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Fog on the exit to recovery

- **Slow speed of rebuilding beyond a fast restart:** With restart underway with vaccine rollout, focus is turning to the shape of the recovery. Beyond the risk of pandemic setbacks, this will depend on the efficacy of economic policies to durably lift demand and support the significant sector shifts that result from both the aftermath of the pandemic and accelerating green and digital transitions. While public spending can kick-start such a process, it can only be sustained with support of structural policies, to ensure a fair transition, and good regulatory visibility. Our concern is that frictions will slow the speed of recovery beyond the initial restart.

- **Frictions are causing transitory inflation:** Semiconductors have made headlines, with shortages causing disruptions over several industries. This, moreover, is not the only source of concern, with supply side frictions being reported across the production chain from raw materials to transportation and to labour. With demand improving as consumers return and low base effects in 2020, this cocktail is giving rise to higher inflation numbers.

- **Policy decides if inflation becomes permanent:** Distinguishing the temporary from the permanent can be challenging at the best of times and in the current situation of an exit from pandemic, visibility is particularly low. This leaves significant risk of policy error, be it government managing the gradual lifting of temporary measures support while still ensuring sufficient support for recovery, or central banks looking to untangle transitory from more durable inflationary pressures. The Fed's new "make-up" strategy increases the risk of falling behind the curve. The cost of policy error, moreover, would likely be high with financial market premia already compressed.

- **Political and geopolitical uncertainty remains high:** From a political and geopolitical point of view, developments in US-China and Europe-Russia relations, negotiations with Iran, and tensions in the Middle East remain a source of risk. In Europe, moreover, a busy electoral agenda looms with elections in Germany in September, in France in Spring 2022 and in Italy by June 2023. And come November 2022, there are US mid-term elections

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EXECUTIVE SUMMARY

Rebuilding the economy

Recent developments offer hope of exiting the health crisis to recovery, albeit uneven and taking shape at different speeds, depending on vaccine rollout capacity, virus variants, speed of lifting social distancing measures and policy support. Moreover, the risk of Covid19 setbacks remains and we maintain an Extended scenario, in which we assume that the health crisis runs and additional year with social distancing measures only fully lifted by 1Q23.

The confirmation and extension in 2021 of the economic policies put in place in Europe and the United States in 2020 has been reassuring with regards to the consequences of a premature withdrawal of support measures on both corporate and household balance sheets, and financial markets.

The year 2021 is also marked by the emergence of inflationary fears largely linked to the rise in input costs (raw materials, transportation, electronic components, etc.). This has led to a steepening of yield curves. The various statements by central banks affirming a greater tolerance for inflation or pointing to its transitory nature aim to moderate the upward pressure on long-term rates.

This configuration of the prospect for a recovery supported by accommodative polices, has contributed to a wave of optimism in major financial markets with low volatility and record valuations, particularly in the United States and to a lesser extent in Europe. Corporate spreads have returned to their pre-crisis levels and funding costs are at their lowest levels ever.

There is considerable uncertainty on the exit to recovery, with a fog of low visibility as to what is transitory and what is permanent.

- **On the demand side** the immediate question lays on the ability of households, companies, and government to start spending. Medium term, uncertainties relate to permanent changes in behaviours and the accelerated digital and green transitions.
- **On the supply side** the immediate question links to the capacity of resolving frictions in supply, be it raw materials, semi-conductors, or transportation. Medium-term, open questions reside on the organisation of global supply chains, adapting to shifts in demand and managing the digital and green transitions, ensuring both skills and financing.

Beyond the uncertainties related on the evolution of the health situation (vaccine rollout, variants), we identify three channels of risk:

- **Macroeconomic risks**: these are mainly related to potential inflationary chocs, economic policy mistakes leading to rising solvency risks. The most affected companies, especially those of small size and operating in the service sector, are sources of fragility.

- **Financial risks**: a sharp correction on asset prices in a context of high valuations in some market segments could hurt financial stability especially in the non-bank financial sector as pointed out by latest reports of major central banks.
- **Political and geopolitical risks**: developments in US-China and Europe-Russia relations, negotiations with Iran, and tensions in the Middle East could be sources of tension on the markets. In Europe, the outlook for the French general elections in 2022 is also a risk factor.

POLICY DECIDES IF INFLATION BECOMES PERMANENT

As of now, the debate is focused on inflationary risks. CPI inflation has registered an acceleration since the start of the year. Prices accelerated in the US with year on year figures reaching their highest record since 2008. In the euro area the acceleration is more moderate with inflation hitting 2% YoY for the first time since 2018. In emerging market economies, inflation has also increased, especially in Latin America, Africa and Central and Eastern Europe, leading to the first policy rate hikes in Brazil, Russia and Turkey. In Asia, CPI inflation seems a bit less of an issue at this stage even though producer prices have significantly accelerated in China.

At the global level, inflationary pressures seem to be explained by common factors related to base effects, and not least with the commodity prices rebound, frictions leading to higher transport and input costs, demand pressures linked to economies simultaneous reopening.

In emerging market economies inflation seems to be, for a large part, driven by higher food prices. This is due to a surge in demand for soft commodities from China (soybeans, corn). On the supply side, dry weather in producer countries weighed on crop yields. Wheat prices were affected by the implementation of export taxes by Russia in order to moderate domestic price pressures.

The debate on the future trajectory of prices can be divided into two schools. Those who think the recent choc is transitory and those who think that the present trends are the early signs of a new inflation regime.

The “transitory” school argues that inflationary pressures will prove temporary as there are still deflationary pressures at play. From a cycle point of view, there is still excess capacity on labour markets. Moreover, this school argues that the effects of globalisation and digitalisation on wages are still operating and consider that a wage-price spiral is unlikely to materialize. On the policy front, the argument is made that should inflation expectations start to pick up, then central banks will step in with policy tightening. Such a stance from central banks will also keep governments in check from running excessively expansionary fiscal policies.

The “new inflationary regime” school see durable pressures on the supply side be it weaker demographics, as the boom in global work force allowing for lowering labour costs during the nineties and 2000s has faded, rethinking supply chains to be more resilient and more local, frictions on energy prices in the green transition and societal pressures. Rising social tensions across the board (especially in advanced economies) are expected to tilt policy choices with central banks policies prioritising policy room for the fiscal policy side and full employment for the lower income groups accepting in the trade-off higher inflation.

Our view is that for the coming two years the fundamental factors triggering a new inflationary regime are not yet in place and that scarring effects from the crisis (loss of human capital, businesses financial fragility, sectors transformation) will linger and weigh on the speed of recovery. Medium term, we see more of an open question. For now, central banks emphasise the transitory nature of inflation and there is a risk that in acting later, the major central banks will have to then act more aggressively to keep inflation in check with higher and positive real interest rates (c.f. Box below). This would lead to a significant repricing on financial markets and a marked deterioration on businesses solvency and sovereigns.

Box – A new shift in real rate expectations may be the bigger risk for US bond yields

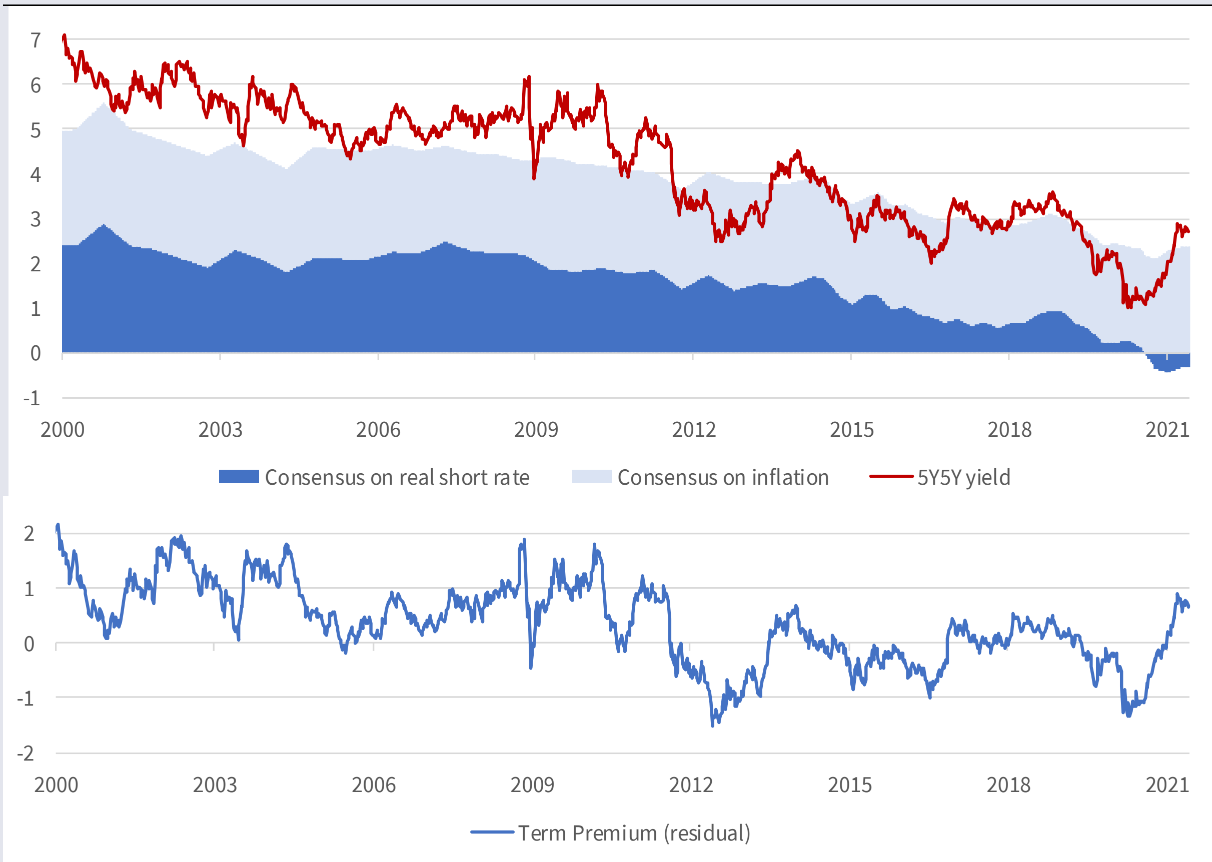
The past few months have seen US inflation data clock in at levels well above those associated with medium-term price stability. The Fed takes the view that this price surge is essentially transitory and thus logically does not require monetary policy tightening, and not least in a context still well short of full employment. While there is a lively debate taking shape on a possible shift to a new regime with inflation well in excess of the current central bank targets, the consensus view (from Consensus Economics) of long-term inflation expectations (6 to 10 year outlook) has held fairly stable, with the latest reading at 2.4%, compared to 2.2% pre-crisis. Of course, the consensus covers a potentially broad range of individual forecasts, but for now the median expectation remains anchored.

The long-term consensus offers a good proxy for where economists see trend levels and turning next to US real GDP growth, we note a fairly stable 3.1% in the latest survey, compared to 3.2% pre-crisis. More striking is the decline the 3-month rate consensus to 2% in the latest survey from 2.4% pre-crisis.

We can further draw on the long-term consensus to break down market bond yields into a real short-term rate expectation, taking consensus on the 3-month rate minus that on inflation, an inflation expectation, again drawing on consensus, and a residual term premium. We keep the focus here on the long-term, drawing on the 5Y5Y US Treasury yield and the related long-term consensus.

The chart below illustrates the breakdown over time, with the striking feature being that inflation expectations have in recent years remained stable, while the real short rate component has been in long-term decline. This trend down in the real rate component can be in part explained by slower productivity and demographics. The residual, term premium, has as illustrated tended to fluctuate around a trend, albeit with the average shifting lower in recent years.

Breaking down the 5Y5Y US Treasury Yield



Source: Consensus Economics, Bloomberg, SG Economic and Sector Studies

Setting this breakdown in the context of the current debate, several questions arise. Top of the list is the debate on inflation and the risk of a shift to structurally higher inflation expectations. The Fed has been clear that it wants to keep medium-to-long term inflation expectations anchored, suggesting that it would indeed respond to such a shift with tighter monetary policy, pushing up the real rate component. A second question is what explains the latest shift down in the real short rate component. One potential explanation is that is reflects the Fed's new monetary policy strategy, accepting some inflation overshoot after a period of undershoot, and thus logically lowering the real rate through the cycle. There is considerable uncertainty, however, as to just where such a new equilibrium rate might settle, and further shifts could be on the cards. One twist here is that the Fed in tightening policy could look to macroprudential measures rather than traditional monetary policy, which would allow credit conditions to be tightened while still keeping the short rate low. Based on current Fed speak and the extent of the Fed's macroprudential toolkit, this seems less likely to our minds.

A final explanation for the real short rate decline could reside with a view of a further decline in trend growth potential, but this is not something we see reflected in consensus today. As we look ahead, in the debate on US bond yields, our main point here is that it is not just inflation expectations that merit attention but also the real rate component!

ECONOMIC FORECASTS

Real GDP, annual %

	2019	2020	2021f		2022f		2023f	
	Actual	Actual	Central	Extended	Central	Extended	Central	Extended
Developed countries	**1.6**	**-5.1**	**5.3**	**3.2**	**3.0**	**2.4**	**1.8**	**2.4**
United States	2.2	-3.5	6.7	3.5	3.7	3.2	2.3	3.0
Japan	0.0	-4.7	2.7	0.3	2.3	1.6	0.8	1.7
United Kingdom	1.4	-9.8	5.6	2.9	3.3	3.5	2.0	2.3
Euro area	1.3	-6.7	4.5	1.7	2.5	1.1	1.5	2.2
Germany	0.6	-5.1	3.0	0.5	2.5	1.0	1.3	2.0
France	1.8	-8.0	6.0	3.0	2.0	1.0	1.5	2.5
Italy	0.3	-8.9	5.5	2.5	3.0	1.0	1.5	2.0
Spain	2.0	-10.8	6.5	3.0	4.0	1.5	2.0	2.5
Developing countries	**3.5**	**-2.1**	**5.9**	**3.7**	**3.6**	**3.5**	**3.9**	**4.2**
Asia	4.9	-0.9	7.2	5.2	4.7	4.5	4.6	5.1
China	6.0	2.3	8.0	6.6	4.9	4.5	4.6	5.2
India (FY)	4.1	-8.0	9.5	5.5	6.2	6.8	5.2	5.8
CEEC.	2.4	-2.1	3.8	1.4	2.0	1.7	2.5	2.5
Russian Federation	1.8	-2.6	2.0	-0.5	1.5	1.2	1.5	1.2
Latin America	0.2	-7.2	4.8	2.3	1.8	2.1	2.5	2.6
Brazil	1.4	-4.8	4.1	2.7	2.3	1.8	2.1	2.1
Middle East & C. Asia	0.3	-3.9	2.7	0.7	1.9	1.7	2.9	3.1
Africa	3.4	-1.9	3.9	1.9	2.6	2.3	3.7	4.0
World (PPP weighted)	**2.8**	**-3.2**	**5.7**	**3.5**	**3.4**	**3.1**	**3.1**	**3.5**

Central = central scenario; Extended = extended health crisis scenario; FY=Fiscal year.

Market forecasts

End of period, %	9/6/2021	Central 2021f	Central 2022f	Central 2023f	Extended 2021f	Extended 2022f	Extended 2023f
Fed Funds target (high)	0.25	0.25	0.25	0.50	0.25	0.25	0.25
Gov bond 10y, United States	1.57	1.80	2.00	2.25	0.75	0.75	1.00
BCE, refinancing rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BCE, marginal deposit rate	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
Gov bond 10y, Germany	-0.20	-0.10	0.00	0.20	-0.60	-0.60	-0.50
Gov bond 10y, France	0.18	0.30	0.50	0.60	-0.10	0.10	0.10
Gov bond 10y, Italy	0.91	1.10	1.50	1.70	0.75	1.15	1.25
Gov bond 10y, Spain	0.50	0.70	1.10	1.20	0.35	0.65	0.75
BoE, policy rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Gov bond 10y, United Kingdom	0.93	0.90	1.00	1.20	0.40	0.60	0.60
BoJ, policy rate	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Gov bond 10y, Japan	0.08	0.00	0.00	0.00	0.00	0.00	0.00
EUR / USD	1.22	1.15	1.15	1.20	1.10	1.10	1.10
EUR / GBP	0.86	0.95	0.95	0.95	1.00	1.00	1.00
USD / JPY	109	110	110	105	105	105	105
USD / CNY	6.39	6.50	6.50	6.50	6.50	6.50	6.50
Oil price, Brent ($/b)	72.5	55	55	55	48	50	50

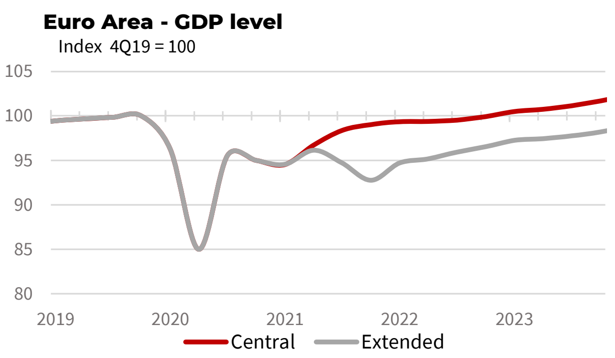
Central = central scenario; Extended = extended health crisis scenario.

EURO AREA

- **The convergence of GDP to its pre-crisis level will be slow and growth paths will differ among member states.**
- **Monetary policy is set to remain very accommodative and interest rates are set to stay low over the forecast horizon.**
- **There are several downside risks; notably financial instability or a surge in political tensions.**

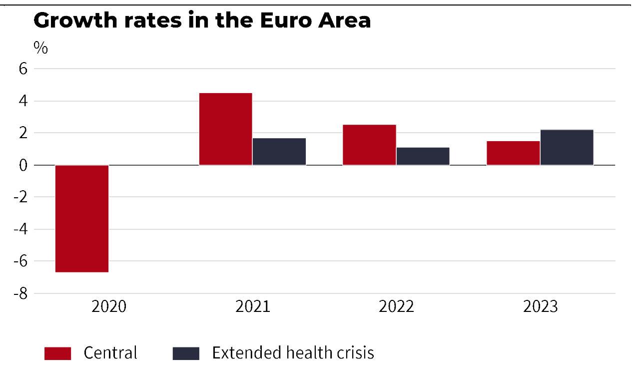
In 2021, vaccination campaigns and the gradual unwinding of social distancing measures will support the rebound in activity, especially in the second half of the year. Catching up will continue in 2022, but at a more moderate pace. The legacy of the crisis on employment and private and public indebtedness, combined with a tighter fiscal policy, will dampen activity beyond the initial restart. Against this backdrop, GDP is expected to return to its pre-crisis level in 2023 only in our Central scenario. If the pandemic risk were to last longer, delaying the withdrawal of social distancing measures for an additional year (to early 2023 instead of early 2022), GDP convergence would also be delayed for a year.

Recovery is set to be very progressive



Source: SG Economic and Sector Studies

Growth will be very moderate in 2022-2023



Source: SG Economic and Sector Studies

In 2021, world trade is set to rebound strongly in the wake of better-than-expected growth in China and the United States. From 2022, the recovery will, nonetheless, moderate, reflecting an uneven pace of the pandemic's ebb on a global scale, differences in policy stances and scarring. In addition, certain factors that drove the recovery after the Great Financial Crisis will not be present this time. For instance, the absence of a major fiscal stimulus in China, and the weakening of many emerging economies by the pandemic, rule out a similar scenario of a lasting rebound in external demand. Following a strong restart in 2021, euro area exports are therefore expected to show moderate growth on average over the forecast horizon.

In the wake of the shock recorded in 2020, the rebound in domestic demand is set to be moderate medium term. With the support of various national public guarantee mechanisms, companies have increased debt to compensate for the losses linked to various social distancing measures. In this context, the deterioration in debt ratios, already high in some countries before the crisis, is set to weigh on investment recovery. In addition, some increase of defaults will likely see tightening of bank lending conditions, albeit much less marked than during the crises of 2008-2013.

On the household side, higher unemployment and wage moderation is set to weigh on consumption. The "forced" savings accumulated during lockdown periods seems unlikely to be fully unwound, in part due to its concentration on high income households and in part due to precautionary behaviour in a still uncertain environment. Loss of income and tighter lending conditions will also weigh on residential investment.

Public demand will be stronger. The grants that will benefit Member States as part of the Next Generation EU fiscal stimulus plan in 2021-2023 (calibrated according to income losses of each country) will finance part of the support measures, which will help ease some of the divergence in recovery.

In 2021, the rebound in inflation mainly reflects base effects, frictions in global supply chains and higher commodity prices. We expect these effects to prove transitory and dissipate from 2022. Beyond that, price dynamics are set to moderate on the back of lacklustre demand and on-going slack in labour markets.

In the short run, the ECB's will maintain a very accommodative monetary policy. Longer term, normalisation of monetary policy will be tricky as inflation dynamics will remain moderate in our view. We do not foresee any voluntary reduction in the size of the central bank's balance sheet, nor interest rate hike on the forecasting horizon. We do, however, expect the ECB to taper its asset purchases as of early 2022.

The risk of further trade tensions ebbing with the new US Administration offers a slight improvement in the balance of risks surrounding our scenario. However, the list of downside risks remains long, and not least the risk of an extended health crisis. Likewise, the downgrade of the sovereign rating of the most fragile member states or too strong and too early fiscal consolidation, threatening the recovery could feed tensions in the sovereign debt market. Finally, a new surge in Euroscepticism and political risk ahead of elections in key Member States cannot be ruled out.

Euro Area	**2019**	**2020**	**2021f**		**2022f**		**2023f**	
	Actual	Actual	Central	Ext.	Central	Ext.	Central	Ext.
Real GDP, % YoY	1.3	-6.7	4.5	1.7	2.5	1.1	1.5	2.2
Inflation, %	1.2	0.3	1.7	1.6	0.9	0.9	1.2	1.3
Unemployment, %	7.6	8.0	8.4	8.7	8.9	9.8	8.4	9.3
Fiscal balance, % GDP	-0.9	-7.5	-9.1	-10.9	-5.2	-7.6	-4.1	-5.8
Public debt, % GDP	89	104	108	113	110	119	111	121

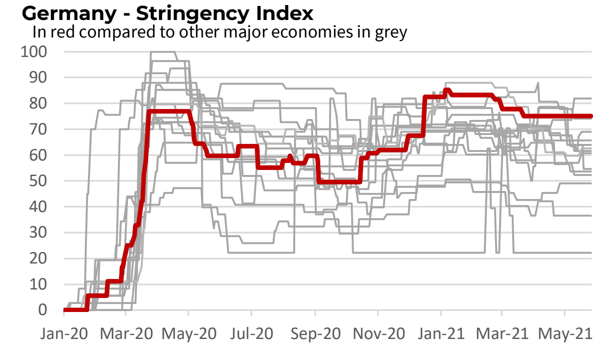
Central = Central scenario, Ext. = Extended health crisis scenario

GERMANY

- **Convergence of the economy towards its pre-crisis level will be faster than elsewhere in the euro area but still gradual, beyond the restart.**
- **Once past the technical rebound in 2021, inflation is forecast to remain moderate over the forecast horizon.**

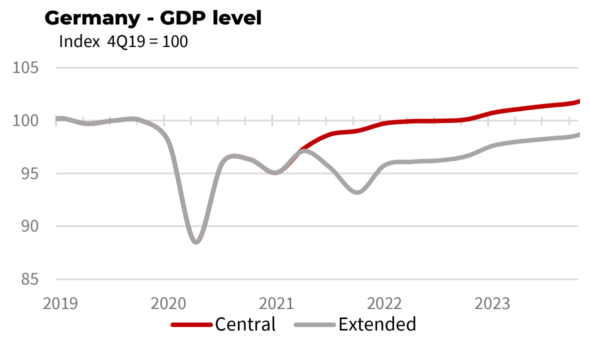
Headline GDP forecasts for 2021 are lower in Germany that many other member states reflecting the lesser downturn in 2020, due in part to a higher share of the manufacturing sector in GDP. After a weak start in 1Q21, the restart has been strong in 2Q21 – thanks to the gradual lifting of social distancing measures – and should continue during the second half of the year. In 2022, the economy is set to converge towards its pre-crisis level, slightly ahead of the rest of the euro area. The lagged effects of the crisis on employment, investment, and external demand (especially from the rest of the euro area) will cap the scenario of faster recovery.

Social distancing measures are stringent



Source: University of Oxford

… But growth has picked up in 2Q-20



Source: SG Economics & Sector Studies

On the external demand side, normalisation is likely to be more moderate than observed in the wake of the Great Financial Crisis. In the short term, the rebound in exports will remain strong, supported by the reopening of the European economies and the stronger than expected recovery of activity in the United States and China. Medium term, however, it will be more difficult for German companies to compensate for the moderation in demand in Europe by redirecting sales to emerging markets as was the case a decade ago. Indeed, the scale of the fiscal stimulus this time round is far more modest in China, while emerging economies will emerge from the health crisis weaker overall.

The subsidies granted and the equity provided by the public authorities have pushed at bay the scenario of an excessive deterioration in the balance sheet of companies. Debt ratios will, however, have increased with the interruption of activity in 2020. This factor, together with the relative weakness of expected demand, will weigh on the rebound in investment medium term. On the household side, the rise in unemployment and the decline in per capita income is further set to weigh on consumption in 2021-2022 beyond the initial restart. Growth in housing investment will also be modest for the same reasons, suffering in addition from a likely tightening of lending conditions by banks. One positive could, however, come from climate related real-estate renovations and upgrades.

Emergency "Above the line" fiscal measures	**EUR/bn**
Enhancement of health care provisions	58.5
Economic Stabilisation Fund	100.0
Grants to small and individual businesses	50.0
Total	208.5
% GDP	6.1%

Measures of the recovery plan	
Temporary VAT rate cut (2S-2020)	20.0
Temporary energy tax cut	11.0
Exceptional social benefit (400 EUR per child)	4.0
Stronger incentives to buy electric vehicles	2.2
Tax deferrals for companies	25.0
Exceptional credits to local administrations	13.0
Other spending measures	54.8
Total	130.0
% GDP	3.8%

The increase in public demand recorded in 2020 as part of the emergency measures and the recovery plan will continue to have positive effects on activity. As matters stand, the fiscal impulse in 2021 is set to outsize the GDP loss recorded in 2020 (a situation that the other key economies in the euro area do not enjoy). The government however intends to start consolidating its fiscal position as of 2022. Against this backdrop, the public debt-to-GDP ratio of the general government is forecast to increase by 15pp of GDP compared to its pre-crisis level, to around 75% in 2023, before it starts declining.

Inflation is seeing what we expect to prove a transitory increase in 2021, due to positive base effects on energy prices and temporary VAT cut in the second half of 2020. Once these effects have dissipated, inflation is set to slow from 2022 onwards to reflect an environment of higher unemployment and moderate wage gains.

Despite the deterioration in public and private debt ratios, the risks to financial stability appear to be limited, absent any major external shock. On a more general note, the balance of risks surrounding our scenario has improved in the wake of the vaccination campaign unfolding and the easing in trade tensions. On the domestic front, a new coalition ruled by the Greens following the September general election would not in our view radically change Germany's prudent position on fiscal integration in the euro area (especially if it governs with the CDU-CSU). There is still quite some time to the election and recent polls indicate that the outcome of the election is still far from given.

Germany	2019	2020	2021f		2022f		2023f	
	Actual	Actual	Central	Ext.	Central	Ext.	Central	Ext.
Real GDP, % YoY	0.6	-5.1	3.0	0.5	2.5	1.0	1.3	2.0
Inflation, %	1.4	0.4	2.3	2.0	1.1	0.7	1.4	1.4
Unemployment, %	5.0	5.9	6.6	6.8	6.7	7.2	6.5	7.0
Fiscal balance, % GDP	1.5	-4.2	-8.9	-10.2	-3.2	-5.2	-1.5	-3.1
Public debt, % GDP	60	70	75	78	76	82	75	83

Central = Central scenario
Ext. = Extended health crisis scenario

FRANCE

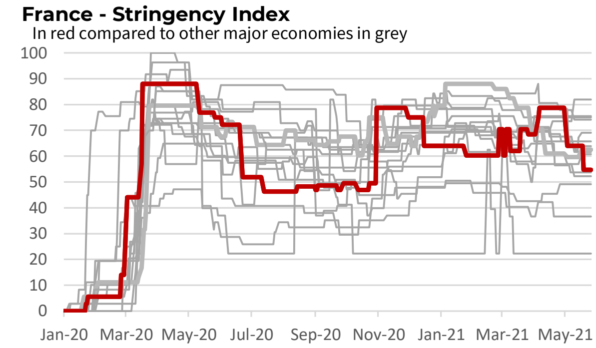
- **The economy is forecast to restart quickly this year, but the recovery will be modest from 2022.**
- **Prices will temporarily pick up this year, but inflation will remain moderate in the long run.**
- **Public debt is expected to slightly exceed 130% of GDP in 2023.**

The French economy has proved fairly resilient during the last two quarters. Households and non-financial corporations have adapted to the health context and the government emergency policy has moderate the crisis impact on productive capacity. Against this backdrop, along with the gradual unwinding of social distancing measures – which we assume in our Central scenario to be fully lifted by the beginning of 2022 – we look for a fast restart.

However, it remains to be seen whether this fast restart will morph into a strong recovery longer term. The withdrawal of support measures and the legacy of the crisis in terms of jobs lost and both public sector and corporate indebtedness will to our minds cap the expansion dynamics medium-term. While fiscal stimulus will boost activity this year, it will not fully compensate the loss of GDP in 2020; furthermore, we forecast fiscal consolidation as of 2022. While our forecast for 2021 is above consensus, that for 2022 is below.

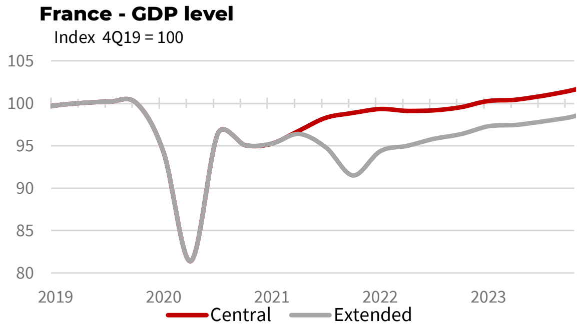
Convergence of GDP towards its pre-crisis level will be a lengthy process. Our Central scenario does not see this before the end of 2022, with an unemployment rate reaching almost 10% at its peak. In the scenario of an Extended health crisis, where social distancing measures would not be completely lifted before 1Q23, GDP convergence to pre-crisis levels would also be delayed by one year to 2024.

Lockdowns have become less stringent



Source: University of Oxford

Towards a very progressive recovery



Source: SG Economic and Sector Research

The pandemic will continue to weigh on the dynamics of foreign trade. Indeed, French exports are heavily dependent on the prospects in aeronautics and tourism, two sectors particularly vulnerable to the evolution of the pandemic. With the uneven and choppy ebb of the pandemic on a global scale, the rebound in exports is therefore set to be progressive.

Budgetary measures adopted in response to the health crisis	Size EUR bn
▪ **First emergency plan (PLFR I, II and III) - 2020**	**64.5**
Including:	
▪ Enhancement of short time working schemes	30.8
▪ Solidarity Fund (subsidies for the smallest companies)	8.5
▪ Exceptional funds for health administrations	9.8
▪ Offset of social security contribution exemption	5.2
▪ Extension of income replacement and postponement of the reform of unemployment insurance	1.6
▪ **2020-2025 recovery plan (including EUR 37 billion of Maastrichtian measures[1] included in the 2021 PLF)**	**100**
Demand-driven measures:	**41**
▪ Public investment (including energy renovation of buildings, green infrastructure and mobility)	23
▪ Support for households (including support to the purchase of clean vehicles and increase in the back-to-school allowance)	10
▪ Other public expenditure (including digitalisation of public services and companies)	8
Supply-driven measures:	**44**
▪ Tax cuts on production	20
▪ Innovation (including Future Investment Programs)	16
▪ Employment and training (including youth plan, short time working and investment in skills)	8
Other measures	**15**
▪ **First emergency plan (PLFR IV) - 2020**	**20**
Including:	
▪ Enhancement of the Solidarity Fund	10.9
▪ Extension of the most favourable short time working scheme until December 2020	3.2
▪ Exceptional poverty allowance	2.1
▪ Other measures (including advancement to 2020 of the second Ségur health pact component)	4,3
Total	**184.5**
% du PIB 2019	7.8

Source: DG Trésor, PLFR I, II, III & IV, PLF 2021, SG Economic and Sector Research

Productive investment has so far withstood the crisis well. Quasi-equity instruments included in the French fiscal stimulus will support its rebound, but investment is expected to show modest growth in medium term. Businesses have been weakened by the forced shutdown of entire sectors of the economy in 2020. The liquidity impact of operating losses has been largely offset by heavy borrowing and debt ratios, already high before the crisis, and have deteriorated. In the absence of a sustained and lasting rebound in demand, the most indebted companies will be forced to postpone part of their investments to increase their financing capacity and stabilise debt ratios.

[1] Part of the stimulus plan spending will not be accounted in the budget balance. Indeed, some of them will not be executed by entities identified as public administrations within the meaning of Maastrichtian accounting. In addition, others are financial transactions and will be recorded directly in the public debt ratio and not in the budget balance.

On the household side, the absorption of "forced" savings accumulated during the lockdowns will drive consumption as the pandemic recedes. But these savings will not be fully spent. With rising unemployment, some households will retain precautionary savings. What's more, 2020's saving surplus is concentrated among the wealthier households[2] whose propensity to spend is lower. Looking at residential investment, which has resisted the crisis rather well, it is likely to slow down under the effect of a moderate tightening of credit conditions by the banks.

Base effects on energy prices will bring inflation back to its 2019 level this year and some price volatility is to be expected this year. But in the longer term, moderate labour costs and demand expectations rule out a stronger and long-lasting rebound in inflation.

The crisis seriously deteriorated the fiscal position in 2020. In 2021, the public deficit will stay close to 9% of GDP as the fiscal stimulus unfolds. The unwinding of certain exceptional measures, the subsidies earmarked to France as part of the European recovery plan and the restart of the economy will balance the negative impact of the stimulus on the fiscal position. Despite fiscal consolidation expected by the government as of 2022, we expect public debt to 130% of GDP in 2023 in our Central scenario.

Looking at the balance of risks surrounding our scenario, more active government policy to strengthen the corporate investment and support job creation would help accelerate the recovery and bring the economy to its pre-crisis level at a faster pace. But on the opposite, the risk of a too-premature and too-strong fiscal consolidation adds up to an already long list of downside risks, from a delay in the vaccination campaign to new social movements.

France	2019	2020	2021f		2022f		2023f	
	Actual	Actual	Central	Ext.	Central	Ext.	Central	Ext.
Real GDP, % YoY	1.8	-8.0	6.0	3.0	2.0	1.0	1.5	2.5
Inflation, %	1.3	0.5	1.5	1.4	1.0	0.8	1.2	1.1
Unemployment, %	8.1	7.8	9.2	9.8	9.5	10.8	9.2	10.6
Fiscal balance, % GDP	-3.1	-9.2	-9.2	-10.7	-6.7	-8.8	-6.2	-7.8
Public debt, % GDP	98	116	123	128	127	135	130	138

Central = Central scenario
Ext. = Extended health crisis scenario

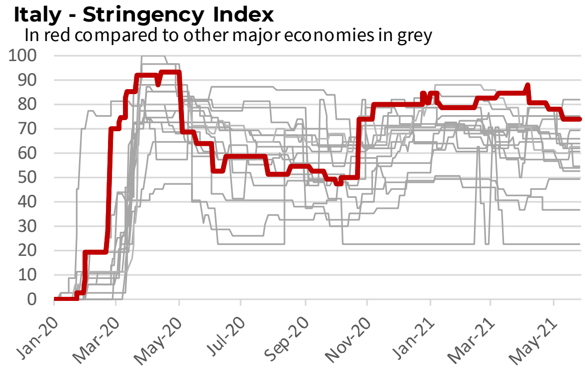
[2] Recent research from the French *Conseil d'Analyse Economique* (October 2020) shows that in August 2020, 70% of excess saving was due to the top 20% wealthier households.

ITALY

- **The economy will begin a fragile recovery in 2021.**
- **Mainly financed by the EU, a historic stimulus plan (€222bn) will support the economy medium-term.**
- **Public debt ratios are expected to progressively stabilise.**

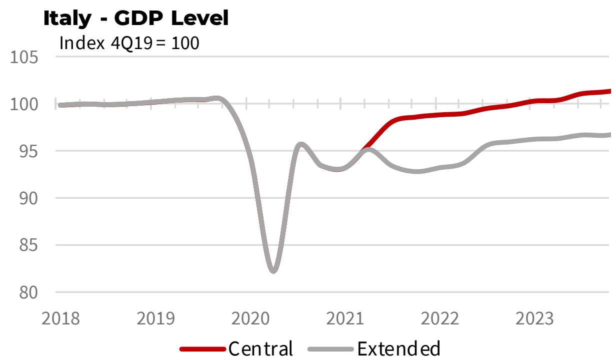
The economy grew by 0.1% QoQ in 1Q21, narrowly avoiding a return to negative territory despite tightening pandemic related restrictions in early March. The gradual lifting of social distancing measures should accelerate the recovery in the second half of the year and stimulate growth, expected at 5.5% in 2021. However, the "mechanical" rebound in activity will not allow a return to the pre-crisis GDP level. We do not expect real GDP to return to its 4Q19 level until early 2023.

Restrictions are starting to ease



Source: University of Oxford

Return to pre-crisis GDP level in 1Q23



Source: SG Economic and Sector Research

The arrival of summer with more outdoor interactions and the continuation of vaccine rollout should help to gradually lift the restrictions, boosting consumer sentiment from mid-year. The use of "forced" savings during lockdown will further increase household consumption. However, ongoing caution by consumers and uneven distribution of forced savings across income groups will dampen the recovery in spending beyond the initial restart.

After collapsing in 2020, foreign travel is set to pick up in the second half of the year, helping the embattled tourism sector which accounts for 13% GDP, a higher share than the European average (around 5% GDP). However, tourist flows are not expected to return to their pre-crisis levels anytime soon: 33m foreign tourists are expected this year, versus 100 m in 2019, according to the Italian Tourism Federation.

In the medium term, growth prospects will be driven by the National Recovery and Resilience Plan (PNRR), endowed with €222bn (12.4% GDP) over five years. Its strong orientation towards the green transition (45%) and digitisation (37%) should help stimulate short-term investment spending, which in turn will have positive effects on potential GDP in the long term. Such a plan will have a noticeable and positive effect on the country's growth. While the effect in 2021 will be barely noticeable, it will help lift growth in 2022, estimated at 3%.

Emergency and recovery measures	Size EUR bn
▪ **Emergency plan (2020-2021)**	**67.9**
▪ Aid and subsidies for businesses	9.5
▪ Fiscal measures to support businesses	6.4
▪ Public expenditure on health	9.5
▪ Measures to stimulate household consumption and investment	5.5
▪ Aid to VSE-SMEs, the self-employed and the liberal professions	12
▪ Partial activity devices (“Cura Italia” decree)	25
▪ **Recovery plan (2021-2025)**	**222**
▪ Green revolution and ecological transition	68.6
▪ Infrastructures for sustainable mobility	31.4
▪ Digitalisation, innovation, competitiveness and culture	49.2
▪ Education and research	31.9
▪ Social inclusion	22.4
▪ Health	18.5
Total	**289.9**
% GDP 2019	16.2

Source: SG Economic and Sector Research

The unexpected drop in the unemployment rate in 2020 was linked to the unprecedented drop in the participation rate, with many people stopping their job search during lockdown. The continued destruction of jobs in 2021 (end of the ban on permanent layoffs in early July) combined with the recovery of the working population will put upward pressure on the unemployment rate, which will rise to 11.8% in the scenario central and 12.7% in the extended scenario.

The public debt ratio is set to stabilise progressively, with the expected fall in short-time working measures (“Cura Italia” decree) on the expenditure side and improving tax revenues (linked to the upturn in activity). Beyond that, the record stimulus plan (€222bn) will not further weigh on Italian public finances as the vast majority of the plan will be financed by the resources of the Next Generation EU instrument, including €68.9 bn in grants and €122.6 bn in loans. Public debt is expected to stabilize at levels close to 160% of GDP in 2022/2023.

The latest Italian political crisis was resolved with the appointment of Mario Draghi as Prime Minister in mid-February. His government of national unity, supported by almost all political parties, is expected to last until the next legislative elections in 2023. The hope is that he can use this window to convince Italy's European partners of the need for better fiscal governance within the EU and perhaps even permanent joint fiscal tools, while convincing the Italian electorate of the merits of structural reform, which has historically often proved unpopular. The success of the Draghi government will be crucial in the run-up to the next election, which could see a Eurosceptic alliance ruling Italy in May 2023.

Italy	2019	2020	2021f		2022f		2023f	
	Actual	Actual	Central	Ext.	Central	Ext.	Central	Ext.
Real GDP, % YoY	0.3	-8.9	5.5	2.5	3.0	1.0	1.5	2.0
Inflation, %	0.6	-0.1	1.2	1.1	0.8	0.8	1.1	1.1
Unemployment, %	10.0	9.3	11.8	12.7	11.6	12.5	10.7	12.1
Fiscal balance, % GDP	-1.6	-8.9	-11.6	-13.5	-6.6	-9.2	-5.1	-6.5
Public debt, % GDP	135	155	157	163	158	170	159	172

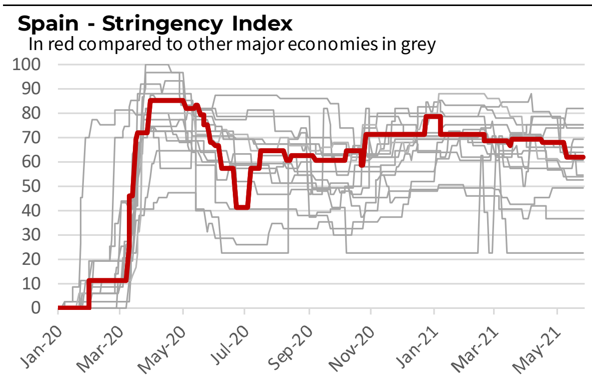
Central = Central scenario
Ext. = Extended health crisis scenario

SPAIN

- **The economic recovery is forecast to be gradual over 2021-2022.**
- **Fully financed by European subsidies, the recovery plan will support growth in the short and medium term.**
- **The importance of the tourism sector will weigh on the catching up of the GDP in level.**

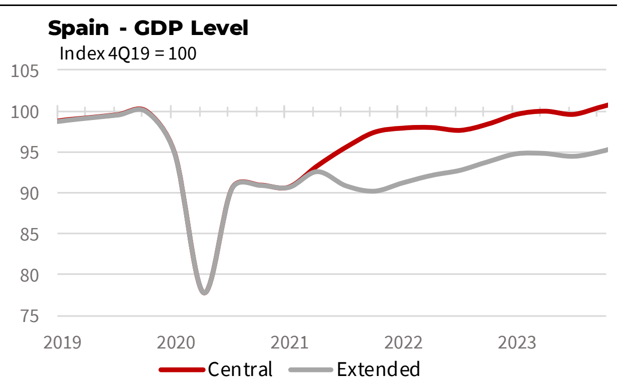
The economy contracted again in the first quarter of 2021 (-0.5%) after the stagnation recorded in 4Q20. This decline can be explained by tougher social distancing measures with the ban on intra and inter-regional travel. Activity is expected to gradually normalize in the second half of the year, supported by consumer spending, the arrival of European funds and the revival of external demand in a context of easing pandemic restrictions. Real GDP, which is expected to grow at 6.5% in 2021, is forecast to return to pre-crisis level in 2Q23.

Less severe restrictions



Source: University of Oxford

Recovery is set to be very progressive



Source: SG Economic and Sector Research

Consumer demand is expected to pick up strongly in 3Q21, thanks to the lifting of the toughest social distancing measures. The extension of the furlough scheme (ERTE), moreover, will help to maintain disposable income until the economy reopens. This should support private consumption in the second half of the year.

Exports of services should also start to recover, as the pandemic is brought under control in Europe. The arrival of foreign tourists is expected to increase in 2021 but remain well below the pre-pandemic level (45 m expected vs 85 m in 2019 according to the Ministry of Tourism) and will only partially restore the sector, a key component of the Spanish economy (15% GDP).

Both structural and cyclical factors will weigh on the rebound in investments. On the structural side, the strong predominance of small companies with little capital and low margins suggests a high risk of insolvency after the crisis. On the cyclical side, many investment decisions could be delayed due to the high degree of uncertainty about future sales, the declining level of capacity utilisation and the reduced availability of funds for such spending.

Fiscal measures are expected to stimulate activity in the short to medium term. The Recovery Plan, which totals €69.5 bn over three years, will have an impact from 2021. The government plans to use €27bn of NGEU grants this year in anticipation of the budgeted funds. These funds will support growth in 2021 and 2022.

Emergency and recovery measures	**Size EUR bn**
▪ **Emergency plan (2020-2021)**	**66.7**
▪ Aid and subsidies for businesses	0.26
▪ Fiscal measures to support businesses	6.35
▪ Public expenditure on health	13.28
▪ Household income support measures	16.05
▪ Measures to stimulate household consumption and investment	0.25
▪ Other appropriations and public expenditure	3.3
▪ Aid to VSE-SMEs, the self-employed and the liberal professions	9.4
▪ Partial activity devices (ERTE)	17.8
▪ **Recovery Plan (2021-2023)**	**69.5**
▪ New urban economy and employment plan	4.9
▪ Promotion of culture and sport	0.8
▪ Urban and Rural Agenda	14.4
▪ Resilience of infrastructures and ecosystems	10.4
▪ Investments related to energy transition	6.4
▪ Modernisation of public administration	4.3
▪ Modernisation of the industrial fabric and SMEs	16.1
▪ Science and innovation pact	4.9
▪ Investment in the education system and continuous training	7.3
Total	**136.2**
% GDP 2019	11

Source: SG Economic and Sector Research

The extension of the furlough schemes (ERTE) until the end of 2021 should limit the decline in employment. Beyond that, the forecast destruction of jobs in the services will weigh on the labour market. The unemployment rate is forecast to peak at just over 17% at the end of 2022 in our central scenario.

The Spanish recovery plan is not expected to increase the debt burden as the plan is essentially financed by European NGEU. The funds are set to total €69.5 bn in non-refundable transfers between 2021 and 2023, or 5.6% GDP. However, with the economy slowly converging to its pre-crisis level, the public debt ratio will remain high over the forecast horizon, with public debt reaching 120% GDP in 2023.

The intensity of the rebound will above all depend on the summer season. Beyond 2021, the tourism recovery is expected to gain momentum, with most impediments to activity being fully lifted, while domestic demand growth will likely moderate once pent-up demand is reabsorbed. We forecast 4% growth in 2022, with the growth path then stabilizing at 2% in 2023/2024.

The political landscape is still very fragmented, and the government led by the Socialist Party and *Unidas Podemos* does not command a working majority in parliament. As the focus shifts towards the recovery from the Covid19 crisis and the use of the European recovery package, ideological differences on economic reforms may emerge between the coalition, with a risk of a premature split in the left-wing minority government. The general election is due in 2023.

Spain	**2019**	**2020**	**2021f**		**2022f**		**2023f**	
	Actual	Actual	Central	Ext.	Central	Ext.	Central	Ext.
Real GDP, % YoY	2.0	-10.8	6.5	3.0	4.0	1.5	2.0	2.5
Inflation, %	0.8	-0.3	1.7	1.6	1.4	1.3	1.2	1.2
Unemployment, %	14.1	15.6	17.0	18.6	17.3	18.9	16.4	18.2
Fiscal balance, % GDP	-2.9	-11.9	-8.1	-11.9	-6.6	-11.3	-5.9	-8.9
Public debt, % GDP	96	118	118	126	118	134	120	137

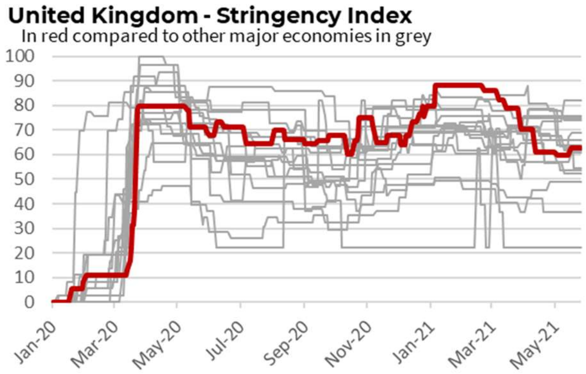
Central = Central scenario
Ext. = Extended health crisis scenario

UNITED KINGDOM

- **Swift vaccine rollout paves the way to a sharp rebound in 2021, albeit that variants entail risk of setbacks.**
- **Bold fiscal and monetary policy actions have partly cushioned the blow and will continue to support the recovery**
- **We expect economic scarring from the crisis and the consequences of Brexit to weigh on potential growth**

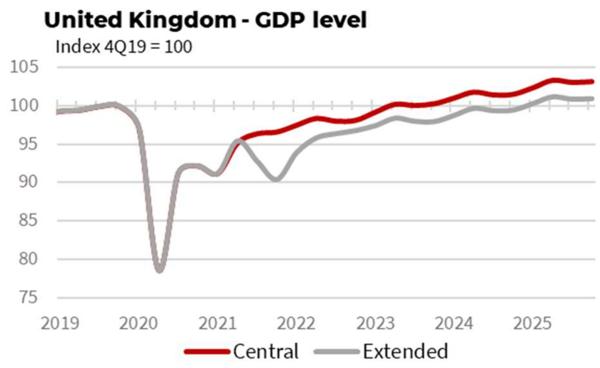
Growth exceeded expectations in 1Q21. The UK economy showed resilience in the second wave of coronavirus, growing strongly in March and contracting only 1.5% in 1Q21. This figure reflects the fact that firms adapted to the restrictions and consumers became ever more willing to spend online. Growth was also bolstered by government spending, particularly health spending to combat the pandemic.

Hoping for a return to normality



Source: University of Oxford

The full economic recovery will take time



Source: SG Economic and Sector Research

Survey data are consistent with GDP rising sharply in the 2Q21. The interim composite purchasing managers' index (PMI) rose to 62 in May, up from 60.7 in April, marking its all-time high. At the same time, the volume of retail sales in Britain rose 9.2% in April against the previous month. The PMI survey partially reflected the reopening of hotels, indoor hospitality and other businesses on 17 May and the associated fading impact of the pandemic, that is notably due to one of the fastest growing vaccination campaigns in the advanced economies. At the same time, variants entail risks of delay to reopening.

Inflation is projected to rise in 2Q21 and to be volatile throughout the year 2021 before stabilising. The volatility of the price level is mainly due to base effects resulting from energy prices and transitory factors following the pandemic. The latest PMIs signalled cost pressures rising at the fastest pace in 13 years, with manufacturers facing shortages of raw materials and high shipping costs, and service providers pointing to higher staff salaries. We expect the price level to stabilise at a level close to the Bank of England's target (2%) from 2022 onwards as temporary factors will be mitigated by labour market pressures resulting from the hysteresis effect of the pandemic and by fiscal policy that will start to tail off.

Against this background, we do not expect any significant change in the conduct of monetary policy in the coming months. Following the last Monetary Policy Committee (MPC) in May, the policy rate remained unchanged at 0.1% and the target amount of the QE programme remained at GBP 895bn. The MPC announced a deceleration in the pace of asset purchases - from GBP 4.4bn per week to GBP 3.4bn, reflecting an improvement in their perception of the UK economy. Despite this reduction, the target for the purchase programme would be reached before the end of the year and a further reduction in the pace of purchases is expected at future committees.

Fiscal policy will remain accommodating over the next two years and should support the recovery, but tax will raise from 2023 onwards. In March, the chancellor announced that pandemic support will be extended to the autumn, notably the furlough and self-employed support. The business rates relief and grants will also continue, and universal credit uplift will be retained until Sept. while stamp duty holiday will be phased out from July. We expect corporate investment to be spurred by the GBP 25bn “super-deduction” tax break, but partly at the expense of future investments that will have been frontloaded. This will be followed by GBP 25bn a year of corporate tax and income tax rises that will arguably take a toll on growth. The corporation tax increase in 2023 from 19 % to 25 % is expected to raise GBP 17bn a year.

The furlough scheme still blurs the situation on the labour market. With more than 4m employments still furloughed, the latest unemployment rate (4.8% in March 2020) is an unreliable indicator to assess the current and the future level of slack in the UK labour market. So far, we observe an uneven recovery, with white-collar job openings scarcer than those in manufacturing, construction, or logistics. The medium-term impact of the crisis on the UK labour market remains a question mark that will go a long way to shaping the economic recovery. Despite the extension of the pandemic support and the various schemes targeting job, we expect the unemployment rate to grow and peak at 7.1% in 4Q21 in our central scenario.

“Above the line” fiscal measures between 2020 and 2021	GBP bn
Public services spending:	
- Health services, local authorities, measures to support vulnerable individuals, supporting rail services and funding for the devolved administrations	127
Employment support: - Coronavirus job retention scheme (CJRS) - Self-employed income support scheme - Job retention bonus (we will redeploy at the appropriate time)	73
Welfare package: - Universal credit - minimum income floor - Increase weekly universal credit by £20 - Employment and support allowance: removing 7 day wait - Local Housing Allowance measures	8
Business support: - Small business grant schemes - Business rates package	66
Extension of the support measures in 2021 - Employment support, universal credit, business support	132
Total	406
% GDP	19.3%

Recovery plan in 2021	GBP bn
Build Back Better - Investment in broadband, roads, rail and cities	100
Total	100
% GDP	4.8%

Debt, both private and public, will be one of the main drags on the economy lingering from the pandemic. The debt-to-GDP ratio reached 101.7% at the end of 2020, up 16.3 percentage points year-on-year, and we expect it to reach around 110% in 2023 in our central scenario. Corporate debt also soared, supported by government guarantee schemes and monetary policy easing. The ratio of corporate debt to GDP rose from 57% to 63.2% between the end of 2019 and the end of 2020. The increase in corporate debt is heavily concentrated on SMEs, which may be forced to deleverage at the expense of investment and face higher default rates.

Brexit’s effects are not yet clearly visible in trade data, but uncertainty continues to hamper business activity and companies still expect a decline in turnover caused by the Brexit, notably in the service industry. The monthly trade statistics for March showed a continued shift away from trade with the EU to non-EU countries, despite a gradual return to more normal levels of trade with the EU after the Brexit transition period ended. The volatility suggests, however, that it is too early to assess whether this reflects a short-term disruption or longer-term changes, as trade began to recover after the Covid19 disruption. So far, the EU has not found any additional UK financial regulations equivalent to their EU counterparts. The Memorandum of Understanding governing the UK/EU27 cooperation on financial services regulation signed is merely a technical measure for the two sides to communicate, not an agreement on the substance. The UK services trade balance is expected to be negatively affected.

United Kingdom	2019	2020	2021f		2022f		2023f	
	Actual	Actual	Central	Ext.	Central	Ext.	Central	Ext.
Real GDP, % YoY	1.4	-9.8	5.6	2.9	3.3	3.5	2.0	2.3
Inflation, %	1.8	0.9	1.7	1.3	2.1	1.7	2.0	1.9
Unemployment, %	3.8	4.5	6.0	6.3	6.5	7.4	5.5	6.4
Fiscal balance, % GDP	-2.3	-12.4	-11.4	-13.1	-9.1	-9.8	-6.0	-6.5
Public debt, % GDP	85	102	105	110	109	114	110	115

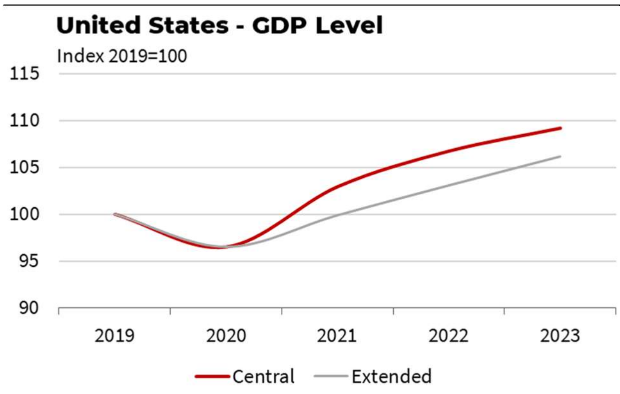
Central = Central scenario
Ext. = Extended health crisis scenario

UNITED STATES

- **Growth is expected to accelerate sharply with considerable fiscal support and a recovery in consumption and investment.**
- **The Fed is expected to keep financial conditions favourable in 2021 despite potentially higher inflation over time.**
- **The main risks to the economy are an extension of the health crisis and a tightening of financial conditions.**

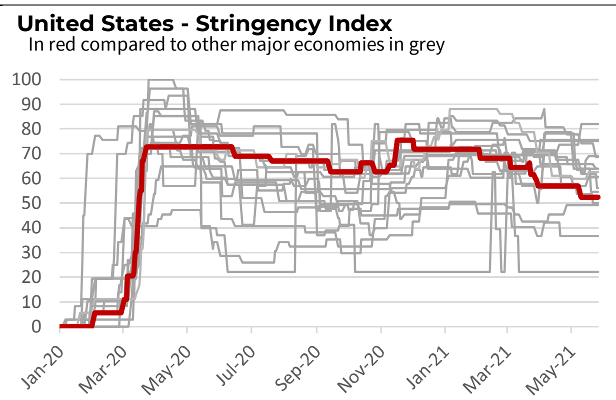
Economic activity is expected to remain robust amidst the lifting of health restrictions and the continuation of a very expansionary policy mix. GDP grew at an annualised rate of 6.4% QoQ (0.4% YoY), almost back to pre-crisis levels. All components of domestic demand showed strong growth. Household consumption grew at an annualised rate of 11.3 percent in 1Q21 reflecting the lifting of restrictions as well as the significant increase in income from various government transfers. Investment also remained very dynamic (11% QoQ annualised) on the back of the recovery in residential investment. The counterpart of this strong domestic demand is the deterioration of the trade deficit, which is at its highest level since 2007.

GDP is set to reach its 2019 level by mid-2021



Source: BEA, SG Economic and sector studies

Restrictive measures have begun to ease



Source: Oxford University

Economic growth should remain very dynamic and GDP should catch up with its pre-pandemic trend level already in 2021, as the vaccination plan advances and the various support measures implemented and to come allow a significant rebound in domestic demand. Indeed, households and companies are emerging from this crisis with relatively strong balance sheets. The surplus of household savings, resulting from the increase in income and the restrictions on consumption linked to the health measures, is estimated at $2 200 bn (8.6% of GDP). The savings surplus is expected to continue to grow as a result of the Biden administration's new support package, which includes $1 000bn in transfers to households in the form of unemployment benefits, family allowances and household checks.

On the corporate side, profits recovered rapidly thanks to government subsidies ($600bn in guaranteed loans), while the new support plan provides for $150bn in additional aid to companies and $450bn to local authorities for investment needs, among other things. Thus, the gradual lifting of health restrictions should result in a strong recovery in consumption and investment. In total, GDP is forecast to grow by 6.7% in 2021 and 3.8% in 2022. If the health crisis is prolonged, the recovery will be more modest in 2021 with 3.5% growth and 3.2% in 2022.

Main measures of Covid19 relief packages (USD bn)

	CARES act	CRRSA act	ARP
Aid to firms	**611**	**325**	**150**
PPP	600	284	150
Other	11	41	
Aid to households	**832**	**337**	**1000**
Unemployment benefits	500	120	400
One time checks & child tax credit	290	166	600
Other	42	51	
Education	**32**	**82**	
Healthcare related	**180**	**63**	**400**
Transportation	**72**	**45**	
Support for airline industry	58	18	
Support for other sectors (Amtrack, highway)	14	27	
Tax cuts	**300**	**30**	
Other spending	**25**	**29**	
Capital for Fed programs	510		
Financial aid to local government	150		350
FEMA	45		
Total	**2 757**	**911**	**1 900**

Inflation has risen significantly and is expected to remain elevated through the summer and return close to 2% thereafter. Indeed, inflation rose to 5.0% in May and core inflation reached 3.8%, the highest core level since 2006. This strong inflationary surge reflects on the one hand the recovery of energy prices and frictions in global supply chains. On the other hand, it is the consequence of the strong recovery in the consumption of services after the lifting of health restrictions, which resulted in a very sharp rise in the prices of certain services. For example, the price of car rentals rose by 110% YoY in May, and the price of used cars increased by 30% YoY. Similarly, the price of second home rentals rose by 10% YoY. However, once the base effects have passed, inflation should gradually return to the classic "target" level of 2%. Indeed, even if the stimulus package will push GDP above its potential level, it should not be accompanied by signs of persistent overheating, as most of these measures are temporary and income-substituting in nature during the crisis.

In addition, the labour market should continue to improve gradually, with the participation rate recovering later than activity, which will moderate inflationary pressures. Finally, the more structural elements that have contributed to the moderation of inflation, such as robotisation, globalisation and the decline in the power of unions, are still present.

In this context and within the framework of the new objectives (core inflation averaging 2% over time and maximum employment), the Fed should maintain its monetary policy rate range at 0%-0.25% as well as government securities purchases in 2021. The Fed is set halt its net purchases of securities in early 2022, once the economy and especially the recovery in employment are well underway. The first increase in the monetary policy range would occur in 2023.

The Biden administration has presented two plans to increase public spending, one in the area of infrastructure and energy transition amounting to $2 250bn, the other in the area of social protection for households amounting to $1 800bn. To finance these plans, the Biden administration has also proposed tax reform for businesses and high-income households. The corporate tax reform consists mainly of an increase in the corporate tax rate from 21% to 28%, a 20% rate on book income for companies with revenues over $2bn and a 21% tax on foreign profits. The tax reform for high-income households consists mainly of increasing the tax rate on capital gains on financial assets. Biden's plan is that these tax reforms will be sufficient to finance his infrastructure and social protection plans. The legislative timetable for these plans is longer than that of the Covid plan, however, and it is likely that if they are finally passed, their face value will be lower. Indeed, the Republican Party has already announced its opposition to these reforms, which leaves little room for the Democratic Party to pass these plans.

The main risks are an extension of the health crisis and a sharp correction in the financial markets. The health crisis has subsided since the beginning of the year with a decrease in the number of cases and hospitalisations, and an increase in the rate of vaccination. Nevertheless, in the event of a new significant increase in cases and hospitalisations or the spread of a new strain, it is likely that the new administration will impose more restrictive measures.

The second risk is that of a sharp correction in the bond market. As soon as the size of Biden's support package was announced and energy prices rallied sharply, long-term bond yields rose as markets bet on a return of inflation that could lead the Fed to tighten financial conditions. This correction in the bond markets has also been transmitted to the equity market. The US labour market is currently shaped by significant frictions and job openings are at record highs despite still high unemployment; fast-track decline in unemployment could trigger an abrupt adjustment on yields.

United States	2019	2020	2021f		2022f		2023f	
	Actual	Actual	Central	Ext.	Central	Ext.	Central	Ext.
Real GDP, % YoY	2.2	-3.5	6.7	4.8	3.7	3.2	2.3	2.9
Inflation, %	1.8	1.3	3.5	2.9	2.4	1.6	2.2	2.4
Unemployment, %	3.6	6.8	5.0	5.7	4.2	4.0	3.5	3.9
Fiscal balance, % GDP	-6.7	-15.7	-16.6	-21.0	-8.2	-8.6	-5.8	-6.4
Public debt, % GDP	80	103	109	112	111	116	114	120

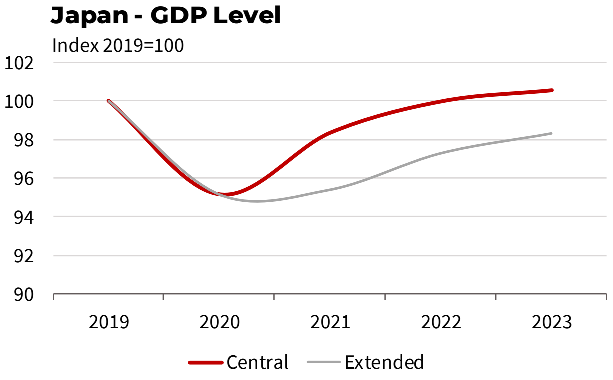
Central = Central scenario
Ext. = Extended health crisis scenario

JAPAN

- **Economic recovery delayed again due to a fourth wave of the pandemic.**
- **Inflation remains negative.**
- **The considerable fiscal stimulus of 2020 will see its impact staggered over time, with public debt rising.**

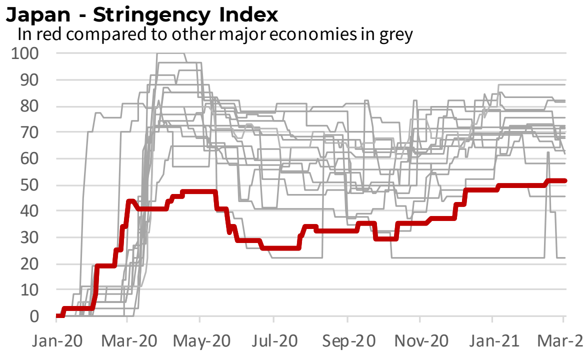
The economy is affected by the third wave at the beginning of the year and by the fourth wave of Covid19 in 2Q21. The inherent uncertainties of the pandemic, as well as a very late vaccination campaign, are hampering economic recovery. As a result, Japan is set to experience more moderate growth in 2021 than previously expected.

A delayed recovery



Source: SG Economic and Sector Research

Higher stringency due to the fourth wave



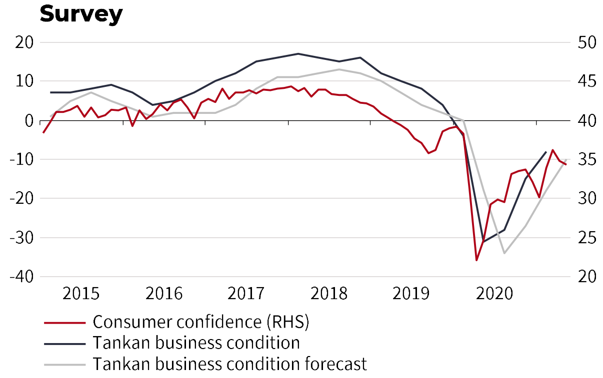
Source: University of Oxford

A state of emergency has been reintroduced in the face of a fourth wave of the pandemic, the second of the year. It has been extended to 20 June instead of ending in May as initially planned. In addition to a very late vaccination campaign (doses injected to less than 10% of the population, lower than those of Malaysia and Indonesia), the sanitary uncertainties continue to leave their mark on the vigour of the recovery.

Household confidence recovered slightly between the third and fourth waves, which turned out to be temporary. Moreover, it remains low. Until a critical threshold of collective immunity is reached, an unimpeded rise in household confidence is unlikely. Despite excess savings estimated at over 5% of GDP, consumption continues to follow a bumpy recovery.

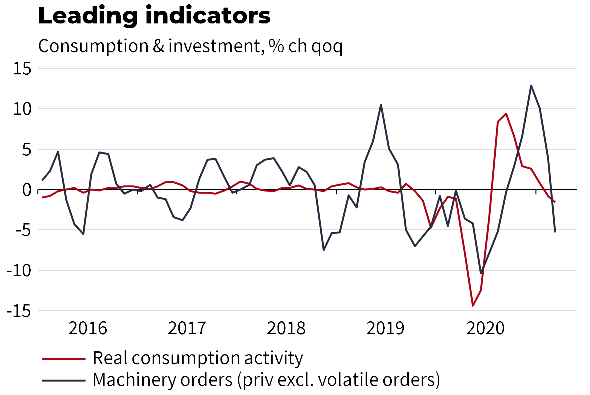
On the business side, the latest Tankan surveys did not take into account the occurrence of the fourth wave. Although it indicated an improvement in the perception of the business environment, the indices remain below zero - indicating that the economic environment is considered more unfavourable by businesses. The anaemic state of domestic machinery orders in Q1 does not seem to presage a rebound in investment intentions.

Low confidence of economic actors…



Source: BoJ, Ministry of Finance, SG Economic and Sector Studies

…impacts the economic activity



Source: Cabinet office, SG Economic and Sector Studies

The difficulty of raising inflation is even more present in such a context of low confidence. Japan's aging society has a history of deflation. If household perceptions do not improve because of a prolonged health crisis, their consumption levels will return to normal very slowly. Investment will then be impacted, and the reflation objective becomes even more difficult to achieve. Inflation was indeed negative during the first four months of the year. Even if it should finally increase during the rest of the year due to a (very) partial transmission of the rise in international prices linked to commodities and supply chain frictions, it will remain low.

Faced with such a risk, the fiscal stimulus effort is considerable, and part of the stimulus of 2020 should be extended in 2021 and will benefit the recovery in this uncertain environment. The Japanese government has not hesitated to announce an additional stimulus package of JPY73.6tn (13% of GDP) in December 2020. The “mamizu” - actual spending - of all announced plans would be incremented to 15% of GDP. On the one hand, the implementation of the measures may take time, on the other hand, some measures are planned for a horizon going beyond March 2021 - end of the fiscal year, so we do not envisage a strong reduction of fiscal support in 2021.

On the monetary side, the objective of maintaining extremely favourable financing conditions has not changed despite some tweaks in the application of monetary policy since March 2021. The BoJ continues to target short (-0.1%) and long rates (0%). But it allows itself greater freedom in conduct by communicating a fluctuation band for 10-year rates at +/- 0.25%.

Finally, with the debt-to-GDP ratio approaching 260% of GDP, the question of debt sustainability arises, even more so as the inflation remains low. Even if the cost of financing public debt is kept extremely low with the vast majority (90%) of debt held by domestic investors including the BoJ, the repeated slippage in the fiscal consolidation schedule could ultimately affect investors' perception of risk.

"Above the line" fiscal measures	Size JPY tn
Cash payment for SMEs, self-employed individuals, and furloughed employee	7.1
Cash payment for households (JPY 100,000 for all residents)	12.8
Rental subsidies for corporates	2.0
Spending on medical system	7.3
Spending on public facilities	4.7
Miscellaneous spending on structural improvement	10.7
Lending facility for corporates	11.6
Go-to campaign which will subsidize people's travel expenses and tickets for entertainment events	2.7
Reserves for future prevention of virus outbreak	10.0
Program of digitalisation and carbon neutrality	2.8
Measures to improve productivity (help to SMEs, securing supply chains, etc)	2.4
Help to employment and well-being	5.4
Spending on disaster prevention and security	3.1
Total	82.5
%GDP	14.8%

Japan	2019	2020	2021f		2022f		2023f	
	Actual	Actual	Central	Ext.	Central	Ext.	Central	Ext.
Real GDP, % YoY	0.0	-4.7	2.7	0.3	2.3	1.6	0.8	1.7
Inflation, %	0.5	0.0	0.5	0.3	0.8	0.1	0.6	0.7
Unemployment, %	2.3	2.8	2.8	2.9	2.7	2.9	2.7	2.9
Fiscal balance, % GDP	-3.1	-12.6	-8.0	-11.0	-3.3	-5.5	-3.0	-2.5
Public debt, % GDP	235	256	263	267	264	272	266	272

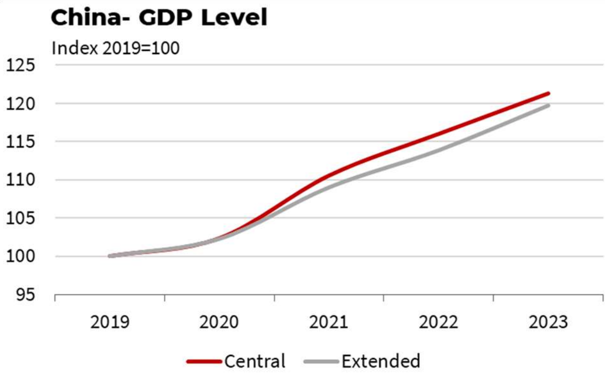
Central = Central scenario
Ext. = Extended health crisis scenario

CHINA

- **The economy is expected to lose steam from 2H21.**
- **The policy mix has shifted to de-risking.**
- **The credit risk tends to increase, which could lead to episodic tensions on the interbank market.**

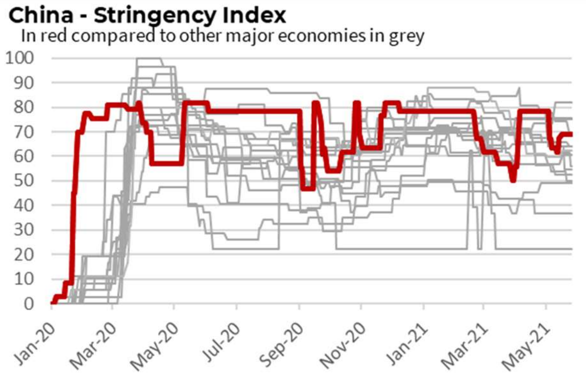
The strength of the recovery will subside in the second half of 2021, due to the normalisation of economic policies. Growth will gradually return to its long-term trend in the following years.

Deeper loss in GDP in extended crisis would require more stimulus



Source: SG Economic and Sector Research

Little impact on social and economic life despite high stringency index

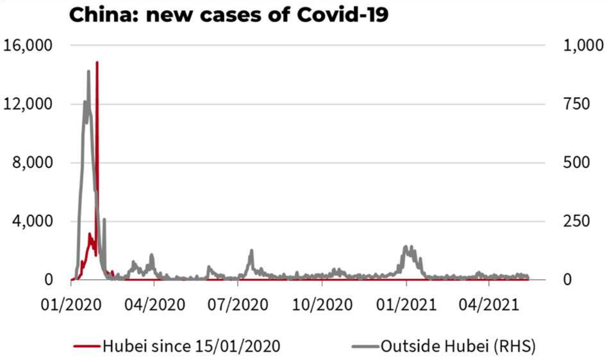


Source: University of Oxford

The pandemic is under control and vaccination has gained momentum. The number of doses injected has reached 40% of the population compared to less than 10% at the beginning of April. The country continues to practice a policy based on the elimination of sources of contamination, which maintains economic and social activity. Therefore, although slight disruptions are possible due to the temporary increase in Covid19 cases, activity can quickly resume.

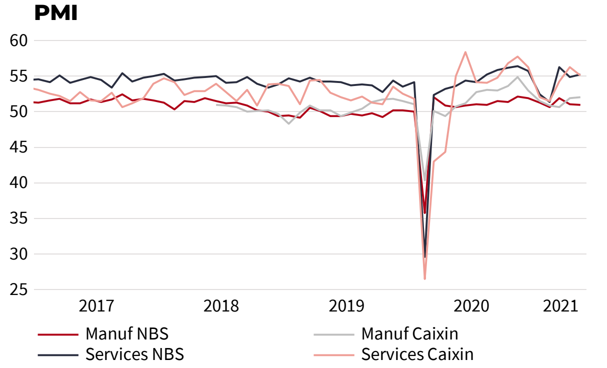
The focus of economic policy has definitely shifted from supporting growth to reducing debt risk. This shift, which is already underway, will slow the economic momentum in the short term. This cautious stance is nonetheless conducive to more sustainable growth. This is reflected in a fairly significant slowdown in growth as of 2H21, in favour of greater stability in the medium term.

Strict control of Covid19



Source: NHC, SG Economic and Sector Studies

Activity rather well oriented



Source: NBS, Caixin, SG Economic and Sector Studies

Fiscal measures	Size CNY/bn
2020	
Special local government bonds	3500
Special central government bonds	1000
Increases in general government spending and social security outlays*	600
Reduction in social security charges and tax*	1500
Total	6600
%GDP	6.5%
2021	
Special local government bonds	3650
Increases in general government spending and social security outlays*	600
Reduction in social security charges and tax*	500
Total	4750
% GDP	4.3%

* estimated by SG Economic and Sector Studies, net from automatic stabilisers

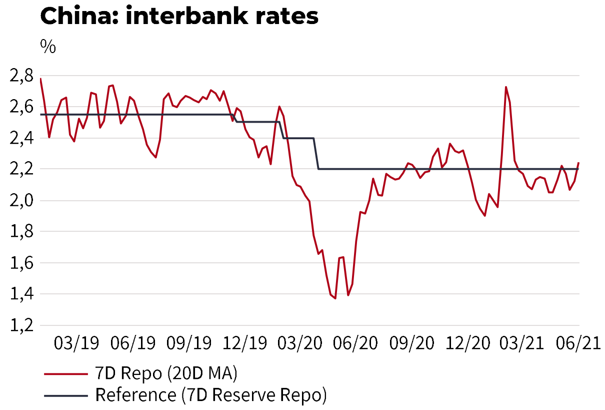
The PBoC raised the interbank rate early on, starting in June 2020. A deceleration in credit growth took place from November 2020. This credit cycle has thus become the most moderate and shortest since the 2008 financial crisis. Typically, the peak in credit growth precedes the peak in nominal growth of the economy by 2 or 3 quarters. As a result, under the reduced monetary stimulus, growth is expected to slow from the second half of 2021.

On the fiscal side, the same trend has been announced. In 2020, first the realised deficit was about 2 points below the budgeted deficit. Then the amount allocated to local government special bond issues (equivalent to 3.7% of GDP, intended for infrastructure investment) was 93% utilised, with 250 billion yuan not issued.

In 2021, we estimate a negative fiscal impulse of about 2 points of GDP, a gradual withdrawal of fiscal support. Although the projected amount of local government special obligations remains high, at CNY 3 650bn yuan compared to 3 500bn yuan in 2020, it is withdrawals of tax cuts and other fiscal burdens that mainly contribute to the normalisation of fiscal policy.

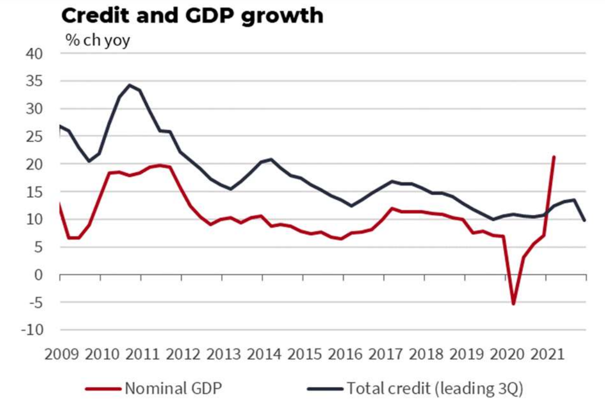
Smaller fiscal measures combined with better growth in 2021 will benefit a clear fiscal consolidation - favourable to public debt sustainability. Before the fiscal deficit is adjusted downward to about 3% of GDP (as is often the case) through the transfer from the adjustment fund, the decline in the deficit (before the adjustment) is estimated by the government to be only 1.6 points of GDP. In reality, the fiscal consolidation would be much larger. The "A" in debt risk reduction is already defined. In addition, external demand remains strong, providing a favourable environment to pursue such a goal. The initial CNY 3 650bn quota of special local government bonds would be unlikely to be fully utilised.

Normalisation of interbank rates



Source: PBoC, SG Economic and Sector Studies

Credit cycle is going down



Source: NBS, PBoC, SG Economic and Sector Studies

As support measures are normalised in this already highly leveraged economy (280% of GDP), credit risk will re-emerge, especially since there is some tolerance for it. The interbank market could experience increased volatility as a result of a concentration of credit events, a situation that the central bank and other regulators will be watching closely to control liquidity risk as well as systemic risk.

China	2019	2020	2021f		2022f		2023f	
	Actual	Actual	Central	Ext.	Central	Ext.	Central	Ext.
Real GDP, % YoY	6.0	2.3	8.0	6.6	4.9	4.5	4.6	5.2
Inflation, %	2.9	2.5	1.4	1.2	2.3	1.5	2.3	2.4
Current account, % GDP	0.7	1.9	1.4	1.5	1.5	1.5	1.3	1.3
Fiscal balance, % GDP	-3.1	-4.2	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8
Public debt, % GDP	38.6	46	44	45	44	45	44	45

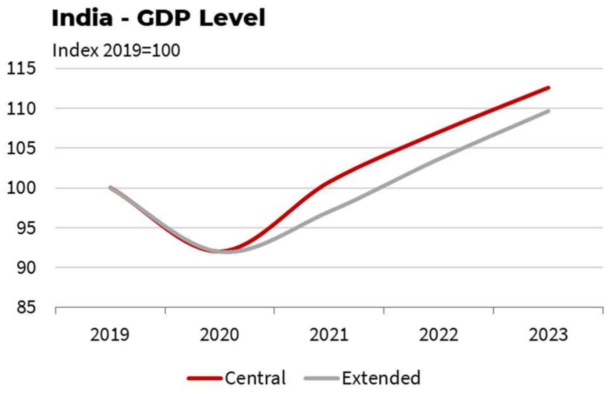
Central = Central scenario
Ext. = Extended health crisis scenario

INDIA

- **The recovery is hampered by a sharp deterioration in the pandemic control.**
- **The fiscal space is very limited, the transmission of monetary policy partial.**
- **The financial system remains vulnerable despite the respite provided by the moratorium.**

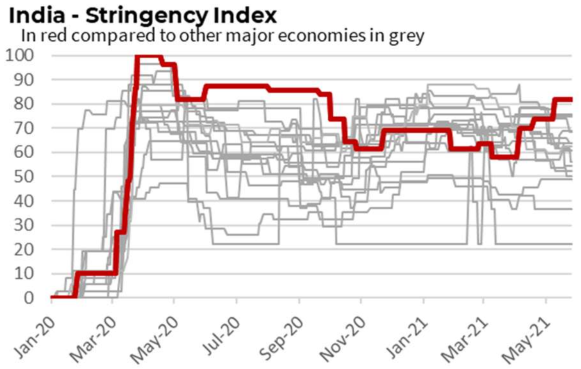
The economic recovery is hampered by a sharp deterioration in the health situation in the country and economic growth has been revised downward in 2021 with reduced vigour in activity. Once the uncertainties associated with the pandemic fade, activity should normalize and its dynamics converge towards a long-term trend, weakened by structural problems.

Growth expected to weaken after recovery



Source: SG Economic and Sector Research

More infections, higher stringency



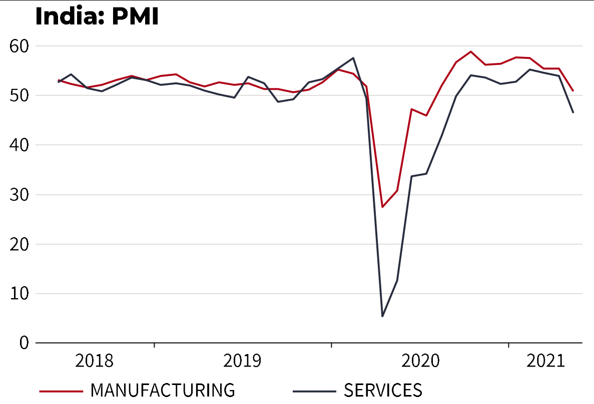
Source: University of Oxford

After a temporary respite, Covid19 contaminations have multiplied again from April, with increased vital severity. The vaccination campaign has progressed. The number of injected doses represents almost 15% of the population - a rate which, however, remains low to reach a herd immunity threshold. In addition, there is a risk of insufficient vaccine production. Uncertainties weigh on the outlook for recovery.

This ebb of contamination is certainly a blow to an economy whose vulnerabilities may worsen, undermining growth potential.

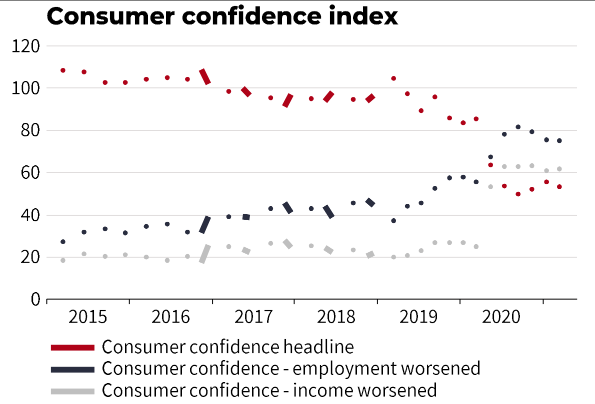
First, household confidence is low. This probably reflects a sluggish labour market. 75% of respondents to the RBI's Confidence Survey still believe their employment situation is deteriorating and 60% say their income is lower. This deterioration over time is a brake on a return to normal consumption when the health situation improves.

The recovery is unsettled



Source: RBI, SG Economic and Sector Studies

Consumer confidence remains weak



Source: RBI, Central Statistics Office, SG Economic and Sector Studies

Then, structural problems continue to limit the ability of economic policies to support growth.

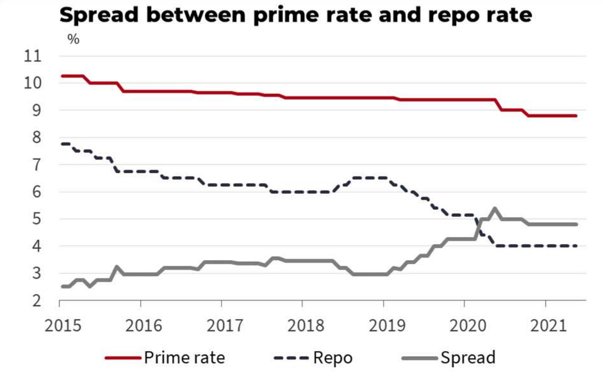
First, the government's leeway to stimulate the economy is eroded with a public debt ratio approaching 90% of GDP. The 2020 stimulus plan is in fact not very ambitious (less than 3% of GDP in real expenditure) while GDP contracted by 24% in Q2 2020. The budget for the fiscal year 2021-2022 forecasts 1% increase for expenses but a 15% increase for income. This implicit reduction of the fiscal deficit to 6.8% seems difficult to achieve given the weakened economic dynamics. Public finances would then be even more constrained.

"Above the line" fiscal measures	Size* INR/bn
March Stimulus mainly based on Pradhan Mantri Garib Kalyan Package (support to low-income households, e.g. in-kind or cash payment)	910
EPF (Employment Provident Fund) liquidity relief (paid by the government for 6 months) and statutory contribution rate reduction	93
A reduction of 25% of existing rates of Tax Deducted at Source (TDS) & Tax Collection at Sources (TCS)	500
Food distribution for migrants (benefiting 80m migrants)	35
Proposal under Compensatory Afforestation Fund Management and Planning Authority (CAMPA) funds to provide employment to tribal people	60
Investment in agriculture	150
Investment in 8 critical sectors (coal, mineral production, defence, airspace, social infrastructure, power distribution, space and atomic energy)	481
Additional public investment	370
Production linked incentive scheme targeting 13 priority sectors (spending over 5 years)	1479
Raise in fertilizer subsidies	555
Support for urban housing construction	185
Total	4818
%GDP	2.6%

*estimated actual fiscal spending

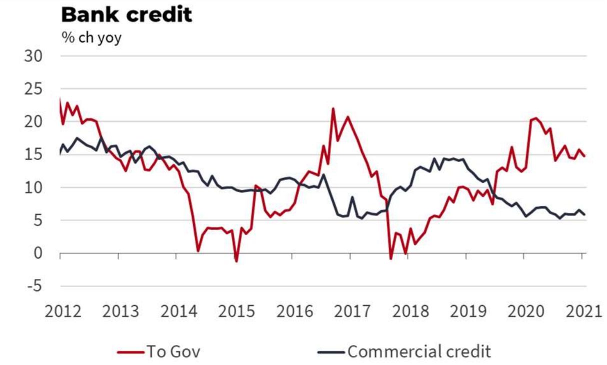
Second, the financial system remains vulnerable, and the transmission of monetary easing is therefore very partial. The country has already experienced a series of failures in financial institutions before the health crisis. Indian banks have a non-performing loan (NPL) ratio of 8% in Q4 2020. But this ratio, according to the RBI, is set to increase to 13.5% in September 2021 once the impact of the crisis truly materialised. Public banks, representing 60% of the country's banking assets, are said to have an even higher NPL ratio. Non-performing assets weigh on the ability of banks to lend to the economy, not only in terms of cost with interest rate inertia while the key rate has fallen; it is also in terms of quantity with growth in credit to the non-governmental sector which has been decelerating since 2019. Moreover in 2021, the risk of a more rapid increase in consumer prices is tilted upwards, through the import channel, limiting the RBI's monetary space.

Very partial transmission of monetary policy



Source: RBI, SG Economic and Sector Research

Weak growth in credit



Source: RBI, SG Economic and Sector Research

India	2019	2020	2021f		2022f		2023f	
	Actual	Actual	Central	Ext.	Central	Ext.	Central	Ext.
Real GDP, % YoY	4.1	-8.0	9.5	5.5	6.2	6.8	5.2	5.8
Inflation, %	4.8	6.2	4.9	4.7	4.1	4.2	4.0	4.0
Current account, % GDP	-0.9	1.0	-1.2	-0.5	-1.6	-1.8	-1.7	-1.8
Fiscal balance, % GDP	-7.4	-12.3	-10.0	-12.0	-9.1	-8.5	-8.4	-8.0
Public debt, % GDP	74	90	87	90	86	90	86	90

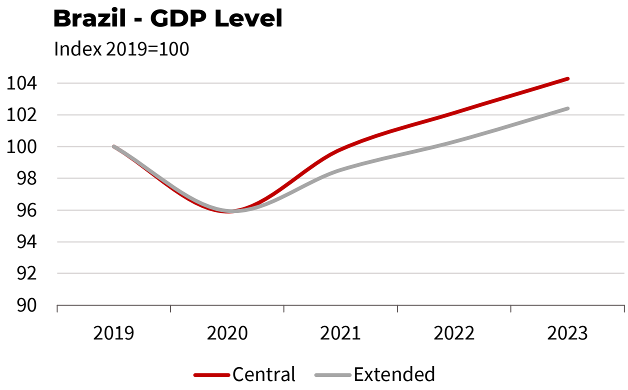
Central = Central scenario
Ext. = Extended health crisis scenario

BRAZIL

- **Activity is recovering, supported by large fiscal transfers and external demand.**
- **The BCB has begun to tighten monetary policy in response to the sharp acceleration in inflation.**
- **The main risk is a disorderly fiscal adjustment as debt parameters have deteriorated given the rise of local rates.**

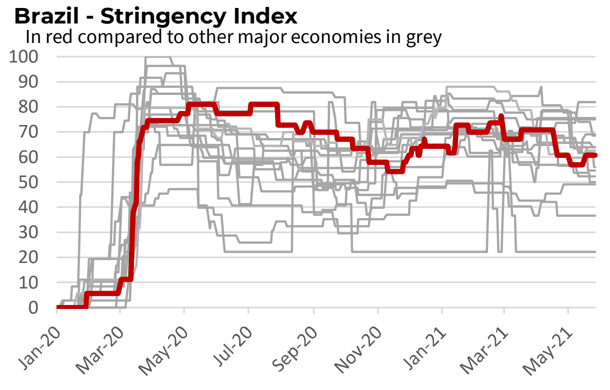
The economy is rebounding from the shock with strong fiscal support and resilient external demand. Real GDP accelerated by 1.2% QoQ (-2.3% in YoY) in 1Q21 with capital expenditures remaining dynamic. The latter increased by 4.6% QoQ (17% in YoY) returning to its highest level since the 2014 crisis. Overall, investment is expected to remain buoyant in the coming months amid a strong improvement in terms of trade and favourable financial conditions. However, the recovery in investment, excluding the commodities sector, is expected to be more moderate in an environment of significant overcapacity in some sectors and strong political and regulatory uncertainties. Private consumption stagnated in 1Q21 against the backdrop of declining government transfers and worsening health conditions that led some local governors to impose restrictive measures.

The economy is set to return to its pre-crisis level by the end of year



Sources: IBGE, SG Economic and sector studies

The number of sanitary restrictions remains relatively high



Source: Oxford University

After a contraction of 4.1% in 2020, the economy is expected to grow by 4.1% in 2021 and 2.3% in 2022. Private consumption should gradually converge throughout 2021 to its pre-crisis level as fiscal transfers fade and the labour market gradually recovers. External demand will continue to support growth, benefiting from strong demand for primary goods from Asia. In the event of an extended health crisis, the government is unlikely to adopt containment measures. Despite being one of the countries most affected by the Covid19 crisis, the federal government has not implemented any major social distancing measures and has announced that its main health policy is vaccination. In this regard, the worsening of the health crisis is expected to affect the Brazilian economy through external and financial channels: major containment measures in Europe and the United States would likely weigh on the country's exports. in the case of a prolonged health crisis, GDP growth would only reach 1.8% in 2021 and 2.1% in 2022, penalised by a less buoyant global context and higher uncertainty

The inflation outlook has deteriorated significantly over the past three months, amidst a sharp rise in commodity prices and administrative price adjustments. Inflation rose sharply from 4.5% in February to 6.8% in April, above the 3.75% target. Much of this inflationary pressure reflects the sharp rise in food prices (+13% in April) but also the recovery in transport (+11) and housing (+5.5%) prices. Given this strong acceleration, the BCB decided to raise its key rate by 150 bps since February to 3.5% and is expected to continue the tightening cycle in the coming months. Nevertheless, the less volatile components of the consumer basket and services continue to show stability. Indeed, services inflation is still at low levels (1.5% in April) while non-tradable goods inflation is at 2.1%. Thus, given that demand pressures are expected to remain subdued in the coming months (unemployment is very high while real wage growth remains stagnant), the weak exchange rate pass-through to prices, and the BCB's prompt monetary tightening, inflation is expected to gradually move back towards the central bank's target from the second half of the year.

"Above the line" fiscal measures	Size R$/bn
Health expenditures	2
Transfers to unemployed or informal workers of BRL 600 per month until July	45
13th salary for retires	46
Salary bonus allowance	12.8
Withdrawals from mandatory saving (FGTS)	41.5
Increase of Bolsa Familia	2
Temporary increase of unemployment insurance	10
Continuous cash benefits	5
Tax deferrals for companies	36
Transfers to states	80
Credit guarantees	319
Total	599.3

The main risk to the outlook is a disorderly fiscal adjustment. Given the depth of the recession and the scale of the fiscal stimulus implemented, public debt increased from 74% of GDP in 2019 to 90 percent in April 2021. Interest rates on public debt in BRL have remained contained and the depreciation of the currency has had little effect on the overall weight of public debt, as most borrowing is in local currency. The measures that have been taken are set to expire in early 2021, and the "golden fiscal rule" (growth in primary spending cannot exceed the previous year's inflation) is expected to be more binding in 2021. The authorities have issued shorter-term debt to finance the fiscal stimulus, which has shortened the maturity of the debt and weakened its profile. A more sustained return to inflation could trigger a rise in local currency rates, tightening credit conditions and forcing the government to adopt a larger fiscal adjustment. The expansionary fiscal policy has allowed the government to increase its popularity level in 2020 despite the recession and the health crisis. As a result, there is a risk that President Bolsonaro's government will not comply with the fiscal rule in 2021 in the run-up to the 2022 general elections, which would imply a further deterioration of the fiscal accounts. Finally, the continuing political crisis that has led to the departure of "pro-market" members of the federal cabinet could also lead to greater uncertainty in the financial markets.

Brazil	2019	2020	2021f		2022f		2023f	
	Actual	Actual	Central	Ext.	Central	Ext.	Central	Ext.
Real GDP, % YoY	1.1	-4.1	4.1	2.7	2.3	1.8	2.1	2.1
Inflation, %	3.6	3.2	6.7	3.4	4.0	3.4	3.3	3.3
Current account, % GDP	-2.6	-1.7	-0.3	0.5	-0.8	-0.2	-1.5	-1.0
Fiscal balance, % GDP	-6.0	-13.7	-7.5	-10.0	-7.0	-8.0	-6.0	-5.5
Public debt, % GDP	77	89	89	93	91	96	110	98

Central = Central scenario
Ext. = Extended health crisis scenario

RUSSIA

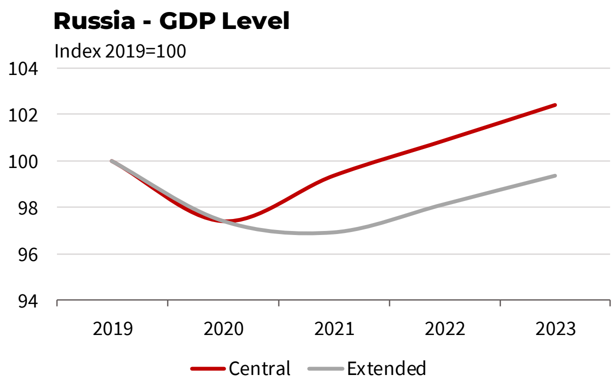
- **The economy is gradually recovering thanks to the service sector dynamics. This makes it an outlier when compared to other major emerging market economies mainly benefiting from exports.**
- **Inflation continues to accelerate and has printed its highest level since 2016. This makes Russia one of the few countries implementing policy rates hikes.**
- **Lifting growth potential will remain a topic for the administration as signalled by the revamp of the National Projects program earlier this year ahead of the September parliamentary elections.**

We expect a very limited economic rebound in 2021 as the policy mix is becoming more restrictive. That being said, the driver of the recovery in 2021 will be the rebound in household spending. Private consumption contracted by 8.5% in 2020 owing primarily to restrictions on economic activity. Household finances will remain stretched in 2021 and we expect household consumption to return to pre-pandemic levels only in 2022. Structural constraints and the withdrawal of government support will provide a further drag on growth.

Fixed investment will be supported by a higher oil price. However, Russia being part of the OPEC+ deal, output curbs are set to remain in place until at least April 2022, which will partly constrain growth in oil revenue. This, coupled with the slow progress of the National Projects program, means that fixed investment will grow moderately in 2021, following a fall of 4.5% in 2020.

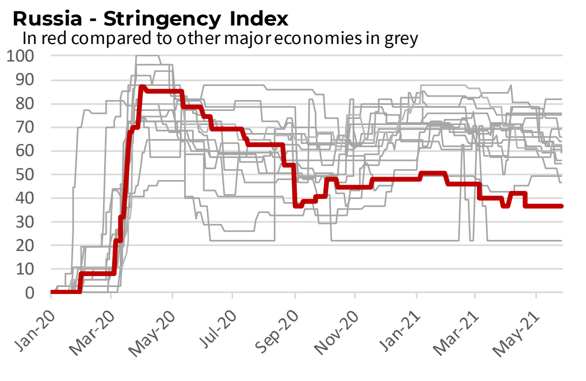
In 2022 economic growth will slow to 1.5%, held back by continued fiscal austerity policies. Europe's recovery will be protracted, and we expect crude oil prices to decline as global supply should increase. In the medium term we keep our forecast at 1.5% as a potential growth rate. This could however change, depending on the speed and efficiency of the implementation of the National Projects program.

Growth rebound will be limited



Source: SG Economic and Sector Studies, Refinitiv

...despite confinement measures being considerably relaxed



Source: University of Oxford

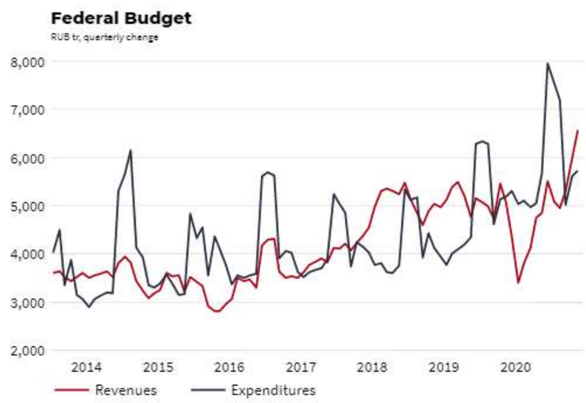
Measures adopted RUB/bn

Expenditures directly related to the Covid crisis: household support	750
Spending on "national projects": infrastructure	1 370
Spending on "national projects": promotion of import substitution strategy	1 050
Recapitalization of the public bank VEB	209
Other measures	771
Total	5 000
% of GDP (2019)	4.5%

We expect annual inflation to average above 5% in 2021. After averaging 3.4% in 2020, inflation accelerated markedly in early 2021, reaching 6% in May. Inflation is likely to decelerate in the second half of the year as the impact of the initial consumer spending recovery should abate after the reopening of the economy. The ruble appreciation is supported by higher global oil prices and is likely to contribute to the disinflationary path, We expect inflation to remain close to the CBR's 4% target in 2022-25, given weak consumer demand and an expected stable ruble in a context of stable oil prices.

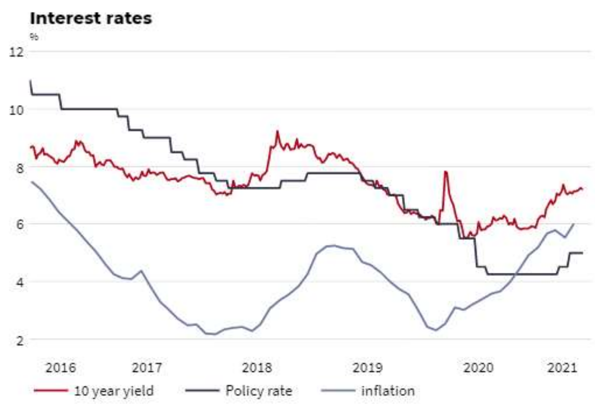
In the medium term the government strategy continues to rely on the major projects that were announced in 2018. This is a strategic plan targeting thirteen different sectors (including health, education, infrastructure, ecology, demography ...) to increase the country's growth potential. It represents public investments of about 20% over a period of six years. Since their announcement, however, implementation has been very limited. Earlier this year, the government announced a revamp of the program after most of projects were stopped in 2020 with the Covid19 crisis.

Fiscal stance starting to be more restrictive in 2021...



Source: SG Economic and Sector Studies, Refinitiv

...while real interest rates remain high and weigh on the ability to invest.



Source: SG Economic and Sector Studies, Refinitiv

International relations remain marked by the US stance on Russia. Last April, the Biden administration barred US banks from purchasing newly issued Russian government debt. The limits on debt purchases, which apply to bonds issued by the Russian government after June 14 had limited effect so far on funding costs. On the domestic front, parliamentary elections are expected to take place in September.

Russia	**2019**	**2020**	**2021f**		**2022f**		**2023f**	
	Actual	Actual	Central	Ext.	Central	Ext.	Central	Ext.
Real GDP, % YoY	1.8	-2.6	2.0	-0.5	1.5	1.2	1.5	1.2
Inflation, %	4.5	3.5	4.5	5.9	4.0	4.0	4.0	4.0
Current account, % GDP	3.8	2.0	3.0	1.5	2.5	2.0	2.5	3.1
Fiscal balance, % GDP	1.9	-4.1	-0.7	-3.5	-0.5	-3.0	-0.5	-1.0
Public debt, % GDP	14	19	19	22	19	23	18	23

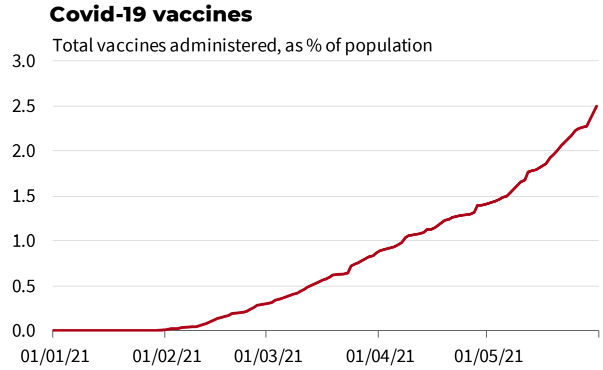
Central = Central scenario
Ext. = Extended health crisis scenario

AFRICA

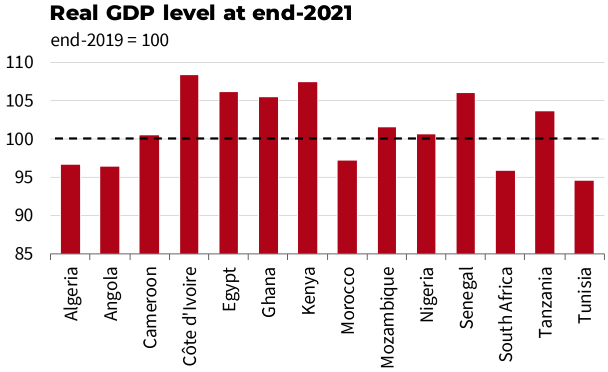
- **Currently, around 2.5% of the African population has received a first dose of the Covid19 vaccine.**
- **Heterogeneity in growth performances will continue and even increase in 2021 and 2022.**
- **Despite unprecedented international financial support, risks to the availability of FX financing remain high.**

While the Covid19 epidemic seems to be relatively under control in the vast majority of countries (except Tunisia and South Africa), attention is now focused on vaccination campaigns that are not very advanced or not at all. Several factors explain this delay: i) the impossibility for most countries to pre-order vaccines (due to already stretched public finances), making Africa dependent on "donations", ii) the importance – at least in Southern and Eastern Africa – of the "South African variant", which seems more resistant to vaccines (apart from mRNA vaccines, which are currently not very present on the continent), and iii) underdeveloped logistical and health systems, which complicate the distribution of vaccines (especially mRNA vaccines). Currently, around 2.5% of the African population has received a first dose, Morocco is the only country on the continent to have vaccinated more than 10% of its population, and vaccination of the majority of the African population does not seem possible before the end of 2022 (at best).

Low vaccination rates



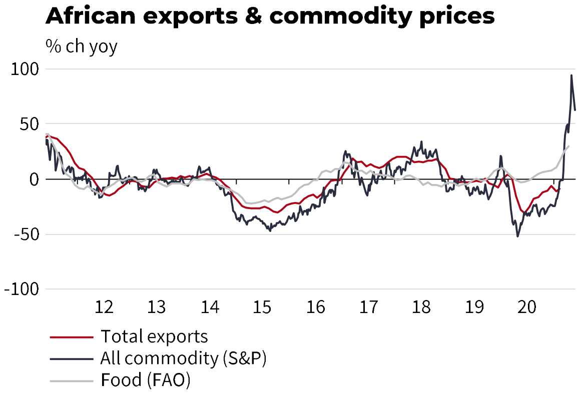
GDP losses that could be hard to recover



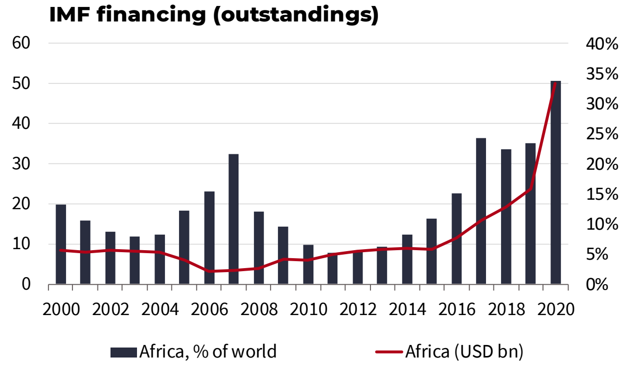
Source: SG Economics & Sector Studies, IMF, Refinitiv

In addition to potential global repercussions (a less-vaccinated region being more favourable to the appearance of a possible new variant), this delay in vaccination campaigns is also weighing on the already relatively weak/fragile prospects for economic recovery. For example, the countries most affected by the pandemic and/or having maintained restrictive measures to combat it (border closures, etc.) – **Tunisia, South Africa, Morocco** – were still experiencing strong recessions in Q4-20 (around -5% YoY). These potential "stop-and-go" cycles are likely to reinforce the strong heterogeneity in growth performances. The real GDPs forecast for the end of 2021 will thus be barely equivalent to (or even lower than) those of end-2019 in most countries dependent on tourism (**Morocco, Tunisia**), hydrocarbons (**Algeria, Nigeria, Angola, Central Africa**) or in **South Africa**. On the contrary, the more diversified economies (**Côte d'Ivoire, Ghana, Senegal, Kenya, Egypt**) would record at end-2021 real GDP levels 6% to 8% higher than at end-2019.

Rise in commodity prices must be monitored



Unprecedented international financial support



Source: SG Economics & Sector Studies, IMF, World Bank, Refinitiv

There are two main risks to watch out for in the coming quarters. First, a rise in commodity prices, which could certainly benefit African exports (2/3 of which are unprocessed products) but could also fuel inflationary pressures via food prices. These tensions, which have already been detected in **Angola**, **Nigeria** and **Algeria** (countries also suffering from depreciating currencies) but also (to a lesser extent) in **Côte d'Ivoire** and **Mozambique**, could in turn lead to new social unrest (cf. the "food riots" linked to the Arab Spring in mid-2011). Second, the region's foreign currency financing needs remain very high, in the order of USD 150 billion per year. To these "as is" needs could be added nearly USD 300bn by 2025, which the IMF says is needed "to sustainably end the pandemic and boost growth in Africa". These needs will be difficult to cover, with potential repercussions in terms of growth (if the region's structural current account deficit has to be reduced) and/or public finances (if debt service has to be reduced, potentially through further debt restructuring). Reassuringly, Africa can currently count on unprecedented international financial support, as illustrated by, among other things, i) the rapid increase in IMF financing in 2020 to the region (which now accounts for almost 35% of the institution's total outstanding debt), or ii) the recent increase/reallocation of Special Drawing Rights (SDRs) within the IMF, which could increase Africa's foreign exchange reserves by as much as USD 165bn.

LATIN AMERICA

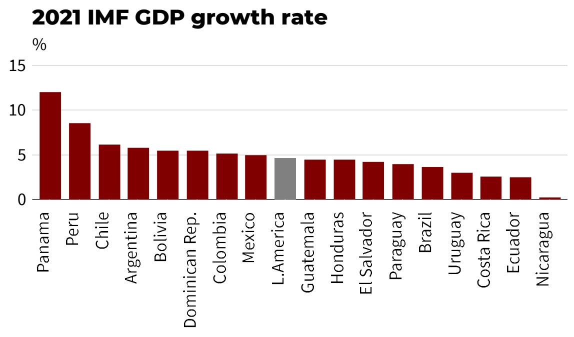
- **Regional growth is expected to recover only partially from the Covid19 shock, supported mainly by external factors.**
- **Inflationary pressures are set to lead central banks to tighten policy moderately.**
- **The risk remains high as the pandemic continues and the region has entered this crisis after a period of low growth.**

After being significantly affected by the economic and health crisis of Covid19, regional growth is expected to recover only gradually. The number of infections and victims is slowly decreasing in most countries of the region and, except for Chile and Uruguay, vaccination campaigns are slow. Thus, the continuation of the health crisis is likely to constrain the recovery of private consumption. Moreover, most governments in the region have low fiscal margins as a result of the crisis, which has even led some of them to implement fiscal adjustment plans. The Covid19 crisis came after a prolonged period of low growth and rising poverty levels, which increased social tensions in many countries in the region. In Colombia, the government's plan to raise taxes to reduce the deficit in the medium term, which has since been withdrawn, was the trigger for major protests.

In this context, external demand should be the main driver of the recovery. Indeed, the recovery in commodity prices (oil, energy, agricultural) should support investment and exports from South American countries. In addition, the very strong recovery of the US economy should benefit the region via the trade channel but also via the channel of migrant remittances. Finally, despite the recent volatility of regional currencies linked to the volatility of US rates, risk premiums on sovereign bonds in foreign currencies remain at low levels.

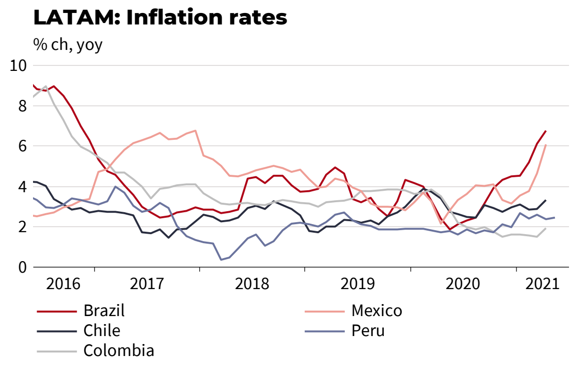
In Brazil, where the health situation remains deteriorated, the contraction of the economy was finally less severe than the regional average (-4%) thanks to the significant fiscal support in 2020 (8% of GDP) and activity should return to its pre-crisis level during 2021. The central bank has started a monetary tightening cycle, raising the reference rate to 3.5% following the significant rise in inflation (6.8% in April). The recovery in 2021 is expected to be supported mainly by the improvement in the terms of trade, which are at their highest level ever, and the extension of some support measures. Overall, the health crisis is expected to prolong the country's period of anaemic growth (1% on average since 2015).

Latin America: Moderate recovery seen



Source: SG Economic and sector studies, Refinitiv

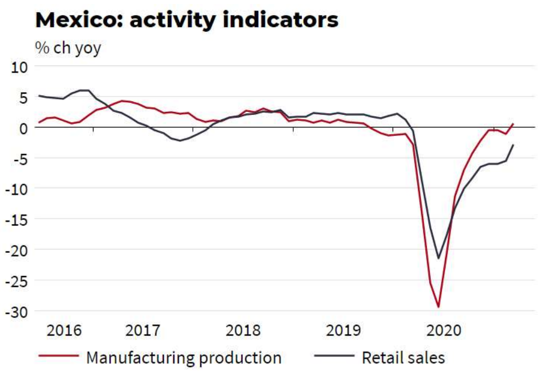
Inflation has accelerated in the main economies



Source: SG Economic and sector studies, Refinitiv

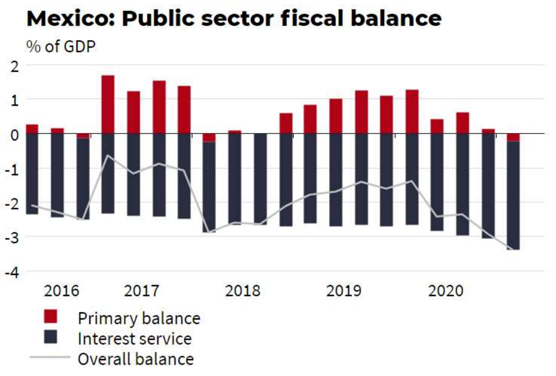
In Mexico, the health situation also remains deteriorated, resulting in an 8.5% contraction in activity. As in Brazil, the Mexican government has not put in place a strict lockdown. Inflation has risen significantly in recent months, from 4.6% in March to 6.1% in April. This increase mainly reflects higher food prices. However, core inflation remains at 4%, just shy of the monetary authority's upper bound. As a result, the central bank decided to keep its benchmark rate at 4%. Mexico has not implemented any fiscal stimulus package and has managed to keep a balanced primary budget balance (0% in Q1-21). In 2021, growth should be driven mainly by the strong recovery of the US economy. Indeed, on the one hand, more than 80% of the country's exports go to the US, which should benefit the recovery of the Mexican industrial sector. On the other hand, Mexico is also benefiting from remittances from migrants (3.5% of GDP in 2020), which should remain high in 2021. Thus, the economy should grow by 5% in 2021 and only return to its pre-crisis level by the end of 2022.

Mexico: modest recovery of economic activity



Source: SG Economic and sector studies, Refinitiv

Mexico: Absent fiscal support



Source: SG Economic and sector studies, Refinitiv

EMERGING ASIA

- **The intra-regional disparity in growth tends to widen due to heterogeneity in pandemic control.**
- **There is still some room for manoeuvring in the policy mix.**
- **Improved external fundamentals help build resilience to volatile capital flows.**

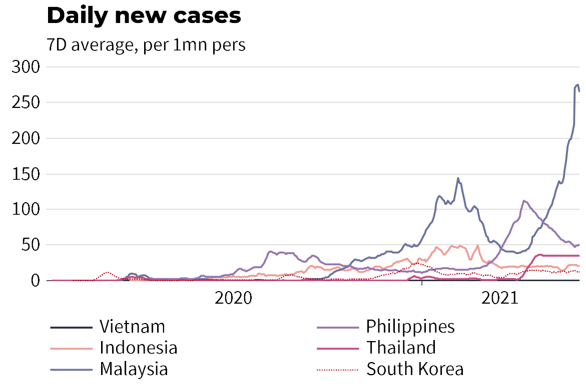
The recovery continues in the region, but the intra-regional disparity tends to widen. The main cause is the heterogeneity of the health situation. The region maintains a more dynamic growth performance compared to the rest of the world.

First, the pandemic has been relatively under control until then in some economies, which have not only experienced a less severe shock, but are recovering relatively quickly. This is the case for South Korea, Taiwan and Vietnam. Economic activity is generally more dynamic there and continues to be relatively well oriented. In Taiwan, Vietnam and South Korea, GDP grew by 8.2%, 4.5% and 1.8% YoY in 1Q21.

The spread of the virus was however stronger in the rest of the region. Although the incidence rate seems to be more controlled in some, the progress of vaccination remains relatively slow. The country with the most injected doses per capita is Indonesia, at just under 10%. The inherent uncertainties then weigh on the strength of the recovery. After recording a decline in activity in 2020 of 2.1%, 5.6% and 9.5%, Indonesia, Malaysia, and the Philippines will have to face obstacles induced by the evolution of the health crisis.

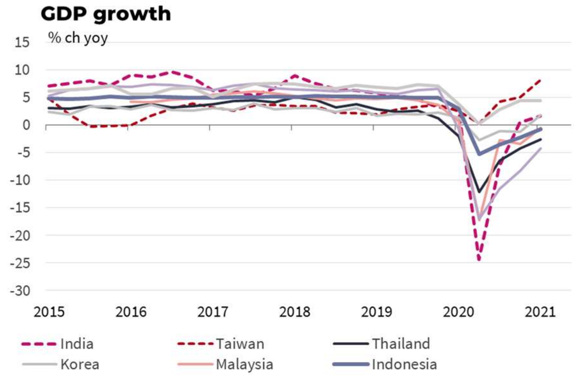
Thailand is one of the countries that should struggle to regain vigour in growth. On the one hand, despite a very low incidence rate of Covid19 during the year 2020 and the beginning of 2021, the country saw its GDP contract by 6.1%, due to an internal political crisis and significant dependence on international tourism. Recently, cases of contamination have resurfaced, reaching unprecedented levels. This has led to a sharp decline in mobility, keeping the conditions of opening to international tourists in a very restricted and strict way.

The Covid19 not totally under control…



Source: Datastream Refinitiv, SG Economic and Sector Studies

… leaving marks on growth



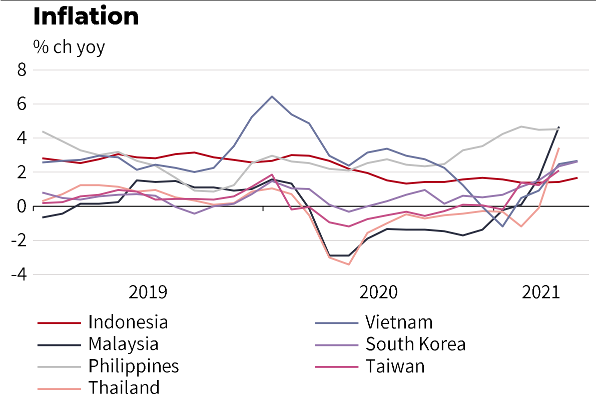
Source: IMF, SG Economic and Sector Studies

The region as a whole has some policy-mix room for manoeuvre, and the external fundamentals have become stronger. This allows it to recover more quickly than other emerging countries in this time of health crisis, and to be more resilient in the event of a more prolonged crisis.

In terms of public finances, all countries will have seen their public debt-to-GDP ratio increase. As the scope for additional stimulus has eroded, it is still possible, especially if fiscal tools with a sufficiently high multiplier are used. Only Malaysia would have public debts approaching 70% of GDP by the end of 2020, while those of the other countries should not, or only slightly, exceed 50%.

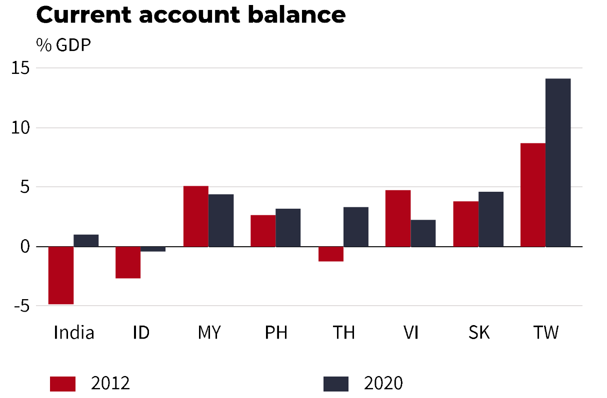
On the monetary side, despite rising inflation in Indonesia, Taiwan and South Korea, it remains below or close to the central banks' target. The latter still has possibility of further monetary easing. However, the higher oil price has a base effect causing inflation to rebound sharply in Thailand and Malaysia, where inflation has exceeded the central bank's target. But this effect is expected to wane during the second half of the year. The spike in inflation is expected to remain temporary and should not constitute upward pressure on rates. In the Philippines, the rise in the price of energy would keep inflation at a high level which has already exceeded the upper limit of the central bank's target since January 2021. In the event of further progress, the central bank would be forced to act, being the one with the least monetary space in the region.

Weak inflation risk



Source: Datastream Refinitiv

Better external position than in 2012



Source: IMF, WEO

Moreover, the region's exports have outperformed the rest of the world, thanks in particular to the specialisation in semiconductors, on the one hand, and better control of the epidemic having preserved the value chain on the other. With the exception of the Philippines and Thailand, the countries' exports have recorded a double-digit growth since the beginning of 2021. The trade balance of surplus countries has increased, and it has decreased for those with a negative balance. Countries have seen their foreign exchange reserves increase substantially. While Taiwan and South Korea have traditionally built up abundant foreign exchange reserves, those of Indonesia - often considered sensitive to fluctuations in foreign capital - have risen by 15% since March 2020; those of the Philippines, due in part to the transfer of remittances, have rebounded by 20% since the epidemic.

This improvement in external fundamentals enables countries in the region to better cope with the next risk of foreign capital reversal, such as the risk of tapering.

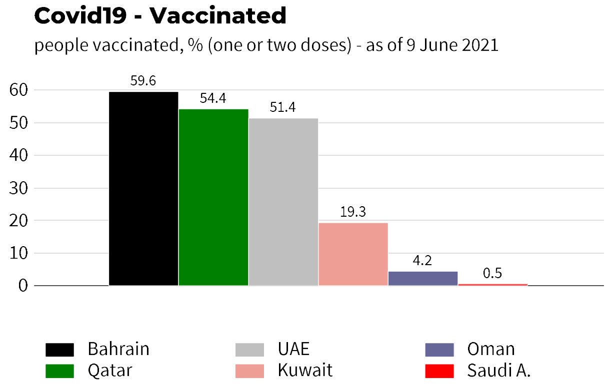
GULF STATES

- **Higher oil prices improve the outlook of fiscal accounts.**
- **The impact of the pandemic continues to weigh on growth prospects.**
- **Saudi Arabia seeks to raise $55bn through privatisation plan.**

Higher oil prices are now easing the blow to the Gulf countries, but the economic fallouts from Covid19-related restrictions remain very present.

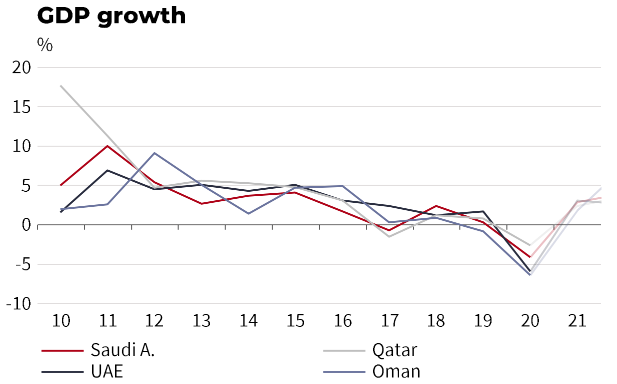
The rapidity of recovery in 2021 is subject to a high degree of uncertainty. Despite external demand increasing, business and travel hubs such as the UAE, continue to experience the consequences to hit the aviation and hospitality sectors. Vaccination programs are being rolled out quickly in the UAE and Bahrain, but the virus is still circulating in the region and restrictions on mobility are preventing activity. Also, weak employment is hurting commerce and the real estate market.

Rapid vaccination campaign in three countries



Source: COVID19 Data Repository by the CSSE at Johns Hopkins University.

Moderate recovery in 2021



Source: FMI, World Economic Outlook

The biggest factor of uncertainty still relates to oil price volatility, as oil and gas revenues still constitute the bulk of budget and export revenues. Brent traded at over $70/b in early June (+75% within a year), allowing for improvements in fundamental economic variables. However, oil futures (and our forecasts) point to lower prices in the medium term as the market recovers slowly and oil supply catches up with demand.

Breakeven oil prices have generally fallen since 2014 with governments trying to diversify fiscal revenues away from oil (through, for example, the introduction of VAT in Saudi Arabia, the United Arab Emirates, Bahrain and this year in Oman) and cutting spending (social transfers and government subsidies). Yet, except for in Qatar and Kuwait, national budgets are likely to remain out of balance over the medium term. Against this backdrop, the region will still have to turn to debt markets in 2021. 2020 marked a new record of international sovereign bond issuances for the region clocking in at $70 bn in 2020. Yet, with the higher oil prices and improving economies, countries will not need to borrow as much in 2021 as they did in 2020.

With oil prices increasing, balance of payments metrics are due to shift as well. The current account balance will remain negative in Oman and Bahrain, with Kuwait and Saudi Arabia moving into positive territory should the higher trading values of oil prices be confirmed in 2021.

The region has long been preparing for medium-term challenges, which the Covid19 crisis renders even more relevant. Saudi Arabia announced programme to raise $55bn over four years through privatisation plan. The plan involves 160 projects over 16 sectors and is part of a broader strategy to diversify the Saudi economy and decrease the government deficit.

The various national economic development plans envisaged by the Gulf monarchies focus on economic modernisation, renewable energy development, and reforms to isolate public income from oil price volatility. However, this transition is not an obstacle-free path, as considerable challenges in the labour market (different treatment of national vs foreign workers, higher salaries in the public than in the private sector) and market regulation (favouring national companies) are often seen as an obstacle to private sector involvement. In the broader context of slowing population growth, UAE authorities announced earlier this year that they intend to change citizenship laws. This would aim to give expatriates (especially those who are highly skilled or wealthy) the ability to gain permanent residence in the UAE.

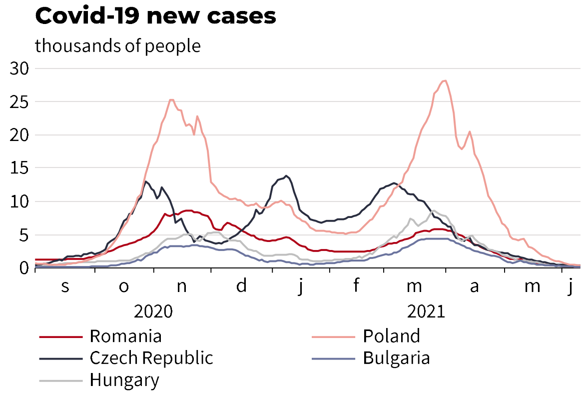
The geopolitical landscape also remains a source of uncertainty. President Biden's administration appears to be distancing itself from Saudi Arabia, in sharp contrast to the close relationship President Trump sought. Relationships seem to be changing in the Middle East overall with Saudi Arabia and Iran now engaging in talks to improve their relationship. The blockade imposed on Qatar since 2017 by its neighbours was lifted on 5 January 2021, against the backdrop of improving diplomatic relations between Qatar and Saudi Arabia. Nevertheless, the UAE and Egypt remain sceptical of Qatar, who has allowed for Turkey to establish a military presence in their country, and thereby increasing its presence in the region.

CENTRAL AND EASTERN EUROPE

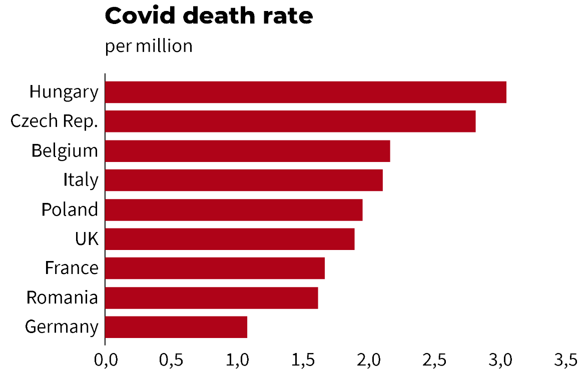
- **The rebound will be limited this year with the resurgence of Covid19 in 1Q21 and to rising inflation, which weighs on domestic demand.**
- **Inflationary pressures result from higher commodity prices, rising shipping costs and tight labour markets, and could lead to earlier monetary policy normalisation.**
- **Beyond 2021, activity is expected to accelerate thanks to faster productivity gains and to EU funds – both structural funds and European recovery fund approved end-2020.**

Economic activity in Central and Eastern Europe remained subdued in 1Q21 with GDP growth still in negative territory on a year-on-year basis. The main reason for this weak performance was another round of lockdowns as the third and worst wave of Covid19 infections gathered pace in March-April 2021. The epidemic accelerated to the point where it overwhelmed the health-care sectors of several countries. In this context, central and eastern European countries posted the highest death rate in Europe, with Hungary and Czech Republic being the most affected. Progress in vaccinations has been relatively slow so far.

After a sharp rise in new cases in March-April 2021, the epidemy is currently slowing down…



… but CEE countries have been hit very hard and post the highest death rates in Europe



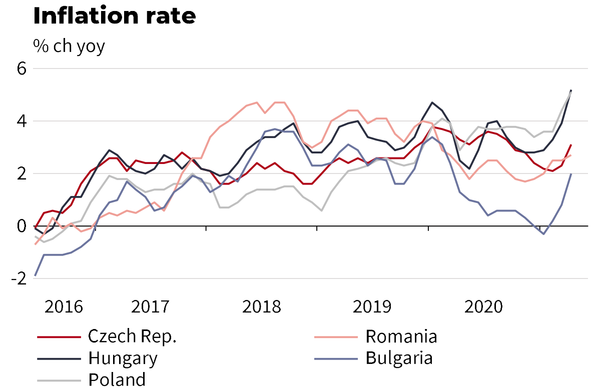
Source: SG Economics & Sector Studies, Refinitiv

Since April-May 2021, new cases have been on a sharp downward trend in the region and lockdowns have been gradually lifted. In this context, GDP growth has started to accelerate. On the demand side, the region has benefited from the strength of international trade, thanks to an export sector that is well integrated into global value chains. Investment has also rebounded while private consumption has been on a slower footing. On the supply side, industrial production has also sharply rebounded since March 2021. Retail sales have been lagging behind especially in Czech Republic and Hungary where the third wave of Covid19 was more acute.

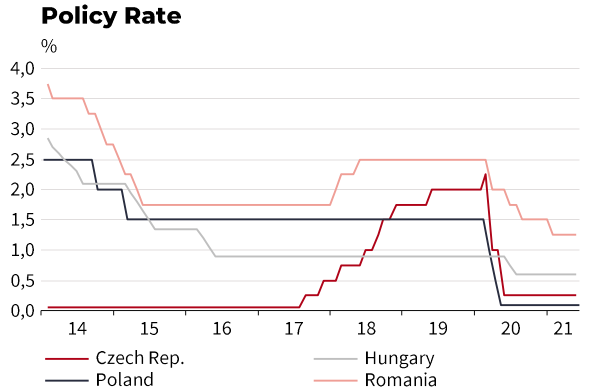
The inflation trend has to be watched out for as it may lead to earlier normalisation of monetary policies in the region and may also be a burden on real disposable household income. In addition, the small rise in long-term bond yields in most countries could weigh on the costs and therefore the borrowing capacity of companies and households.

Inflation accelerated in the region, especially in Hungary and Poland for several reasons. Higher commodity prices coupled with low inventories and rising shipping costs (partly due to the shortage of freight containers) are pushing up producer prices. Manufacturing is also battling a shortage of semiconductors. Besides these global factors, the increase in inflation in CEE is also linked to region-specific features i.e. the labour shortage due to the decline in active population in the region. So far, central banks are sticking to lose monetary policy but high April CPI prints in Czech Republic, Poland and Hungary pushed market expectation for rate hikes further. The Czech National Bank could be the first in the region to start policy normalisation, probably in 2H21. The central banks in Hungary and Poland – that are conducting intensive asset purchases – may also have to end their quantitative easing earlier as inflation stays above the upper bound of the central bank inflation target.

Inflation upwards

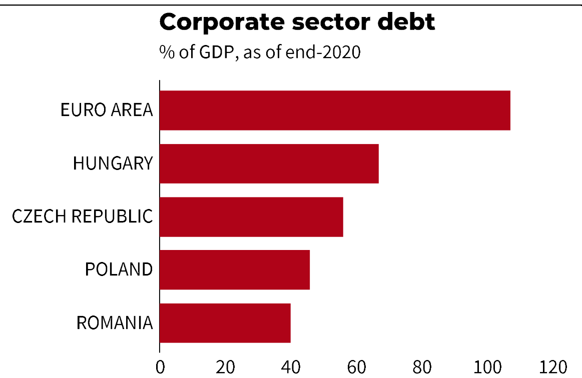


Towards earlier policy normalisation?

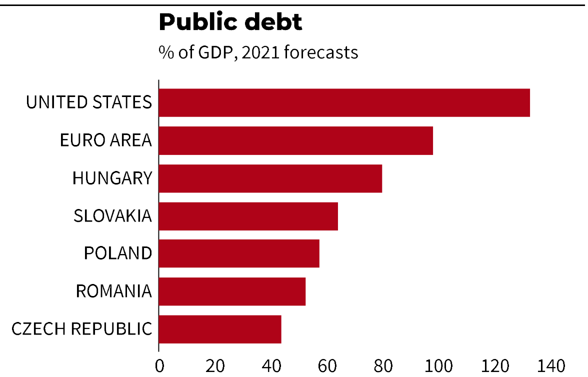


Source: SG Economics & Sector Studies, Refinitiv

Companies post reasonable levels of debt…



… and policy room amid low public debt levels



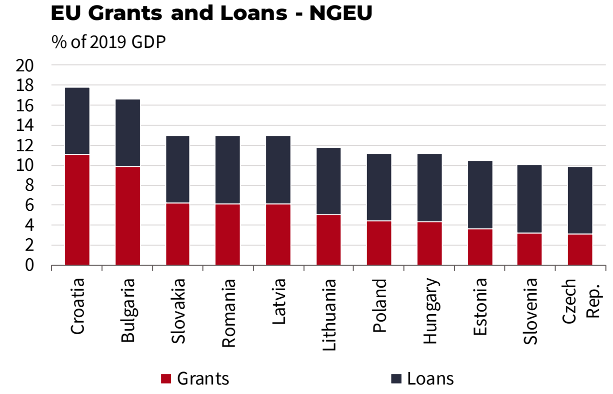
Source: SG Economics & Sector Studies, Refinitiv

For 2H21 and 2022, with the hypothesis of a lasting normalisation of health conditions, the region could benefit from more dynamic growth. By contrast to major developed economies, Central and Eastern Europe is expected to suffer less from the stigma of the crisis as companies in the region have entered the crisis with a reasonable level of debt. Besides, the labour market remains structurally tight, resulting in low structural unemployment and steadily rising real wages. In addition, public debt levels in the region remain well below the debt levels of its eurozone neighbours.

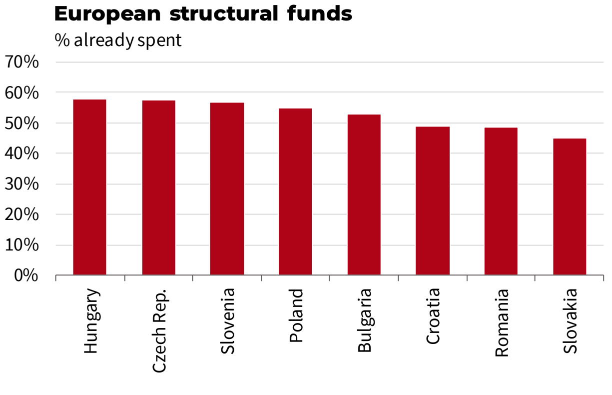
Finally, in the medium term, these countries will continue to receive funds from the EU that will foster the resumption of the catch-up process. The combination of the European Recovery Fund (Next Generation EU), the Employment Support Fund (SURE), and the European Structural Funds themselves are expected to amount around 20 to 30% of GDP by 2025, depending on countries. The first wave of disbursement of these European funds comes from the SURE fund. The European Recovery Fund has two components: loans and grants. Frontloaded use of Next Generation EU (NGEU) grants will begin to support CEE economies this year and should provide a more substantial boost in 2022. These NGEU grants will be used to finance additional spending channelled towards investment and not pre-existing investment programmes.

Those lower-income CEE countries that are the main per-capita beneficiaries of NGEU have infrastructure gaps and would benefit significantly from well-directed public investment. Spending among higher-income CEE sovereigns with better physical infrastructure is likely to focus more on pursuing NGEU goals of advancing the green agenda and digital transition. The various estimates are based on a reduction of almost 25% of the need to resort to debt for the year 2021 thanks to these funds.

Next Generation EU Fund to boost growth



European structural funds only partially spent end-2020



Source: SG Economics & Sector Studies, Refinitiv, Fitch

MACRO FORECASTS

Real GDP, %

	2019	2020f	2021f		2022f		2023f	
	Actual	Actual	Central	Extended	Central	Extended	Central	Extended
Developed countries	**1.6**	**-5.1**	**5.3**	**3.2**	**3.0**	**2.4**	**1.8**	**2.4**
United States	2.2	-3.5	6.7	3.5	3.7	3.2	2.3	3.0
Japan	0.0	-4.7	2.7	0.3	2.3	1.6	0.8	1.7
United Kingdom	1.4	-9.8	5.6	2.9	3.3	3.5	2.0	2.3
Euro area	1.3	-6.7	4.5	1.7	2.5	1.1	1.5	2.2
Germany	0.6	-5.1	3.0	0.5	2.5	1.0	1.3	2.0
France	1.8	-8.0	6.0	3.0	2.0	1.0	1.5	2.5
Italy	0.3	-8.9	5.5	2.5	3.0	1.0	1.5	2.0
Spain	2.0	-10.8	6.5	3.0	4.0	1.5	2.0	2.5
Developing countries	**3.5**	**-2.1**	**5.9**	**3.7**	**3.6**	**3.5**	**3.9**	**4.2**
Asia	4.9	-0.9	7.2	5.2	4.7	4.5	4.6	5.1
China	6.0	2.3	8.0	6.6	4.9	4.5	4.6	5.2
India (FY)	4.1	-8.0	9.5	5.5	6.2	6.8	5.2	5.8
CEEC.	2.4	-2.1	3.8	1.4	2.0	1.7	2.5	2.5
Russian Federation	1.8	-2.6	2.0	-0.5	1.5	1.2	1.5	1.2
Latin America	0.2	-7.2	4.8	2.3	1.8	2.1	2.5	2.6
Brazil	1.4	-4.8	4.1	2.7	2.3	1.8	2.1	2.1
Middle East & C. Asia.	0.3	-3.9	2.7	0.7	1.9	1.7	2.9	3.1
Africa	3.4	-1.9	3.9	1.9	2.6	2.3	3.7	4.0
World (PPP weighted)	2.8	-3.2	5.7	**3.5**	3.4	**3.1**	3.1	**3.5**

Central = Central scenario; Extended = extended health crisis scenario, FY=fiscal year.

Inflation, %

	2019	2020f	2021f		2022f		2023f	
	Actual	Actual	Central	Extended	Central	Extended	Central	Extended
Developed countries								
United States	1.8	1.3	3.5	2.9	2.4	1.6	2.2	2.4
Japan	0.5	0.0	0.5	0.3	0.8	0.1	0.6	0.7
United Kingdom	1.8	0.9	1.7	1.3	2.1	1.7	2.0	1.9
Euro area	1.2	0.3	1.7	1.6	0.9	0.9	1.2	1.3
Germany	1.4	0.4	2.3	2.0	1.1	0.7	1.4	1.4
France	1.3	0.5	1.5	1.4	1.0	0.8	1.2	1.1
Italy	0.6	-0.1	1.2	1.1	0.8	0.8	1.1	1.1
Spain	0.8	-0.3	1.7	1.6	1.4	1.3	1.2	1.2
Developing countries								
China	2.9	2.5	1.4	1.2	2.3	1.5	2.3	2.4
India	3.7	6.2	4.9	4.7	4.1	4.2	4.0	4.0
Russian Federation	4.5	3.5	4.5	5.9	4.0	4.0	4.0	4.0
Brazil	3.7	3.2	6.7	3.4	4.0	3.4	3.3	3.3

Central = Central scenario; Extended = extended health crisis scenario.

Unemployment rate, %

	2019	2020f	2021f		2022f		2023f	
	Actual	Actual	Central	Extended	Central	Extended	Central	Extended
Developed countries								
United States	3.6	6.8	5.0	5.7	4.2	4.0	3.5	3.9
Japan	2.3	2.8	2.8	2.9	2.7	2.9	2.7	2.9
United Kingdom	3.8	4.5	6.0	6.3	6.5	7.4	5.5	6.4
Euro area	7.6	8.0	8.4	8.7	8.9	9.8	8.4	9.3
Germany	5.0	5.9	6.6	6.8	6.7	7.2	6.5	7.0
France	8.1	7.8	9.2	9.8	9.5	10.8	9.2	10.6
Italy	10.0	9.3	11.8	12.7	11.6	12.5	10.7	12.1
Spain	14.1	15.6	17.0	18.6	17.3	18.9	16.4	18.2
Developing countries								
China	5.1	5.6	5.1	5.9	4.9	5.1	4.9	5.0

Central = Central scenario; Extended = extended health crisis scenario.

Budget balance, % GDP

	2019	2020f	2021f		2022f		2023f	
	Actual	Actual	Central	Extended	Central	Extended	Central	Extended
Developed countries								
United States	-6.7	-15.7	-16.6	-21.0	-8.2	-8.6	-5.8	-6.4
Japan	-3.1	-12.6	-8.0	-11.0	-3.3	-5.5	-3.0	-2.5
United Kingdom	-2.3	-12.4	-11.4	-13.1	-9.1	-9.8	-6.0	-6.5
Euro area	-0.9	-7.5	-9.1	-10.9	-5.2	-7.6	-4.1	-5.8
Germany	1.5	-4.2	-8.9	-10.2	-3.2	-5.2	-1.5	-3.1
France	-3.1	-9.2	-9.2	-10.7	-6.7	-8.8	-6.2	-7.8
Italy	-1.6	-8.9	-11.6	-13.5	-6.6	-9.2	-5.1	-6.5
Spain	-2.9	-11.9	-8.1	-11.9	-6.6	-11.3	-5.9	-8.9
Developing countries								
China	-3.1	-4.2	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8
India	-7.4	-12.3	-10.0	-12.0	-9.1	-8.5	-8.4	-8.0
Russian Federation	0.8	-0.3	1.7	-3.5	1.4	-3.0	1.2	-1.0
Brazil	-5.9	-13.7	-7.5	-11.9	-7.0	-11.3	-6.5	-8.9

Central = Central scenario; Extended = extended health crisis scenario.

Public debt, % GDP

	2019	2020f	2021f		2022f		2023f	
	Actual	Actual	Central	Extended	Central	Extended	Central	Extended
Developed countries								
United States	80	103	109	112	111	116	114	120
Japan	235	256	263	267	264	272	266	272
United Kingdom	85	102	105	110	109	114	110	115
Euro area	89	104	108	113	110	119	111	121
Germany	60	70	75	78	76	82	75	83
France	98	116	123	128	127	135	130	138
Italy	135	155	157	163	158	170	159	172
Spain	96	118	118	126	118	134	120	137
Developing countries								
China	39	46	44	45	44	45	44	45
India	74	90	87	90	86	90	86	90
Russian Federation	14	19	19	22	19	23	18	23
Brazil	74	89	89	93	91	96	94	98

Central = Central scenario; Extended = extended health crisis scenario.

Current account balance, % GDP

	2019	2020f	2021f		2022f		2023f	
	Actual	Actual	Central	Extended	Central	Extended	Central	Extended
Developed countries								
United States	-2.2	-3.1	-3.5	-2.6	-3.5	-3.2	-3.3	-3.2
Japan	3.4	3.2	3.4	3.0	3.5	3.2	3.7	3.4
United Kingdom	-3.1	-3.5	-4.8	-4.5	-4.3	-4.0	-3.8	-3.7
Euro area	2.4	2.1	2.7	2.6	2.7	2.6	2.8	2.6
Germany	7.8	6.6	7.2	7.1	7.0	7.1	7.1	7.1
France	-0.7	-1.9	-1.4	-1.3	-1.2	-1.2	-0.8	-1.2
Italy	3.2	3.5	3.8	3.8	3.7	3.8	3.9	3.8
Spain	2.1	0.7	1.7	0.6	2.2	0.9	2.2	1.4
Developing countries								
China	0.7	1.9	1.4	1.5	1.5	1.5	1.3	1.3
India	-0.9	1.0	-1.2	-0.5	-1.6	-1.8	-1.7	-1.8
Russian Federation	3.8	2.0	3.0	1.5	2.5	2.0	2.5	3.1
Brazil	-3.5	-1.7	-0.3	0.5	-0.8	-0.2	-1.5	-1.0

Central = Central scenario; Extended = extended health crisis scenario.

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