by the tightening monetary policy and risk aversion, the US Dollar Index maintains a strong momentum for an upward move. As the Fed launches the process of rate hikes, the market revises upward the forecasts for the pace and magnitude of the Fed's rate hike, resulting in a stronger volatility in the US Dollar Index. The exchange rate of the Russian ruble suffers a plunge as central bank intervention achieves little. European currencies sink across the board, with emerging market currencies showing divergent performance. Europe becomes a direct victim of the geopolitical conflict, with currency exchange rates sliding across the board. Benefiting from higher commodity prices, the value of Canadian and Australian dollars maintain strong performance, while the exchange rates of Brazilian real, Peruvian sol, Colombian peso and Chilean peso against USD are moving upward. The currencies of Asian countries that depend on resource imports and manufacturing exports are put under pressure, with the exchange rates of the Korean won, Indian rupee and Malaysian ringgit fall against the USD, which further increases the volatility in foreign exchange markets.

The US stocks led the way down amidst the intensified downward pressure on global stock markets. The 2022Q1 witnessed a difficult period for the global stock market with constant volatility and significant drops. The stock market has suffered a severe outflow of capital, with nearly USD trillion of assets in the four major global stock markets of the US, the UK, Hong Kong and A-share, evaporated. Among them, about USD3 trillion of capital was wiped off the US stock market. The US stock led the global stock downturn, while the decline in the emerging market was relatively moderate. The issuance and M&A activities of global stock fell significantly. Growth stocks were less attractive while high-tech stocks plunged.

Fig. 4: Volatility of Major Global Stock Market Indexes



Source: Wind, BOC Research Institute.

The growth in the scale of Treasury bonds shows a divergence with a rising Treasury yield, and the risk of sovereign debt is worth attention. Since the outbreak of the Russia-Ukraine conflict, the foreign exchange payment capacity of Russian economic entities has been severely restrained. In addition, the sovereign debt risks of Eastern European countries such as Ukraine, Poland, and Hungary have also been affected by geopolitics, showing an upward trend.

Commodity markets maintain a strong momentum with greater volatility in price. Influenced by the situation in Russia and Ukraine, crude oil prices oscillated upward and experienced significant fluctuations from late February to early March. Under the influence of multiple factors such as the tightened global liquidity, the strengthened US dollars, and the declining inventories, copper price shows a fluctuation in its movement. As the risk-averse sentiment upsurging, the gold records a strong performance.

II.2 Analysis of factors affecting international financial markets

The international financial markets are under the influence of many factors. First, global monetary policy enters into a tightening and divergent cycle. Global inflationary pressures are further accentuated, with monetary policy in major developed economies tightened in general and differentiated in process. **Second, corporate performance grows at a slower pace.** According to the estimate of Bloomberg, about 4,000 major companies are expected to see significant drops in net profit growth in 2022Q1. The uncertainty of the external environment of business operations is mounting. **Furthermore, the market continues to be more risk-averse amid geopolitical conflicts.** The conflict between Russia and Ukraine has evolved into the mainline that affects the volatility of the international financial market. Risk aversion in the market remains at a high level, and asset volatility has risen sharply. The effect of market sentiment on market value outperforms that of the fundamentals.

II.3 Outlook for international financial markets

Close attention should be paid to the tightening of global liquidity. Currently, the Russia-Ukraine conflict pushes up the global inflationary pressures, and central banks in major economies are likely to speed up the tightening of monetary policy. The Fed is expected to hike interest rates multiple times during the year. The ECB will pick up the pace of withdrawing from its net purchase under the asset purchase program, and the Bank of England will likely accelerate progress toward the 1.5% medium-term interest rate target in 2022. Against the backdrop of tightening global liquidity, liquidity in the USD and GBP markets is tightening at a relatively faster pace. The interest rate spread in both onshore and offshore markets of USD and GBP is likely to widen.

The foreign exchange markets are expected to step into the pullback phase. With the tightening of monetary policy, the global foreign exchange market will re-adjust pricing once geopolitical conflicts ease. The market has fully anticipated the processes of the Fed’s rate hikes and tapering, resulting in a gradual shift of risk aversion to concerns about stagflation, and the US Dollar Index is supposed to edge lower. As the prospect of geopolitical conflicts becomes clear gradually, overpricing is expected to be corrected, and the euro exchange rate will return to the fundamentals, leading the euro exchange rate to stabilize. The risk of global stagflation is mounting, and major developed economies have started to raise interest rates successively, which will bring greater spillover effects, putting the currencies of emerging economies under pressure in general.

Global stock markets will see stronger fluctuations and downward pressure. On the one hand, the Fed announces a rate hike and is about to launch the tapering process. Also, Europe sets up to tighten monetary policy, which will reduce the market liquidity and depress the global asset prices, while the dual pressure of weight on economic growth and the tightening of liquidity condition will bring greater downward pressure on global stock markets. In addition, due to the former accommodative monetary policy of central banks worldwide, the debt level of many countries remains apparently high. Therefore, the possible debt crisis will lead to greater volatility in global financial markets once kicking off the rate hike cycle.

Treasury yields will continue to climb. In the context of high global inflation, market investors tend to short-sell Treasury bonds. At the same time, as global liquidity tightens, the long-term Treasury yields in major economies are likely to rise, and the financing costs for economic entities are on the upside trend. The risks of foreign currencies denominated debt in some emerging economies may also be amplified in the context of tightening external liquidity.

Commodity markets fluctuate at highs, with downside risks to be wary of. Crude oil demand is expected to be the first to recover to the pre-pandemic level, and the oil prices are underpinned by the strong market demand. Global copper supply continues to recover, narrowing the supply-demand gap compared with 2021. Meanwhile, tighter global liquidity will further put pressure on industrial metals. Copper prices may fall back in a wide swing. As the impact of geopolitical conflict on gold is generally impulsive and relatively poor in sustainability, the upside momentum of gold prices remains lackluster.

III. Special Research

Topic 1: Risk evaluation of emerging economies under the current situation

The year 2022 will see increased uncertainties in the global economic and financial environment. Monetary policy adjustments in major economies and international geopolitical conflicts are accompanied by a significant spillover risks, which will affect emerging economies from three channels, with the impact differentiated in different regions.

1.1 Tightening global liquidity will bring an increased pressure on capital outflows to emerging economies

Against the monetary policy shifts in major economies, global liquidity tends to tighten and the trend of cross-border capital flows in emerging economies is facing a reversal. Historical experience shows that amid the Fed's effort to tighten monetary policy, the capital is more inclined to flow back to the US from emerging economies, and the returned funds are mainly the funds ones flowing into emerging economies during the Fed's quantitative easing phase. Since 2022, along with high global inflation and strong expectations of rate hikes by the Fed, compounded by the risk aversion triggered by the Russia-Ukraine conflict, international financial markets have experienced violent fluctuations and emerging economies are once again under the pressure of capital outflows. In this process, emerging economies with higher financial vulnerability could be hit harder.

1.2 Rising global interest rates exacerbate the debt burdens of emerging economies

Driven by rising inflation expectations and the rate hike policies in advanced economies, global interest rates are on the rise. As of March 4, 2022, the 3-month and 10-year US Treasury yields have increased by 0.25 and 0.81 percentage points, respectively, compared with January 4, 2021, driving up short-term and long-term yields in emerging economies. According to the Institute of International Finance (IIF) report, the debt of emerging economies hit a record high of USD95.7 trillion in 2021, with a macro leverage ratio of 247.8% and the government debt accounting for about 63.6% of GDP, also at historical highs. Against the backdrop of the large-scale debt of emerging economies and the high proportion of debt in US dollars, the rise in the level of global interest rates will further add to the debt burden of emerging economies and increase the risk of debt default.

1.3 Russia-Ukraine conflict exacerbates rising commodity prices, with divergent impacts on different types of emerging economies

The Russia-Ukraine conflict will badly affect the exports trade of both countries, spilling over into the energy, food and other commodity markets. First, the intensified sanctions against Russia in Europe and the US lead to a higher geopolitical risk premium in the international energy market and a hinder to Russian energy exports. Second, the disruption in the economic activities of Ukraine by the Russia-Ukraine conflict cuts off a number of food supply channels in Ukraine, rippling through the international food market.

Although the current geopolitical situation remains unclear and its impact on global energy, food, and other commodity prices is still uncertain, the commodity prices are expected to remain high for some time.

In terms of energy, the oil exports of Russia in 2020 amounted to USD142 billion, accounting for 11.9% of the world's total. It is estimated that if crude oil prices remain above USD100 per barrel in 2022, the trade exports of oil producers such as Saudi Arabia, Qatar, and Kuwait will grow by more than 30%. If Europe imposes energy sanctions on Russia, the international energy market will suffer from an imbalance between supply and demand as the demand for oil export from the United Arab Emirates and Saudi Arabia will increase by 10% and the energy prices will get a greater boost. On the contrary, for some emerging economies in Central Asia and Eastern Europe, the energy imports account for more than 20% of their total import, while the energy imported from Russia is up to more than 50%, and the decrease in Russian energy exports will hit the growth of emerging economies such as Turkey and Poland from the supply side. As the energy import of India accounts for 27.8% of the total, the decrease in the global crude oil supply and the higher oil prices caused by the Russia-Ukraine conflict will push up the cost of India's energy imports. However, it is recently reported that India may import about 2 million tons of low-priced crude oil from Russia, which, if agreed, will hopefully mitigate the effect of the Russia-Ukraine conflict on the Indian economy.

In terms of food, the grain export in Russia and Ukraine amounted to USD20.86 billion in 2020, accounting for 11.2% of global grain export. In the same period, the proportion of wheat imported by Turkey, Pakistan and Nigeria from Russia was as high as 64.2%, 43.5% and 26.6% respectively; the proportion of corn imported by Lebanon and Turkey from Ukraine exceeded 20%, while Nigeria accounted for 15.8%. The escalation of the Russia-Ukraine conflict will cause a significant reduction in food production in both countries, triggering global food shortages, and the aforementioned emerging economies may face such problems as reduced food import, higher import prices, and a cut-down scale of food aid. In particular, since the outbreak of the pandemic, the poverty alleviation progress in Africa has seen a retrogression, with a significantly increased number of people in extreme poverty and a worsened poverty situation in Africa due to the famine triggered by global food shortage. On the contrary, Argentina and Brazil may benefit from it, as the two countries' food exports represent 6.5% and 4.8% of the world, especially for Argentina, whose food export accounts for 32.3% of the volume of its total export.

Overall, the economic performance of emerging economies will diverge in 2022 under the general environment of tightening monetary policy in major economies and the volatile commodity prices. Energy-exporting countries such as Saudi Arabia and the United Arab Emirates may benefit from rising prices, with increasing fiscal revenues and foreign exchange reserves, enhanced risk resilience, and mitigating "double deficits" risk. Non-resource-exporting emerging economies highly dependent on Russian and Ukrainian imports will face serious challenges in their economic recoveries due to the rising production and consumption costs, cross-border capital outflows, and increased pressure on debt servicing.

Topic 2: Latest developments in the comprehensive financial regulation era

Since 2022, global financial regulatory policies have turned from loose to tight, and frequent regulatory measures have been launched in the US and Europe for commercial banks, non-banking financial institutions, and digital assets, which marks the dawning of the comprehensive regulation era.

2.1 Fund regulation in the money market ushers into a new round of reform, with a focus on liquidity risk prevention

The US economy was badly hit by the outbreak of the COVID-19 pandemic in March 2020. To ensure liquidity, investors transferred their assets from money market funds (MMFs) to cash accounts and short-term government bonds, resulting in significant capital outflows from institutional prime and tax-exempt money market funds and triggering liquidity risk. In order to deal with this backdrop, in December 2021, the US Securities and Exchange Commission (SEC) proposed amendments to MMF regulatory policy under the Investment Company Act of 1940, with an aim to further improve the resilience and transparency of the USD5 trillion MMFs.

First, adjustment was made to the liquidity requirements of MMFs to prevent run risks. Firstly, the daily and weekly minimum liquidity requirements were improved. The minimum daily current ratio of all MMFs was increased from 10% to 25% and the minimum weekly current ratio was raised from 30% to 50%. In the event of mass redemption, liquidity buffers were provided to better meet with the demand for large-scale redemption and address the market's concerns about redemption costs and liquidity. Secondly, the regulations on liquidity fees and redemption threshold were removed. In March 2020, due to the decline in the liquidity level of some MMFs, investors were concerned that, in accordance with the redemption requirements, they might have to pay liquidity fees or be unable to redeem funds, which instead increased runs in times of market liquidity shortages. In the face of the above situation, the US SEC required the removal of MMF's imposition of liquidity fees on investors and the suspension of redemption when the fund's liquidity falls below a specified threshold, so as to prevent MMFs from imposing restrictions on redemption during times of stress. Thirdly, Swing Pricing was adopted for institutional prime and tax-exempt MMFs. In the context of net capital outflows, MMFs could adopt Swing Pricing policies and procedures, whereby institutional prime and tax-exempt MMFs are allowed to adjust their net asset value per share upward (downward) when securities inflows (outflows) exceed a certain threshold, and the liquidity cost of redemption institutional is bored by investors who cash out.

Second, the disclosure requirements of reporting were revised to enhance the transparency of MMFs. The US SEC required MMFs to expand the scope and content of information disclosure and strengthen the monitoring and analysis of funds. The first was to flexibly adjust the stress testing requirements for the reporting period. The MMFs were required by the SEC to define the minimum level of liquidity during periods of stress, identify that level of liquidity in the written stress testing procedures, test their abilities to maintain such liquidity periodically, and report the test results to the Board. The second was to modify the reporting requirements to improve the availability of information about MMFs. New requirements for reporting to the Board were implemented for "liquidity threshold events", whereby the MMF must inform the Board when its weekly current assets fall below 25% of its total or daily current assets are less than 12.5% of its total. The MMF was required to submit a notice filing and related information to the SEC within one working day, and was allowed to revise the filing within a maximum of four working days. Analysis of the description of facts and the related reasons were also required.

2.2 Regulation on private funds is tightened with enhanced disclosure requirements

On February 9, 2022, the SEC overhauled the regulatory system of the private equity industry by proposing a series of new rules and rule amendments (hereinafter referred to as the "Proposed Rules") in line with the Investment Advisers Act of 1940, with the aim to enhance the regulation of the hedge funds and the private fund market of USD18 trillion and improve transparency. This marked a significant shift in the SEC's regulatory orientation.

First, the disclosure obligations of private fund managers were expanded to enhance market transparency. The first was the provision of quarterly statements to investors. The Proposed Rules required private fund advisers to provide investors with standardized quarterly statements within 45 days followed by the end of each quarter, with details of private fund performance, fees and expenses, and manager compensation. The second was the shortening of the disclosure time of holdings with 5% and above equity. The time window of disclosure for hedge funds and other investors who acquire 5% or more of a company's equity was shortened from 10 days to 5 days. The third was the submission of audited financial statements. At year-end and liquidation, registered private fund managers are required to provide audited financial statements and to distribute the audited financial statements to investors as soon as the audit is completed. The fourth was the manager-led secondary trading rule. For secondary transactions led by private equity fund managers, independent, professional and fair advice should be provided to investors. The fifth was the acceptance of an annual compliance review. Under the Proposed Rules, all registered investment advisers should document their annual compliance reviews in written form. At the same time, private fund managers were prohibited from engaging in conduct that leads to damage of the public interest and violation of the principle of investor protection, as well as from carrying out preferential treatment that have a significant negative impact on other investors.

Second, the regulatory policy of the private equity industry was tightened, bringing a positive impact on financial stability. On the one hand, the ability of regulators to monitor systemic risks has been enhanced. Under the new rules, registered private fund managers were required for the first time to provide investors with quarterly statements, detailing fund performance, fees and expenses, and manager compensation and delineating the boundaries of prohibited activities, which provides facilitation to the Financial Stability Oversight Council (FSOC) to gain an in-depth understanding of private fund operations and investment strategies, effectively monitor and comprehensively assess the systemic risks posed by the private fund industry, and thus make flexible adjustments to its regulatory policies. On the other hand, the protection of investors' rights and interests has been improved. The strengthening of the regulatory requirements of private equity funds was conducive to reducing the information asymmetry faced by investors and improving investor protection.

2.3 Digital asset regulation enters a new era with legislation, orderliness and innovation

On March 9, 2022, President Biden signed an Executive Order on "Ensuring Responsible Development of Digital Assets" (hereinafter referred to as the "Executive Order"), requiring federal agencies to study the potential risks posed by cryptocurrencies and assess the impact of digital assets on national security and economy. On this basis, the potential benefits of digital assets and their underlying technologies were leveraged to consider the creation of a central bank digital currency. This marked a turning point in the regulation of digital assets in the US.

First, risk prevention was strengthened to promote the healthy development of the digital asset sector. Global advances in digital and distributed ledger technologies for financial services have driven a dramatic growth in the digital asset market. In November 2021, the total market capitalization of digital assets issued by private institutions reached USD3 trillion. Behind the rapid expansion of digital financial assets lies a huge potential risk. The Executive Order identified a wide range of potentially risky areas involving digital assets, in a bid to maintain the stability of the financial system by mitigating the systemic risk of digital assets. Firstly, the US Department of the Treasury and other relevant agencies were required to evaluate and develop policy recommendations to protect US consumers, investors, businesses and economic growth from the impact of the growing digital asset industry and changes in the financial markets, so as to protect consumers, investors and businesses. Secondly, regulators were encouraged to increase their regulatory efforts, with the aim to prevent any systemic financial risks brought by digital assets. Thirdly, international coordination and cooperation on regulation were strengthened to jointly combat illegal financial activities and mitigate national security risks posed by the misuse of digital assets.

Second, financial innovation was carried forward to maintain the leading position of the US in the global financial system. The explosive growth of digital assets has created an opportunity to enhance US leadership at the forefront of the global financial system and technology. The Executive Order has placed the promotion of financial innovation as a key priority. The first was to strengthen the leading position of the US in the global financial system as well as the technological and economic competitiveness, including the development of payments innovations and digital assets. The second was to promote access to safe and inclusive financial services, particularly for US residents underserved by the traditional banking system. The third was to support technological advances in digital assets and ensure responsible development and use of digital assets. In particular, encouragement and support were provided to the Fed to actively explore a central bank digital currency (CBDC).

2.4 European banking regulation returns to normalcy with enhanced capital and liquidity regulatory requirements

Deutsche Bank, BNP Paribas, Banco Santander and many other large European commercial banks have seen significant growth in 2021. In this context, the EU tightened the capital and liquidity requirements, and the countercyclical regulation for the banking system gradually returned to normalcy.

First, the counter-cyclical capital buffer requirement is adjusted upward. European countries and EU regulators have upgraded the countercyclical capital buffer requirements to strengthen regulations on banking capital, in a way to maintain financial stability. The UK announced to increase the countercyclical capital buffer ratio to 1% by December 13, 2022, with the 2% requirement expected to be implemented in 2023Q2 if the economy continues to recover. Germany raised the ratio from 0% to 0.75%. The ECB was expected to tighten capital relief measures for the banking sector, and require major banks to stop using non-binding capital buffers and increase capital modestly. Meanwhile, French, German and Irish regulators have also reactivated rules requiring banks to hold additional capital.

Second, Intermediate Parent Undertaking (IPU) was set up with an upgraded capital threshold. According to the data from the European Banking Authority (EBA) at the end of 2020, the 106 third-country branches (TCBs) of the main EU members held EUR510.23 billion in assets. As the extent to which branches are exempted from capital and liquidity regulations varies from country to country, "the opportunity of regulatory arbitrage" is thus created. In July 2021, third-country branches with total assets of EUR40 billion and above were required by the EBA to establish an IPU in the EU, so as to effectively monitor and assess financial risks.

Third, leverage coverage ratio (LCR) and leverage deductions and exemptions were eliminated. According to ECB, from December 2021, banks were no longer allowed to operate with an LCR below the minimum threshold of 100%, and the regulatory requirements for the short-term liquidity of banks would also be progressively strengthened. In 2021Q3, the LCR of commercial banks in the EU reached 174.7%, much higher than the pre-pandemic level of 140%. At the same time, the ECB called for the re-inclusion of the central banks risk exposures into the leverage ratio as of April 1, 2022. In the context of increased interest rate volatility, commercial banks were required to carefully assess the risk profile of their financing programs and ensure that alternative sources of funding were available to replace the current central banks's funding.

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