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SCENARIOECO

SG Economic and Sector Studies

Frictions in recovery

- **Fast restart momentum is fading:** reopening of economies from Covid19 lockdowns sparked fast restart, but this dynamic is now fading. Part of this is due to the Delta variant and slow vaccine rollouts in several countries. However, we also see headwinds from ongoing frictions in supply chains, prices, labour markets and the fiscal policy transition, with the lifting of temporary support measures parallel to the rollout of support for recovery, and not least public infra-structure investment.

- **Inflation well in excess of central bank targets set to prove transitory:** much of the current inflation spike is set to prove transitory but, medium-term, the new policy-mix in the major Advanced Economies (AE) should ensure that inflation will be higher and closer to targets than observed post the Great Financial Crisis. In Emerging Market Economies (EMEs) the current inflation could lead to currency depreciation, posing challenges for central banks and feeding further price pressures through exchange rate pass-through, raising risk of stagflation.

- **A policy-mix divide between AEs and EMEs:** the US is set to be the main driver of global demand growth with a still expansionary policy-mix. The euro area is set to reduce fiscal support, albeit still accommodative, and the ECB will pursue only very gradual scaling back of pandemic measures. EMEs will, however, be constrained by inflation and exchange rate issues, and several EME central banks have already been tightening policy. On the fiscal front, support in EMEs will broadly remain limited, constrained also by the reduced ability of central banks to compress interest rates and provide room for fiscal expansion.

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

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EXECUTIVE SUMMARY

FAST RESTART MOMENTUM IS FADING

After the fast start observed over the past months in several major economies, various macro signals point to a softer recovery, in line with our long-held view. Vaccine rollout offers hope of taming the pandemic, but risks remain on the evolution of the health crisis and reflecting this, we continue to work with a central and an extended health crisis scenario.

Our **central scenario** envisages no new widespread lockdowns and assumes that remaining social distancing measures, such as mask wearing, allows most sectors to operate in a near normal fashion. The one exception is international travel restrictions, which we assume will be lifted only very gradually over our forecast horizon. Our **extended scenario** assumes a new health shock starting at the end of 2021, replaying the pattern of lockdowns and tougher social distancing measures observed in late 2020 and into the Spring of 2021.

Turning to the recent data disappointment, the delta variant is part of the story but other factors have also been at play with on-going frictions in the global supply chains and labour markets, lengthening delivery times in manufacturing and reducing supply capacity in services, with both effects pushing up costs. The fast and simultaneous restart has also driven up higher commodity and transport prices. This will partly hurt consumers purchasing power, as incomes have not evolved at the same pace. Corporate margins could, moreover, also be squeezed in the most competitive sectors where costs cannot readily be passed on to sale prices. Overall, we see price pressures weighing on real incomes and slowing recovery.

INFLATION WELL IN EXCESS OF CENTRAL BANK TARGETS SET TO PROVE TRANSITORY …

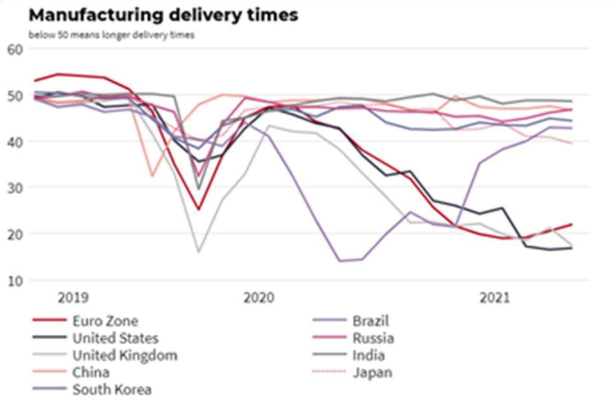
The debate as to how much of the current inflation dynamics are transitory (commodity prices, frictions…) or permanent (demographics, deglobalisation…) is on-going. In our view, the conditions for a wage-price spiral, leading to a higher inflationary regime, with inflation running well in excess of central banks targets, will not materialise in our central scenario, albeit that we recognise the risks related to potential policy errors, not least with the many on-going transitions.

Splitting our inflation views into Advanced (AEs) and Emerging market economies (EMEs) inflationary pressures related to disruptions in the productive capacity are more intense in the former while reasons behind prices acceleration in the latter might be more related to commodity prices, wages and changes in expectations.

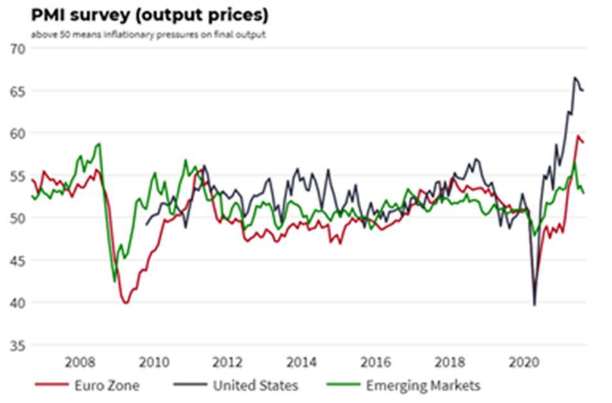
From a regional point of view, we can split the inflation story into four:

- **Advanced Economies (AEs) facing temporary labour force and material shortages**. This is mainly the case of the euro area, the US and the UK, where PMI surveys confirm both tensions on deliver times and prices pressures.
- **Emerging market economies (EMEs) where inflation is driven primarily by higher commodity and food prices** as the share of these items in the CPI is bigger than in AEs.
- **Central and Eastern Europe where wages pressures remain strong** du to structural labour force shortages leading to a wage/price spiral.
- **Asian economies where frictions are significantly less intense**[1] and where the effect of commodity prices have been muted so far.

Tensions visible on delivery times …



… with spill over to prices



Source: Markit, Refinitiv and SG Economics and Sector Studies

Risks here are twofold. In AEs, should labour force and material shortages prove durable, lasting well beyond 2021-2022, then price pressures would become more permanent, with the risk of seeing wages acceleration and a shift to a higher inflation regime, not least if central banks fail to identify the more durable nature of price pressures against a backdrop of a still expansionary fiscal policies.

In several EMEs, inflation risks are potentially more worrying. In these economies, where monetary stability is often far from achieved, it is more difficult to curb inflationary expectations once prices accelerate. Such a scenario would be exacerbated by currency depreciation further feeding price pressures. This, combined with a lower growth outlook and less fiscal policy room, could lead to stagflation, raising socio-political challenges. This consideration seems to be a factor of these EMEs central banks' reaction functions, with many having already started to increase their policy rates and likely to continue over the next quarters.

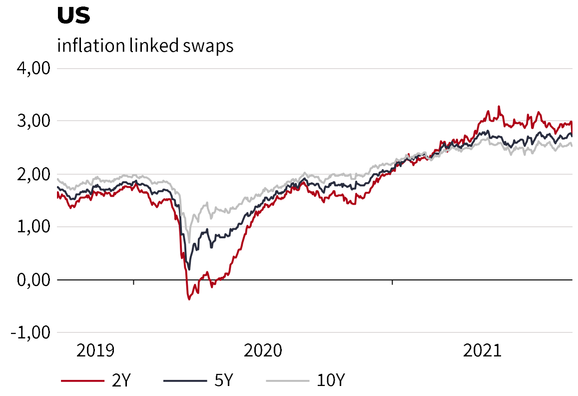
[1] Except for Taiwan where the boom for semi-conductor demand is weighing on delivery times.

... NOT YET WORRYING THE MARKETS

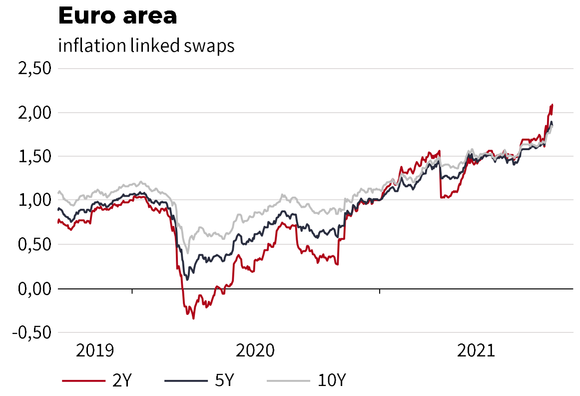
Despite a lively debate and higher actual inflation figures, the rising trend on long term interest rates observed in the first part of 2021 has somewhat reversed over the summer in AEs, with decline both of the real and inflation related components. For now, markets appear comfortable with the idea that the present spike in inflation will prove transitory. Inflation linked swaps in the US point to pressures in the coming two years and some moderation thereafter. In the euro area, inflation swaps have also increased but remain below the ECB 2% target.

Turning to the real rate component, the fact that central banks have significantly increased holdings of public debt since 2019, with no balance sheet reduction in view over our forecast horizon is certainly an important element behind the real rate compression. The Fed is now holding about 25% of the total federal debt (against 15% at the start of 2020) while the ECB holds almost 40% of the euro area marketable government debt (against a little more than 20% in 2019). This view of real rates certainly squares with still booming equity markets and compressed credit spreads.

Market inflation expectations have increased...



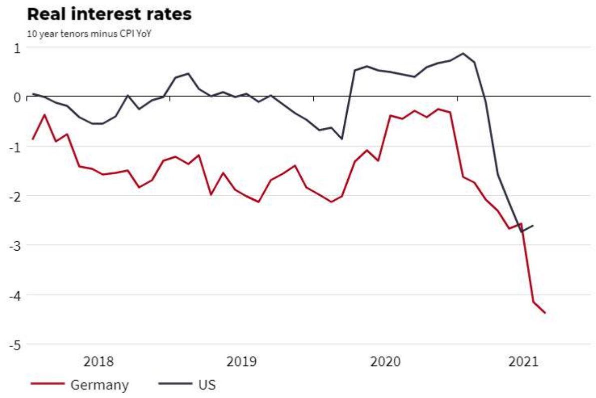
... approaching the 2% target in the euro area



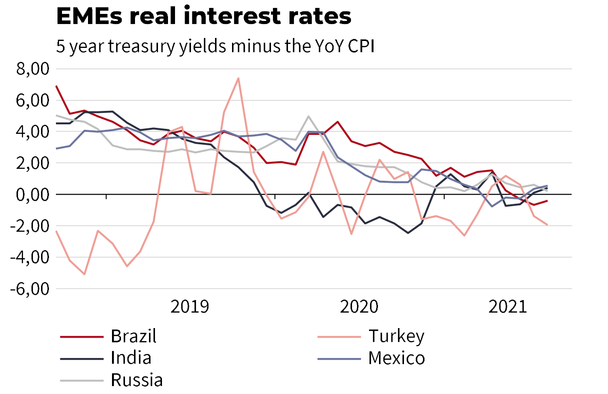
Source: Markit, Refinitiv and SG Economics and Sector Studies

Real interest rates have also declined in EMEs despite nominal interest rates spiking over the last twelve months on the back of tighter monetary policies; just taking a few examples, we observe that higher inflation has led to a general compression of real long term rates in Brazil, Turkey, Russia, Mexico, India. However, real interest rates in EMEs remain above AEs levels, partly explaining the resilience of EMEs exchange rates against USD over the last months. Even though this is in line with the general compression of real interest rates, the decline remains puzzling as there are no significant QE operations, public debt markets are not as liquid as in AEs and debt ratios have increased. As a result, market shocks in EMEs cannot be ruled out as there seem to be some room for interest rates correction with central banks having very low room to intervene on bond local markets.

Real interest rates declining…



… even in EMEs



Source: Markit, Refinitiv and SG Economics and Sector Studies

A POLICY-MIX DIVIDE BETWEEN AEs AND EMEs

With the uncertainties surrounding the pace of the economic recovery, the strength of balance sheets (households, corporates, government) and not least the political agenda, the policy-mix is set to remain supportive despite the gradual rollback of temporary support measures now on-going. In AEs the main positive policy impulse will remain the US, with a still expansionary monetary policy and the impact of the new fiscal program (still under discussion in the Congress). The euro area will keep its monetary support over our forecast horizon along with a positive fiscal impulse coming from the combination of national plans and the Next Generation EU fund. Some limited fiscal support is also expected in EMEs in 2022 but not beyond, and overall, we see tighter monetary policies.

All in all, and contrary to the situation in the wake of the 2008-2009 crisis, demand will continue to come from AEs rather than from EMEs.

ECONOMIC FORECASTS

GDP growth, YoY

Annual average, %	2019	2020	Central 2021f	Central 2022f	Central 2023f	Central 2024f	Extended 2021f	Extended 2022f	Extended 2023f	Extended 2024f
Developed Markets	**1.6**	**-5.0**	**5.2**	**3.3**	**2.2**	**1.8**	**3.3**	**2.1**	**2.4**	**1.9**
United States	2.2	-3.5	6.3	4.0	3.0	2.3	5.3	2.0	4.0	2.6
Japan	0.0	-4.7	2.7	2.3	0.8	0.5	2.2	0.1	1.8	0.6
United Kingdom	1.4	-9.8	5.6	4.3	2.0	1.5	4.9	1.4	3.0	1.8
Euro area	1.4	-6.5	4.7	3.2	1.6	1.7	3.8	1.3	2.1	2.0
Germany	1.1	-4.9	3.0	3.5	1.3	1.8	2.1	1.5	1.8	2.0
France	1.8	-8.0	6.0	3.0	1.5	1.8	5.0	1.0	2.0	2.3
Italy	0.3	-8.9	5.5	3.5	2.0	1.1	4.9	1.0	2.5	1.3
Spain	2.0	-10.8	6.5	4.0	2.0	1.8	5.5	1.5	2.5	2.0
Emerging Markets	**3.5**	**-1.8**	**5.9**	**4.5**	**4.0**	**3.9**	**4.5**	**3.1**	**4.6**	**4.1**
Asia	4.9	-0.6	7.1	5.2	4.7	4.6	5.5	4.3	5.1	4.7
China	6.0	2.3	8.0	4.9	4.6	4.5	7.5	3.9	5.1	4.7
India	4.0	-6.0	9.5	6.2	5.2	5.0	8.4	4.2	5.7	5.2
CEE	2.4	-2.0	3.9	2.9	2.7	2.6	2.9	1.0	4.0	3.0
Czech Republic	3.0	-5.8	4.2	4.5	3.0	2.8	3.3	2.7	3.4	3.2
Romania	4.1	-3.7	6.3	3.5	3.0	3.0	5.2	1.7	3.4	3.4
Russian Federation	1.8	-2.5	3.3	2.5	1.5	1.5	2.4	0.7	1.8	1.8
Latin America	0.1	-7.0	5.1	3.2	2.6	2.4	4.3	1.2	3.5	2.6
Brazil	1.4	-4.1	5.6	2.3	2.0	2.0	4.8	0.2	3.6	2.5
Middle East & C. Asia	0.3	-3.6	2.6	3.6	3.1	2.8	2.2	1.1	3.7	3.3
Africa	3.4	-1.9	4.1	4.1	4.0	4.0	2.1	2.3	4.5	4.2
World (PPP wtd.)	**2.8**	**-3.0**	**5.6**	**4.0**	**3.3**	**3.1**	**4.0**	**2.7**	**3.8**	**3.2**

Markets

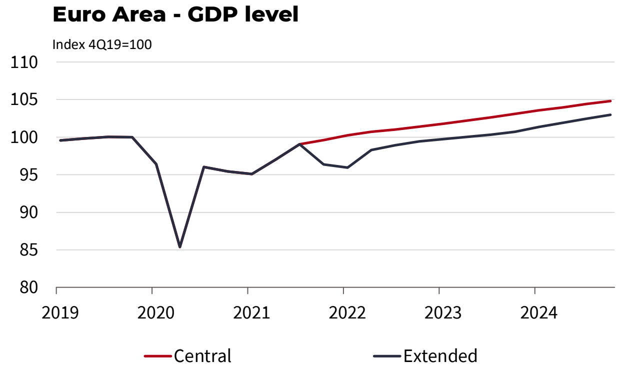
end of period, %	15-Sep	Central 2021f	Central 2022f	Central 2023f	Central 2024f	Extended 2021f	Extended 2022f	Extended 2023f	Extended 2024f
Fed Funds target (high)	0.25	0.25	0.25	0.75	1.25	0.25	0.25	0.25	0.25
Gov 10Y, United States	1.28	1.60	2.00	2.25	2.50	0.75	0.75	1.00	1.50
ECB Refinancing rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ECB Deposit facility rate	-0.50	-0.50	-0.50	-0.50	-0.30	-0.50	-0.50	-0.50	-0.50
Gov 10Y, Germany	-0.34	-0.20	0.00	0.25	0.75	-0.60	-0.60	-0.30	0.00
Gov 10Y, France	-0.01	0.20	0.50	0.65	1.05	-0.10	0.10	0.30	0.50
Gov 10Y, Italy	0.66	1.00	1.50	1.75	2.00	0.75	1.15	1.45	1.55
Gov 10Y, Spain	0.31	0.60	1.00	1.25	1.55	0.35	0.65	0.95	1.10
BoE, Bank rate	0.10	0.10	0.10	0.10	0.50	0.10	0.10	0.10	0.10
Gov 10Y, United Kingdom	0.73	0.80	1.00	1.25	1.75	0.40	0.60	0.80	1.10
BoJ rate	-0.10	-0.10	-0.10	-0.10	0.00	-0.10	-0.10	-0.10	-0.10
10y government bond	0.03	0.00	0.00	0.00	0.10	0.00	0.00	0.00	0.00
EUR / USD	1.18	1.15	1.15	1.20	1.25	1.10	1.10	1.10	1.15
EUR / GBP	0.86	0.85	0.90	0.95	0.95	0.90	0.90	0.95	0.95
USD / JPY	109	110	110	105	105	105	105	105	105
USD / CNY	6.43	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Brent ($/b)	74	65	65	60	60	50	55	50	50

EURO AREA

- **Growth will be less upbeat in 2022, slowed by frictions and the long-term effects of the health crisis on employment and investment.**
- **The ECB will very gradually normalise its monetary policy from 2022 but will remain accommodative.**
- **The risks surrounding the scenario are more balanced, but downside risks remain numerous.**

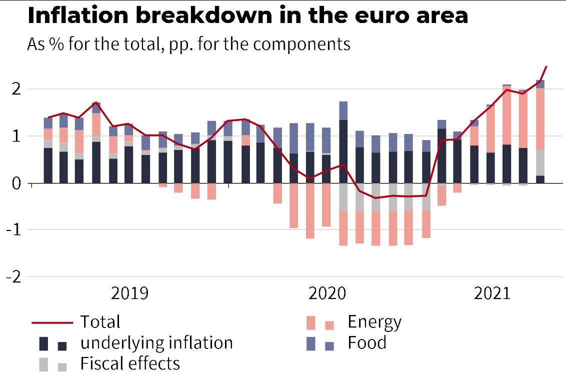
The catching up of activity will continue in 2022, at a more moderate pace than in 2021. Rising unemployment and debt will weigh on household and business spending, while fiscal policy will be less expansionary. However, the economy will return to its pre-crisis level at the end of 2022, with yet divergent situations from one country to another. In the risk scenario of a resurge of the pandemic, with a replay of the lockdowns we saw in the late 2020 and early 2021, the growth path would be much more modest.

Slower growth in 2022



Source: SG Economic and Sector Studies

Rebound in inflation is temporary



Source: Eurostat, SG Economic and Sector Studies

The strong recovery in exports will normalise from 2022. Global trade, less dynamic, will then better reflect the differentiated pace of the pandemic's global ebb and the long-term effects of the crisis. In addition, some of the factors that drove the recovery og global trade from the Great Financial Crisis will not be present this time. Thus, the lack of a large-scale fiscal infrastructure stimulus in China and the still significant pandemic headwinds for many emerging economies, rule out the scenario of a marked rebound in external demand.

The recovery in domestic demand will also be less robust over the medium term. On the business side, investment momentum is set to slow after the rapid catch-up observed in 2021. In some countries, the crisis has sharply deteriorated debt ratios, which were already high before the crisis. With the end of temporary government support measures, some moderate increase in defaults is likely. In addition, the uncertainty surrounding the outcome of elections in several states in 2022-23 could lead companies to postpone part of their spending.

On the household side, the decline in saving rates, which rose sharply in 2020, is expected to be only gradual. On the one hand, the rise in unemployment with the normalisation on the labour market (unwinding of short-time working and rise in participation rates) risks encouraging precautionary savings. On the other hand, the “forced” savings accumulated during the lockdown period is unlikely to be fully spent, especially because of its concentration on high-income households. Loss of income and tighter mortgage conditions will also weigh on residential investment.

Finally, fiscal policy will be less expansionary from 2022 with the unwinding of temporary support measures. But in some countries, public demand will remain strong, not least thanks to the Next Generation EU programme.

This year’s rebound in inflation mainly reflects base effects, frictions in global supply chains and rising commodity prices. These effects are set to be transitory, and inflation should decline in 2022 and 2023, further supported by the fall in the price of oil. However, the ebb of the pandemic will lead the ECB to begin a prudent normalisation of its monetary policy. Purchases made under the PEPP (Pandemic Emergency Purchase Programme) are expected to be further reduced and then stopped in early 2022. Other exceptional measures taken in 2020, such as the temporary relaxation of the terms of TLTRO III, will not be renewed. In 2023, if the acceleration in core inflation and the prospect of stronger inflation in the medium term are confirmed, the ECB will be able to gradually end purchases under the Asset Purchase Programme (APP). Nevertheless, the central bank will ensure that any unwarranted tightening of financing conditions is ruled out by keeping the size of its balance sheet under control (replacing maturing assets with others) and leaving its key interest rates unchanged over the forecast horizon.

The risks surrounding the growth scenario are now more balanced. On the one hand, faster normalisation of saving rates could significantly raise growth rates. On the other hand, the downgrading of the sovereign rating of the most fragile states or too strong and too early fiscal consolidation threatening the recovery would lead to renewed tensions in the sovereign debt market. Similarly, a new surge in Euroscepticism and political risk cannot be ruled out, particularly ahead of key elections in 2022-23.

Euro Area	**2019**	**2020**	**2021f**		**2022f**		**2023f**		**2024f**	
	Actual	Actual	Central	Ext.	Central	Ext.	Central	Ext.	Central	Ext.
Real GDP, % YoY	1.4	-6.5	4.7	3.8	3.2	1.3	1.6	2.1	1.7	2.0
Inflation, %	1.2	0.3	2.1	2.0	1.6	1.3	1.3	1.0	1.6	1.3
Unemployment, %	7.6	7.9	8.0	8.0	8.1	8.6	7.9	8.5	7.7	8.4
Fiscal balance, % GDP	-0.9	-7.5	-9.1	-9.8	-4.9	-6.6	-3.7	-5.1	-2.8	-3.9
Public debt, % GDP	84	98	100	103	100	107	101	107	100	107

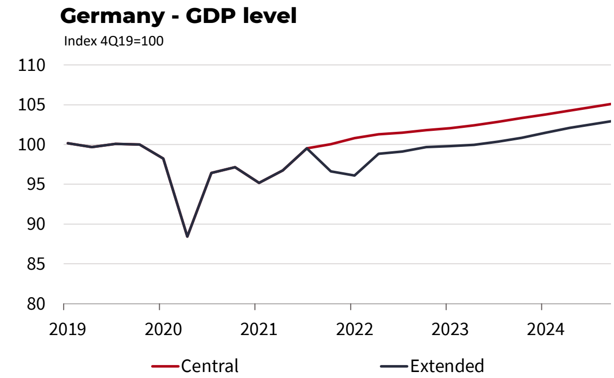
Central = Central scenario
Ext. = Extended health crisis scenario

GERMANY

- **The economy will converge towards its pre-crisis level more quickly than the other big economies in the euro area.**
- **Inflation, after the technical rebound this year, will be more moderate in 2022-23.**
- **Germany's cautious view of fiscal union integration will not change even in case of a political changeover.**

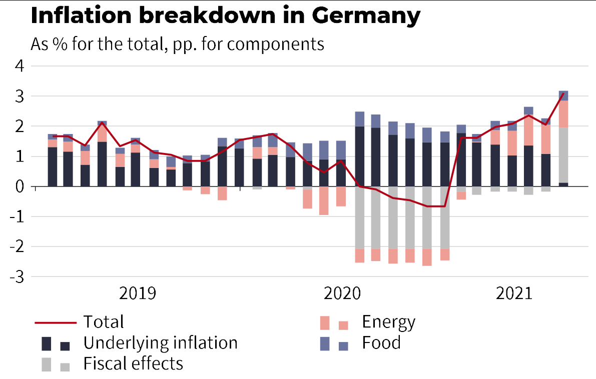
Growth will be vigorous in the second half of the year, after a start marked by restrictive sanitary measures and disruptions in supply chains that penalised industry. The economy should thus return to its pre-crisis level by the end of the year. In 2022, the recovery will continue at a firm pace, before slowing in 2023 as GDP approaches its potential level. However, a replay of the lockdowns seen in late 2020 and early 2021 would severely affect the growth path over our forecast horizon, as set out by our extended scenario.

GDP back to pre-crisis levels as of 2021



Source: SG Economics & Sector Studies

Technical rebound of inflation



Source: Eurostat, SG Economics & Sector Studies

Buoyed by the very strong rebound in world trade and industry, exports recovered rapidly in 2021. By the end of the year, they should have returned to their 2019 level. In the longer term, export growth is forecast to converge towards its long-term average with the German current account surplus returning to levels close to those of the pre-crisis period. However, the moderation of demand in Europe, the absence of a major fiscal stimulus in China and the weakening of emerging economies by the pandemic raise the risk of more modest growth.

Supported by government emergency measures, corporate operating income has already returned to 2019 levels, despite bottlenecks in production. With debt increasing only moderately during the pandemic and credit remaining strong, investment will also have converged by the end of this year. In the longer term, its growth will be more moderate, in line with the slowdown in aggregate demand.

On the household side, consumption remained constrained by strict health measures until the beginning of the summer. Its rebound is set to gain strength in the second half of the year, but its catching-up will be slower medium term. The decline in the savings rate, which rose sharply during the pandemic, will be gradual. In particular, the return to normalcy in the labour market, with the unwinding of short-time working and the increase in participation, is likely to be accompanied by a moderate rise in unemployment and provoke precautionary savings. Residential investment, which was generally well protected from the pandemic thanks to credit, which remained dynamic, should also moderate over the forecast horizon, particularly in connection with the gradual rise in interest rates and a certain tightening of borrowing capacity, which will accompany the rise in unemployment.

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%

Public demand was strong in 2020-21, driven by investment and government consumption. From 2022 onwards, however, the fiscal impulse will be sharply reduced by the unwinding of the emergency measures and the bulk of the stimulus measures, bringing the deficit below 3% and putting the public debt ratio on a downward trajectory. After peaking in 2021 (75% of GDP, 15 points above its 2019 level), the debt would be reduced to 73% of GDP in 2023.

The sharp rise in inflation observed this year will fade in 2022 with the disappearance of the upside base effects linked to the rebound in oil prices and the temporary reduction in VAT in 2020. In 2023, inflation will remain moderate, with the expected acceleration in core inflation being offset by the deceleration in energy inflation in line with the moderation in oil prices.

The balance of risks to our growth scenario has improved with the roll-out of the vaccine campaign and the easing of trade tensions. As the increase in debt ratios has been moderated during the pandemic, risks to financial stability also appear limited. On the domestic front, a political changeover in the wake of the September parliamentary elections would not, in our view, upset Germany's cautious stance on fiscal integration in the euro area.

Germany	2019	2020	2021f		2022f		2023f		2024f	
	Actual	Actual	Central	Ext.	Central	Ext.	Central	Ext.	Central	Ext.
Real GDP, % YoY	1.1	-4.9	3.0	2.1	3.5	1.5	1.3	1.8	1.8	2.0
Inflation, %	1.4	0.4	2.6	2.5	1.4	1.0	1.3	1.1	1.6	1.4
Unemployment, %	5.0	5.9	6.1	6.1	6.4	6.8	6.2	6.6	5.8	6.3
Fiscal balance, % GDP	1.5	-4.2	-8.9	-9.4	-2.6	-4.1	-1.0	-2.2	0.4	-0.7
Public debt, % GDP	60	70	75	77	74	79	73	79	70	77

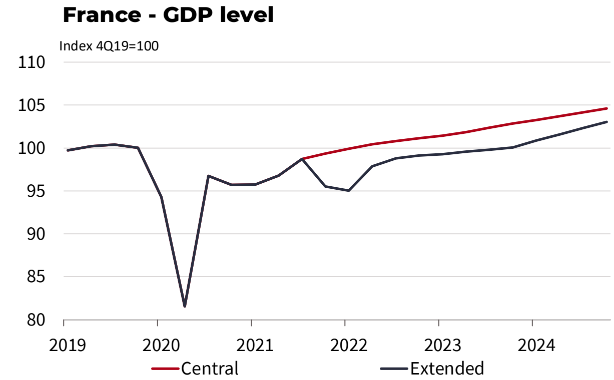
Central = Central scenario
Ext. = Extended health crisis scenario

FRANCE

- **The restart in activity has been dynamic, but looking ahead growth is set to moderate over 2022-23.**
- **The acceleration in prices observed in 2021 is set to prove transitory, and inflation is forecast to decelerate in the medium term.**
- **Public debt is forecast at above 125% of GDP in 2023, 25 percentage points above its 2019 level.**

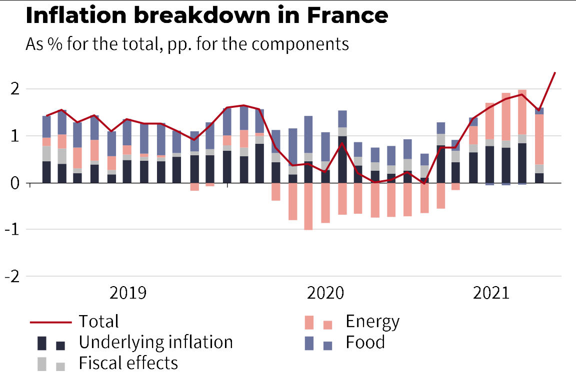
The French economy has shown resilience in 2021, reflecting the adaptation of households and businesses to the health context and the positive impact of government emergency measures. But in the longer term, it is still uncertain whether the fast re-start that the economy is experiencing this year will turn into a dynamic recovery. The withdrawal of temporary government support measures, the legacy of the crisis in terms of job losses and corporate debt are likely to weaken growth. Thus, the catching-up process should continue in 2022 and 2023, but at a more modest pace, certainly below consensus expectations. The 2019 level of activity should be recovered in 2022, but the gap with potential GDP will remain large over the forecast horizon. In the risk scenario of a prolonged health crisis, with new severe lockdowns in late 2021 and early 2022 , the convergence of GDP would be much slower.

GDP back to pre-crisis level in 2022



Source: University of Oxford

Transitory effects support inflation



Source: SG Economic and Sector Research

The pandemic will continue to weigh on the dynamics of foreign trade. Indeed, French exports depend heavily on the prospects for aeronautics and tourism, two sectors that are particularly vulnerable to the evolution of the pandemic risk. With the undoubtedly uneven and choppy recovery of the pandemic on a global scale, the catching up of exports will therefore be gradual and the reabsorption of the current account deficit gradual over the forecast horizon.

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[2] 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**
% of 2019 GDP	7.8

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

On the business side, operating income will have returned to its 2019 level by the end of the year thanks to the rebound in activity and the various public supports, particularly the Solidarity Fund subsidies. As a result, productive investment has for the moment resisted the crisis well and has already returned to its 2019 level. But its growth is likely to be more modest in the medium term. Indeed, at the peak of the crisis in 2020, the impact on liquidity of operating losses was largely offset by a substantial recourse to borrowing and gross debt ratios, already high before the

[2] 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.

crisis, have deteriorated significantly. With the unwinding of public support and the start of state-guaranteed loans repayment, a moderate rise in defaults cannot be ruled out, especially in the sectors that were most affected by the crisis. In this case, corporate financing may become less abundant and more selective. Moreover, the most indebted companies will be forced to postpone some of their investments to increase their financing capacity and stabilise their debt ratios, in a context where interest rates will rise moderately.

On the household side, the decline in the savings rate, which rose sharply in 2020, will be gradual. The normalisation of the labour market, with the end of the exceptional short time working scheme and the increase in participation, will be accompanied by a moderate rise in unemployment. Consumers will therefore certainly be cautious over the forecast horizon. As for the “excess” savings accumulated by households in 2020, this is mainly due to the wealthiest households, which have a lower propensity to consume. Residential investment, which has held up well during the crisis, will fall back slightly under the effect of the moderate tightening of credit conditions in connection with the rise in unemployment.

Favourable base effects on energy prices and a slight acceleration in core inflation will bring total inflation down to levels close to 2% this year. From 2022 onwards, the disappearance of these base effects and the anticipated decline in oil prices in 2023 will contribute to a slowdown in inflation. Underlying inflation will also remain moderate as unemployment rises.

Public demand was strong in 2020 and 2021, supported by emergency measures and fiscal stimulus. From 2022 onwards, the unwinding of the “whatever it costs” and the main stimulus measures will reduce the public deficit (by 3 points of GDP to 6% in 2022). In the medium term, the government anticipates a gradual consolidation of public finances. The public debt ratio would exceed 125% of GDP in 2023, i.e. almost 25 points of GDP above its 2019 level.

The balance of risks surrounding our growth scenario is broadly balanced. On the one hand, a faster decline in the savings rate and a more active government policy on strengthening corporate equity would further support growth. On the other hand, overly aggressive fiscal consolidation, further social unrest, and the uncertainty that could arise from the 2022 elections could affect the recovery.

France	2019	2020	2021f		2022f		2023f		2024f	
	Actual	Actual	Central	Ext.	Central	Ext.	Central	Ext.	Central	Ext.
Real GDP, % YoY	1.8	-8.0	6.0	5.0	3.0	1.0	1.5	2.0	1.8	2.3
Inflation, %	1.3	0.5	1.8	1.7	1.5	1.3	1.3	1.1	1.5	1.3
Unemployment, %	8.2	7.9	8.1	8.1	8.8	9.2	8.7	9.1	8.4	8.8
Fiscal balance, % GDP	-3.1	-9.2	-9.1	-9.7	-6.1	-7.7	-5.5	-6.9	-4.6	-5.7
Public debt, % GDP	98	116	123	119	127	125	131	128	130	129

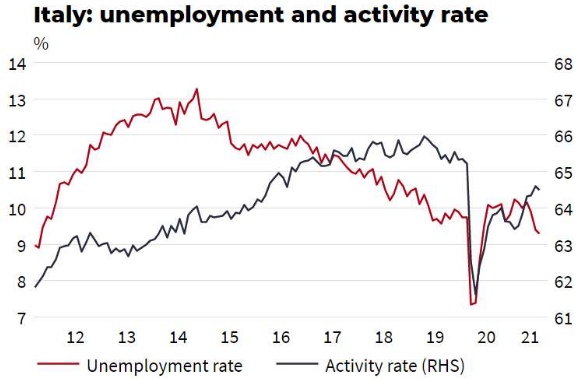
Central = Central scenario
Ext. = Extended health crisis scenario

ITALY

- **The economy has embarked a fragile recovery in 2021.**
- **Mainly financed by the EU, a historic stimulus plan (EUR 222 bn) will support growth in the medium term.**
- **Public debt is expected to stabilize at around 156% of GDP.**

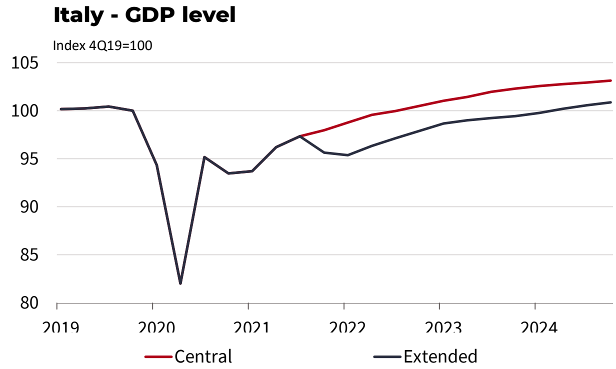
The economy grew by 2.7% in 2Q21, thanks to a marked rebound in household consumption after two quarters of health restrictions. The introduction of the health pass and the vaccination of 70% of the population will boost activity in the second half of the year, and growth is expected to reach 5.5% in 2021. However, this rebound in activity will not allow an immediate return to the pre-crisis GDP level. It will likely be necessary to wait until 3Q22 for activity to return to its end-2019 level.

Gradual normalisation of employment



Source: University of Oxford

Return to pre-crisis GDP level in 2Q22



Source: SG Economic and Sector Research

Despite the fall in the unemployment rate (9.7% in June 2021), the number of people in employment remains 500,000 lower than at the end of 2019. This is linked to a sharp drop in the activity rate: 600,000 people have in fact left the labour force since the start of the pandemic. Employment will not return to its pre-crisis level before the end of 2023. The arrival of summer should allow more outdoor interaction and the continuation of vaccination programs. This should help the gradual lifting of restrictions and boost consumer sentiment from mid-year onwards. The use of "forced" savings will also stimulate household consumption. However, ongoing caution by consumers and the 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 gradually resuming in the second half of 2021, 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: 33 million foreign tourists are expected this year, versus 100 million in 2019.

In the medium term, growth prospects will be driven by the National Recovery and Resilience Plan (PNRR), endowed with EUR 222 bn (12.4% GDP) over five years. Its strong orientation towards ecological transition (45%) and digitization (37%) will stimulate short-term investment spending, which in turn will have positive effects on potential GDP in the long term. This plan will have a noticeable and positive effect on the country's growth. While the effect in 2021 will be barely noticeable, it will strongly stimulate growth in 2022, estimated at 3.5%.

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
▪ Infrastructure for sustainable mobility	31.4
▪ Digitalisation, innovation, competitiveness and culture	49.2
▪ Education and research	31.9
▪ Inclusion and cohesion	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 an 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 10.7% in the scenario central and 11.2% in the extended scenario.

The public debt ratio should stabilize in 2021. Indeed, the expected fall in short-time working measures (“Cura Italia” decree) on the expenditure side and the loosening of tax revenues (linked to the upturn in activity) on the revenue side will support the stabilization of the debt ratio. Beyond that, the record stimulus plan (EUR 222 bn) will not further degrade public finances. The vast majority of it 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 stabilise at around 156% 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 due by June 2023. The hope is that Draghi 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 historically has often proved unpopular. The success of the Draghi government will be crucial for the next election, which could otherwise see a Eurosceptic alliance ruling Italy in 2023.

Italy	2019	2020	2021f		2022f		2023f		2024f	
	Actual	Actual	Central	Ext.	Central	Ext.	Central	Ext.	Central	Ext.
Real GDP, % YoY	0.3	-8.9	5.5	4.9	3.5	1.0	2.0	2.5	1.1	1.3
Inflation, %	0.6	-0.1	1.3	1.5	1.0	1.3	1.1	1.0	1.3	1.2
Unemployment, %	10.0	9.3	10.3	10.5	10.7	11.2	10.3	10.9	10.1	10.7
Fiscal balance, % GDP	-1.6	-9.5	-11.8	-12.3	-6.5	-7.9	-4.6	-6.0	-3.7	-5.1
Public debt, % GDP	135	156	157	160	156	165	156	165	156	166

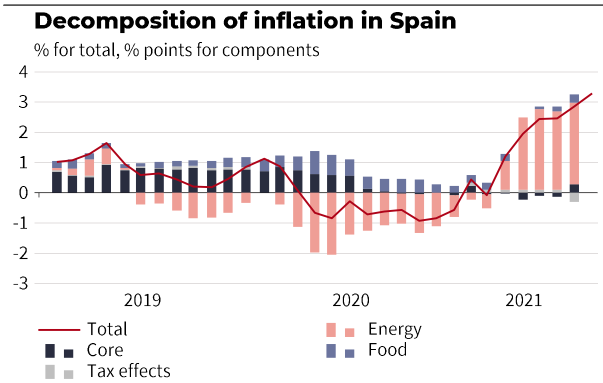
Central = Central scenario
Ext. = Extended health crisis scenario

SPAIN

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

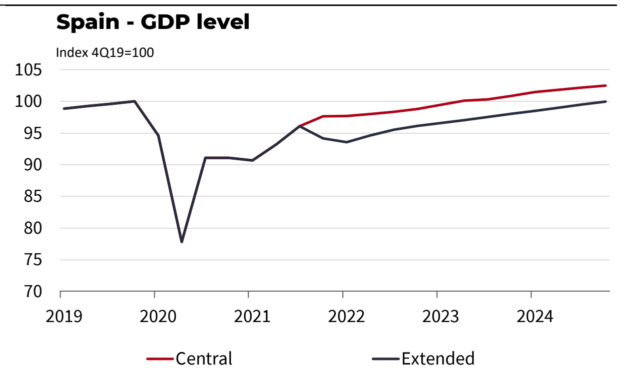
The economy swung back to expansion in 2Q21 (+2.8%), as the easing of restrictions and the acceleration of the vaccination campaign supported domestic demand. The recovery is expected to continue until the end of the year, driven by consumer spending and the revival of external demand, amid the gradual lifting of restrictions, accumulated savings and the inflows of EU funds. Real GDP, which is expected to grow at 6.5% in 2021, is forecast to return to its pre-crisis level in 2Q23.

Inflation is mostly driven by energy prices



Source: Eurostat, SG Economic and Sector Research

Recovery is set to be very progressive



Source: SG Economic and Sector Research

Consumer demand is expected to rebound strongly in 2021. The unwinding of health measures will boost household confidence and thus support spending growth. Private consumption is also projected to benefit from positive developments in the labour market and the gradual normalisation of household saving behaviour.

Exports of services should also start to recover, as the pandemic is brought under control in Europe. New entry requirements for tourists from important markets such as the UK since July will weigh on the recovery of the sector (15% of GDP). Thus, tourist flows will be far from recovering their pre-crisis levels: 45m foreign tourists are expected this year, versus 85m in 2019, according to the Ministry of Tourism.

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 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, entirely financed by EU NGEU grants, totals €69.5bn (5.6% of GDP) over three years. A first payment of €9bn was made by the European Commission in mid-August, while the government has already allocated €27bn to investment projects this year in anticipation of the budgeted funds. These liquidities will give a further impulse to the economic recovery, particularly in 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
▪ Modernization of public administration	4.3
▪ Modernization 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

Inflation is expected to accelerate significantly this year, due to rising energy prices, the prevalence of strong base effects and the rebound in private consumption. However, the remaining slack in the labour market should prevent the persistence of temporary price pressures from next year. After rising to 2.3% in 2021, annual inflation is expected to decline to 1.8% in 2022.

On the labour market, the pace of job creation has accelerated significantly since the end of the state of emergency on 9 May, particularly in hard-hit service sectors with the lifting of inter-regional travel restrictions. This should lower the unemployment rate, which is expected to be at 15.4% at the end of 2021 in our central scenario.

The risks from a higher debt ratio will be limited. Indeed, the €69.5bn recovery plan relies exclusively on non-repayable transfers from the NGEU instrument. This lower cost will be accompanied by the abolition of short-time working schemes (October 2021) on the expenditure side and improving tax revenues (linked to the recovery in activity) on the receipt side. 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% of GDP in 2023.

Beyond 2021, the tourism recovery is expected to gradually 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.

Spain	2019	2020	2021f		2022f		2023f		2024f	
	Actual	Actual	Central	Ext.	Central	Ext.	Central	Ext.	Central	Ext.
Real GDP, % YoY	2.0	-10.8	6.5	5.5	4.0	1.5	2.0	2.5	1.8	2.0
Inflation, %	0.8	-0.3	2.3	2.2	1.8	1.5	1.0	0.9	1.4	1.3
Unemployment, %	14.1	15.6	15.4	15.6	15.4	16.9	15.3	16.7	15.1	16.3
Fiscal balance, % GDP	-2.9	-11.9	-8.1	-10.6	-6.5	-10.7	-5.8	-8.8	-5.5	-7.7
Public debt, % GDP	96	118	118	121	118	127	120	131	122	133

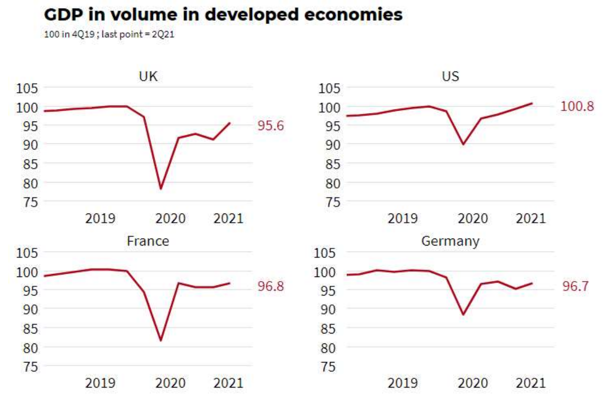
Central = Central scenario
Ext. = Extended health crisis scenario

UNITED KINGDOM

- **The rebound of the economy observed in 2Q21 has been slowed by a resurgence of the pandemic since June.**
- **Inflation is set to rise in the coming quarters due to base effects, but its transitory nature should not lead the central bank to tighten monetary policy in the short term.**
- **The hysteresis effects of the crisis, particularly in the labour market, and the consequences of Brexit are weighing on potential growth.**

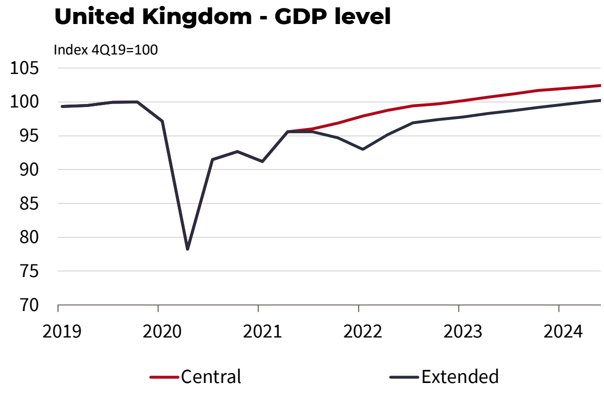
In a context of gradual economic recovery after a successful vaccination campaign, the British economy rebounded strongly in 2Q21 (+4.8% compared to 1Q), driven by household consumption (+9.1% compared to 1Q). Despite this rebound, the level of output in the UK remains well below its pre-crisis level (-4.4% compared to 4Q19) and stands out from other major developed countries that have already recovered a larger share of their output.

The British recovery is slower



Source: ONS, Fed, Eurostat

The full economic recovery will take time



Source: SG Economic and Sector Research

Survey data suggest a deceleration of the economic recovery in 3Q21. The composite purchasing managers' index (PMI) was at 55.3 in August, down from 62.9 in May. Meanwhile, the volume of retail sales in the UK fell by 2.5% in July compared to June. The latest PMI surveys and retail sales reflect the resurgence of the epidemic dynamic since the beginning of the summer. This epidemic rebound is affecting the economy because of the number of people identified by health authority tracking applications and asked to isolate themselves; this epidemic of pings - hence the neologism *pingdemic* - has been weighing on hours worked and demand in the services sector since June.

Inflation is expected to rise further in 3Q21 due to base effects before normalising during 2022. Price level volatility is mainly due to energy prices and post-pandemic transitory factors such as temporary VAT cuts in the leisure, hotel and restaurant sector. The latest PMI indices indicate that cost pressures are rising at the fastest pace in 13 years, with producers facing raw material shortages and high shipping costs, and service providers facing higher wages. However, we expect the price level to stabilise close to the Bank of England's 2% target from 2022 onwards, as these temporary factors will be mitigated by labour market dynamics resulting from the hysteresis effect of the pandemic and a fiscal policy starting to be less supportive of the economy.

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

Fiscal policy will remain broadly accommodative in the coming quarters, notably through public investment, but support measures will start to fade from autumn 2021 and taxes will rise from 2023. The furlough and self-employed support will end at the end of September 2021, as will the increase in unemployment benefits, while the stamp duty holiday, which was already partly cut in July, causing a decline in the momentum of house prices in July, will end on October 2021. 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 a GBP 25bn a year increase in corporation tax and income tax. The increase in corporation tax 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 2m employments still furloughed, the latest unemployment rate (4.8% in July 2021) 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 6.9% 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 102% at the end of 2020, up 16 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. Monthly trade statistics show a reallocation of some trade with the EU to non-EU countries since the start of 2021, particularly in UK imports. The volatility of this data suggests, however, that it is too early to assess whether this reflects a short-term disruption or longer-term changes, as trade has concomitantly experienced significant disruption from Covid19. 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		2024f	
	Actual	Actual	Central	Ext.	Central	Ext.	Central	Ext.	Central	Ext.
Real GDP, % YoY	1.4	-9.8	5.6	4.9	4.3	1.4	2.0	3.0	1.5	1.8
Inflation, %	1.8	0.9	1.8	1.7	2.2	1.8	1.9	1.9	1.9	2.0
Unemployment, %	3.8	4.6	5.8	5.9	6.3	7.0	5.4	6.1	4.9	5.4
Fiscal balance, % GDP	-2.3	-12.3	-10.3	-11.3	-9.3	-10.1	-6.1	-6.6	-4.5	-4.8
Public debt, % GDP	85	102	106	108	109	114	110	115	111	115

Central = Central scenario
Ext. = Extended health crisis scenario

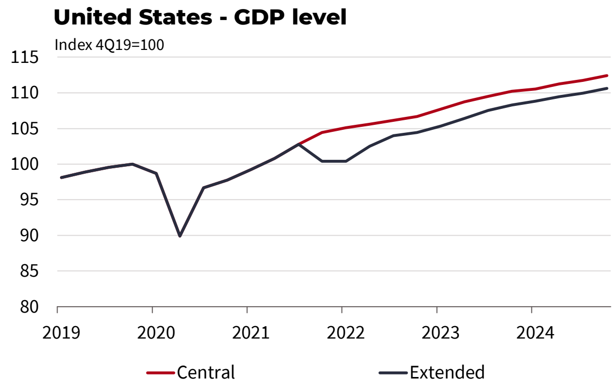
UNITED STATES

- **The US economy remains dynamic in an environment of restart and an expansive policy-mix.**
- **Inflation is expected to remain high in the coming months due to the reopening dynamics and supply side issues.**
- **Given the growth and inflation dynamics, the Fed should announce tapering in 4Q21 and normalize rates in 2023.**

The US economy remains very dynamic, also reflecting the continuation of an expansionary policy-mix. GDP growth was 6.5% QoQ annualized in 2Q21, with strong growth in consumption and business investment. Indeed, household consumption grew by 11.8% QoQ annualized with a strong catch-up in services consumption, in an environment of reduced health measures and strong growth in household incomes linked to support plans and the recovery of the labour market. Non-residential investment is also continuing on a good trend (8% QoQ annualized) in a context of favourable financial conditions and strong anticipated demand.

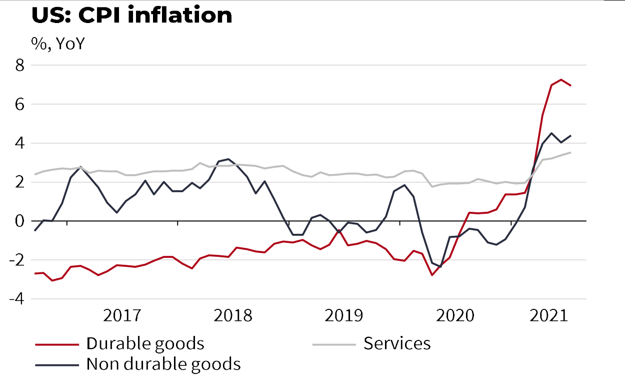
The various bottlenecks related to the health crisis (shortages of semiconductors and other production factors, rearming of production lines) have nevertheless contributed negatively to growth. Indeed, after very strong growth, residential investment contracted in 2Q21 due to shortages of raw materials and labour supply. In the same vein, international trade continues to subtract from sequential growth as inventories post a second consecutive quarter of contraction.

GDP recovered rapidly its pre-crisis level on the back of strong policy support



Source: SG Economics & Sector Studies

Inflation has significantly increased mainly on the back of transitory factors



Source: BLS, SG Economics & Sector Studies

Economic growth should remain dynamic and GDP should catch up with its pre-pandemic trend level in 2022 as the vaccination plan advances and the various support measures implemented boost domestic demand. Indeed, households and companies are emerging from this crisis with relatively strong balance sheets. For households, the gradual improvement in the labour market and the significant surplus of household savings (estimated at 8% of GDP) resulting from the various stimulus plans should translate into continued dynamism in consumption over the coming quarters.

On the corporate side, the corporate margin rate has recovered rapidly thanks to government subsidies (USD 900bn in non-repayable loans), while the USD 450bn provided by the 1Q21 stimulus package for local governments for investment purposes as well as the prospects for the adoption of the infrastructure plan by autumn should help capital spending to remain buoyant. Overall, GDP is expected to grow by 6.3% in 2021 and 4% in 2022. In the event of a sharp deterioration in the health situation, the recovery would be more modest in 2021 with 5.3% growth and 2% in 2022.

Inflation has risen significantly. It should remain high during the summer and return close to the Fed's 2% target afterwards. Indeed, inflation rose to 5.2% in July and core inflation reached 4.2%, its highest level since 2006. This strong inflationary surge reflects on the one hand the recovery of energy prices. On the other hand, it is the consequence of the strong recovery of consumption after the lifting of health restrictions, faced with a supply disrupted by the effects of the pandemic. For example, the price of car rentals increased by 74% in July, and the sale price of used cars increased by 41% (YoY). Similarly, the price of second home rentals rose by 24%. However, once the base effects have passed, inflation should gradually return to the classic "target" level of 2%.

Although the stimulus package will push GDP above its potential level, according to the US CBO the recovery should not be accompanied by signs of persistent overheating, as most of the support measures are temporary in nature. 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 robotization, globalization 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 levels), the Fed should maintain its monetary policy rate range at 0%-0.25% as well as government securities purchases in 2021. Nevertheless, given the speed of the U.S. recovery, the rise in real estate prices and the upward risk of inflation if the bottlenecks continue, the Fed should announce its plan to taper its asset purchases program on 4Q21. The first-rate hikes are expected in 2023.

Main fiscal measures taken during the Covid19 crisis (USD bn)

	CARES act	CRRSA act	ARP act
Support to corporates	**611**	**325**	**150**
PPP loans	600	284	150
Other	11	41	
Support to households	**832**	**337**	**1 000**
Extra unemployment benefits	500	120	400
Treasury checks to households	290	166	600
Other	42	51	
Education	**32**	**82**	
Health expenditures	**180**	**63**	**400**
Transport	**72**	**45**	
Support to airlines	58	18	
Support to other sectors	14	27	
Temporary tax cuts	**300**	**30**	
Other expenditures	**25**	**29**	
Equity for Fed emergency programs	510		
Support for local governments	150		350
FEMA	45		
Total	**2 757**	**911**	**1 900**
% of GDP	**13.2**	**4.0**	**8.2**

In the spring, President Biden announced a $2.25tn infrastructure and energy transition investment plan and a $1.8tn plan to increase various social benefits. Both plans would be spread over eight years and would be financed in part by tax increases on businesses and high-income households.

Congress is currently debating the infrastructure plan, where a preliminary compromise has been reached between the Democratic and Republican parties for $550bn of new expenditures over the next 5 years, which would only concern classic infrastructure (highways, bridges, airports, utilities), thus leaving out the main elements of the Biden plan for the energy transition (such as subsidies for electric cars). While an agreement in principle has been reached, there is no guarantee that this agreement will actually be voted on. A 2/3 majority is needed in the Senate to pass, and many Republican and Democratic senators have expressed strong reservations. At the same time, a group of Senate Democrats announced an agreement in principle for a $3.6tn plan, which includes the main points of the two Biden plans (infrastructure and social benefits). All the Republican senators have already opposed this plan, which would force the Democrats to go through the "reconciliation" procedure, which is also far from certain.

Even if the "reconciliation" procedure allows the adoption of budgetary measures with a simple majority (50%+1), the Democratic majority in the Senate may be insufficient, as the party has just 50 out of 100 senators and some moderate Democratic senators have expressed many reservations about this $3.6tn plan. Overall, the passage of Biden's spending plans remains quite uncertain. While there is no official deadline, Biden is counting on a debate in the coming weeks before the summer recess. Finally, given the narrow Democratic majority, whatever plan is finally adopted is likely to be less than what was originally proposed.

The main risks to the US economy are a prolongation of the health crisis and a sharp correction in the financial markets. The rapid start of the vaccination campaign has allowed the US economy to rapidly reduce the number of cases and hospitalizations and thus also reduce the restrictive measures. However, the slowdown in the vaccination campaign and the rapid increase in the number of cases/hospitalizations in certain states linked to the Delta variant may delay the normalization of the economy.

The second risk is that of a sharp correction in the financial markets. Since the initial announcement of the size of the Biden support package and the strong recovery in energy prices, long-term bond yields have risen as markets bet on a return of inflation that could lead the Fed to tighten financial conditions. This correction in the bond markets was also transmitted to the equity market. Thus, inflation that would remain well above 2% beyond the fall could tighten financial conditions at a time when the recovery in employment has not ended.

United States	2019	2020	2021f		2022f		2023f		2024f	
	Actual	Actual	Central	Ext.	Central	Ext.	Central	Ext.	Central	Ext.
Real GDP, % YoY	2.2	-3.5	6.3	5.3	4.0	2.0	3.0	4.0	2.3	2.6
Inflation, %	1.8	1.3	4.0	3.9	2.7	2.0	2.2	2.0	2.1	2.3
Unemployment, %	3.7	8.1	5.7	8.5	4.4	5.0	4.1	4.0	3.7	4.0
Fiscal balance, % GDP	-6.4	-15.4	-16.1	-16.1	-7.5	-9.4	-5.1	-6.1	-4.5	-5.0
Public debt, % GDP	80.3	103.5	109	107	111.0	113	111	114	110	115

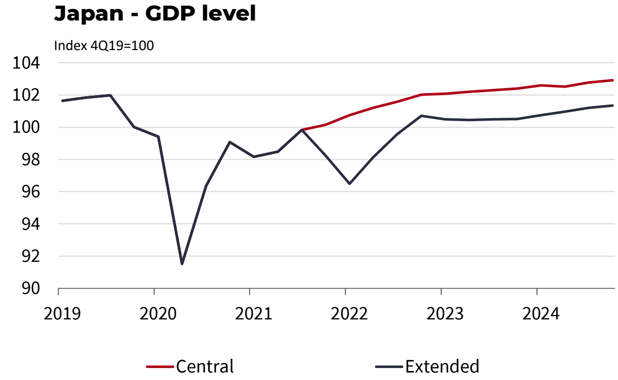
Central = Central scenario
Ext. = Extended health crisis scenario

JAPAN

- **Economic recovery delayed due to different waves of the pandemic.**
- **Inflation remains negative.**
- **The considerable fiscal stimulus of 2020-2021 will see its impact staggered over time, with public debt rising.**

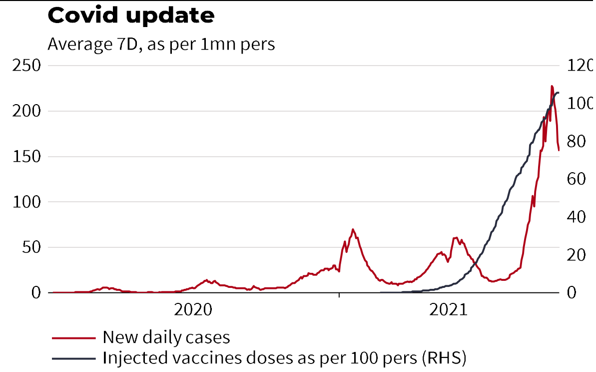
The economy is experiencing an unprecedented infection rate in August 2021 after being affected by a new wave of Covid19 since the start of 2021. The uncertainties inherent in the pandemic as well as a late vaccination campaign are hampering the recovery. A moderate rebound would then be spread over 2021 and 2022.

A delayed recovery



Source: SG Economic and Sector Research

Unprecedentedly high infection rate



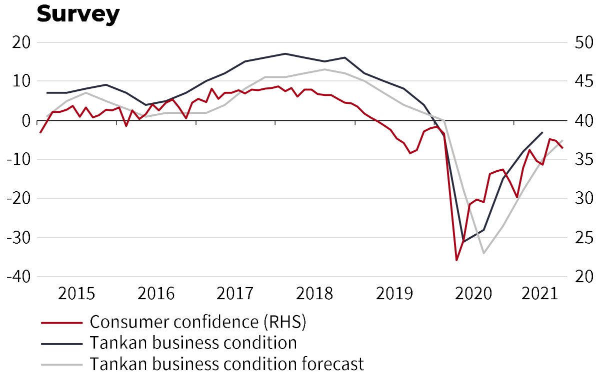
Source: University of Oxford

Another state of emergency is extended to 19 prefectures over 40 until September 30. In addition, the vaccination campaign having started late, the inoculation rate (at 40%) is the lowest among the G7 countries. Health uncertainties then continue to leave their mark on the vigor of the recovery.

Household confidence is gradually recovering in stages, but it is still quite weak. Until a critical threshold of collective immunity is reached, it is unlikely to see an unhindered rise of confidence. Despite excess savings estimated at over 5% of GDP, consumption continues to follow a winding recovery.

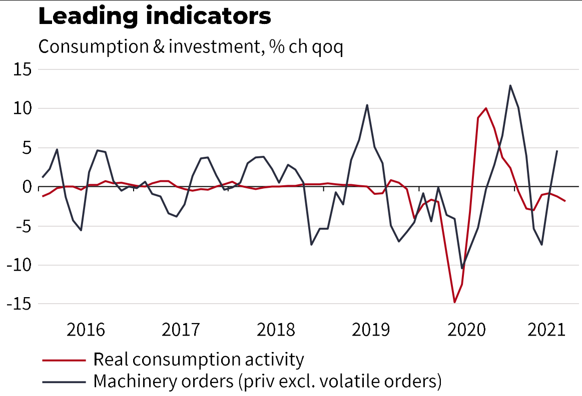
On the business side, pessimism still predominates according to the latest Tankan surveys. Even though the perception of the economy improved in 2Q, the indices remain below zero - indicating that the economic environment is considered more unfavorable. Domestic equipment orders by companies have certainly increased, but the momentum does not seem to presage a sharp rebound in investment.

Low confidence of economic actors…



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

…impacts the economic activity

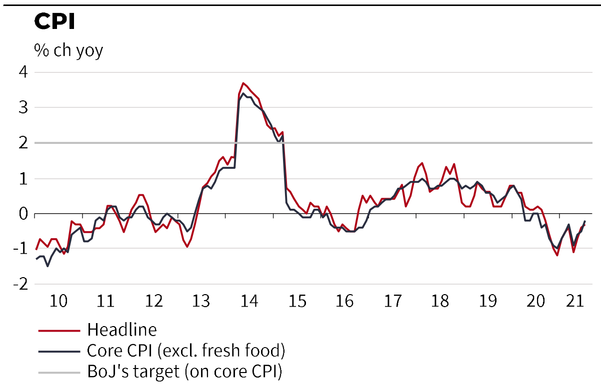


Source: Cabinet office, SG Economic and Sector Studies

The difficulty of raising inflation is even more present in such a context of low confidence. Japan's ageing society has a history of deflation. If households' 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 seven 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 commodity prices, it will remain low.

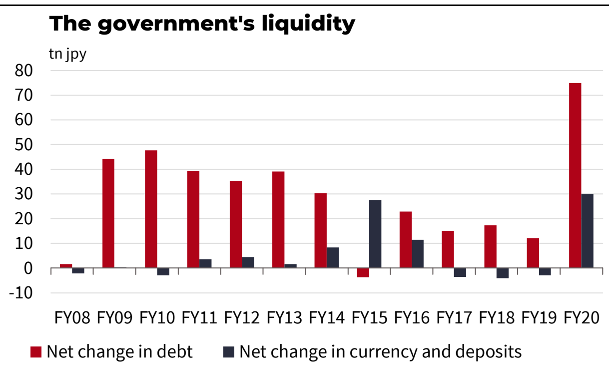
Faced with such a risk, an extra budget is under discussion. The fiscal stimulus effort was already considerable in fiscal year 2020-2021. However, an exceptional amount of funds raised through the issuance of debt was not all spent, the liquidity that the government had accumulated was also exceptional. This liquidity will then help to ensure the implementation of current and upcoming fiscal measures. Fiscal stance remains relatively accommodative.

Inflation remains weak



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

Stimulus will serve 2021-2022



Source: Cabinet office, SG Economic and Sector Studies

On the monetary side, the objective of maintaining extremely favourable financing conditions has not changed despite some minor changes 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 explaining a fairly wide fluctuation band for long 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 JPYtn**
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**		**2024f**	
	Actual	Actual	Central	Ext.	Central	Ext.	Central	Ext.	Central	Ext.
Real GDP, % YoY	0.0	-4.7	2.7	2.2	2.3	0.1	0.8	1.8	0.5	0.6
Inflation, %	0.5	0.0	-0.2	-0.3	0.9	0.4	0.6	0.8	0.5	0.6
Unemployment, %	2.3	2.8	2.9	2.9	2.7	3.0	2.7	2.8	2.6	2.7
Fiscal balance, % GDP	-3.1	-12.6	-9.4	-9.4	-3.8	-3.8	-2.5	-2.5	-2.3	-2.3
Public debt, % GDP	235	256	256	256	254	254	253	253	253	253

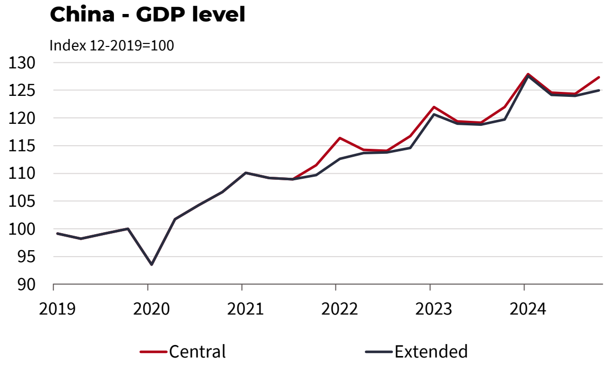
Central = Central scenario
Ext. = Extended health crisis scenario

CHINA

- **The recovery is losing steam…**
- **… prompting a cautious comeback of policy accomodation.**
- **Credit risk is manageable, but will reamian a topic of market focus.**

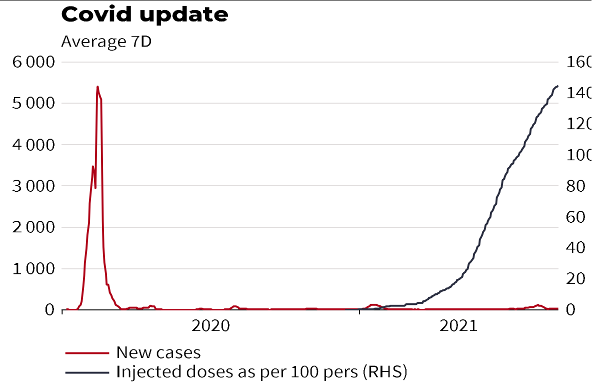
The strength of the economic recovery is weakening. A cautious return of growth support measures will offset the disruption linked to the resurgence of Covid19 infections and the brake due to the normalization of the previous stimulus. Growth will gradually return to its long-term trend in the following years, i.e. a level lower than the pre-Covid19 period.

Lower GDP growth in an extended crisis scenario would require more stimulus



Source: SG Economic and Sector Research

Health crisis under control with zero tolerance strategy



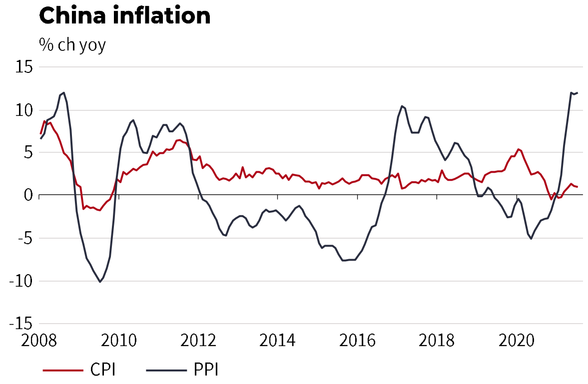
Source: Our World on Data, SG Economic and Sector Research

Despite an advanced vaccination campaign (1.4 doses injected per capita), China continues to apply the so-called "zero Covid" strategy. Thus, strict controls are maintained at the border and as soon as the first domestic cases appear. The extent of contamination is quickly circumscribed, but disruptions to economic activity are inevitable even if they are short-lived.

In addition, the impact of deleveraging (started in 4Q20) is materializing. Added to this is a squeezed margin of small and medium-sized companies due to the rise in production prices accompanied by a lack of inflation in consumer goods.

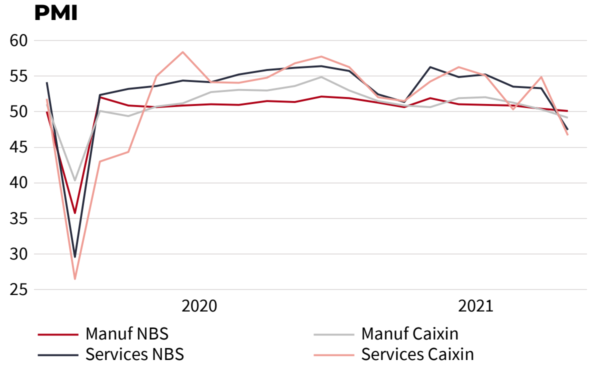
In this context of growing risk of slowdown, the a more supportive policy-mix is coming back.

Squeezed margin for SMEs



Source: NBS, SG Economic and Sector Studies

Weakened recovery



Source: NBS, Caixin, SG Economic and Sector Studies

Fiscal measures	Size CNY/bn
2020	
Special local government bonds	3,500
Special central government bonds	1,000
Increases in general government spending and social security outlays*	600
Reduction in social security charges and tax*	1,500
Total	6,600
%GDP	6.5%
2021	
Special local government bonds	3,650
Increases in general government spending and social security outlays*	600
Reduction in social security charges and tax*	500
Total	4,750
% GDP	4.3%

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

The central bank lowered the reserve requirement ratio by 50bp in July without changing the tone on the conduct of monetary policy. However, this is a first sign of a pro-growth policy versus a policy aimed at reducing the risk associated with debt.

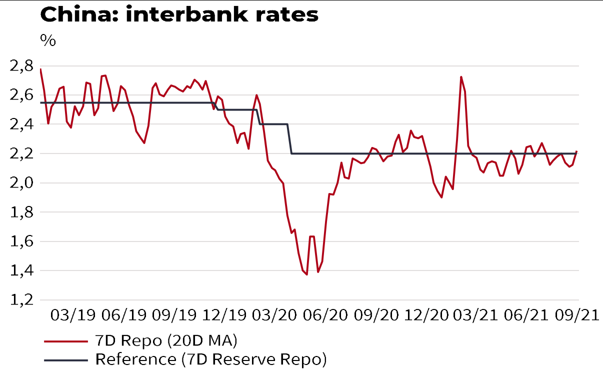
The policy-mix decision-makers do not wish to send a strong signal about possible stimulus measures. In fact, only few action announcements would be expected while support may intensify.

On the monetary side, the interbank financing rate is already low, credit growth is constrained by sector guidance. This will have a more significant impact on credit growth and can be manoeuvred with or without public communication. A relative relaxation of lending restrictions on, for example, local government financial vehicles would be a possibility.

On the fiscal side, the frugality during 1H will allow more leeway in 2H. Local governments have a quota of CNY 3650bn to issue special bonds (which are mainly destined to finance infrastructure investment). During 1H, only a third of the quota was used. This leaves possibilities for recovery without additional measures.

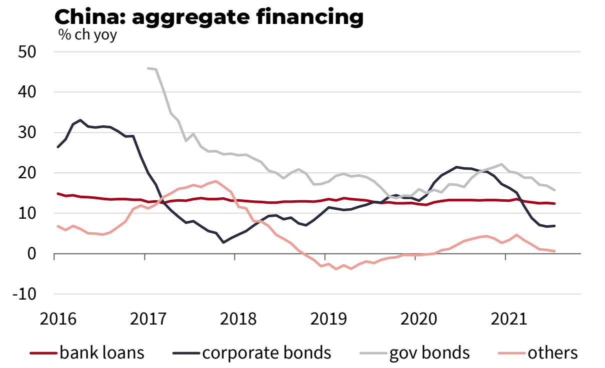
However, moving to more expansionary measures implies heavier indebtedness to local governments, while reducing their debt risk is also a priority. Caught in the dilemma, support package should be cautiously designed. This would prevent too much of a slowdown and an increase in debt. The fact that no stimulus is announced at this stage supports our working hypothesis.

Normalisation of interbank rates



Source: PBoC, SG Economic and Sector Studies

Credit cycle is going down



Source: PBoC, SG Economic and Sector Studies

As the credit tap will not be fully open, the credit risk remains. 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		2024f	
	Actual	Actual	Central	Ext.	Central	Ext.	Central	Ext.	Central	Ext.
Real GDP, % YoY	6.0	2.3	8.0	7.5	4.9	3.9	4.6	5.1	4.5	4.7
Inflation, %	2.9	2.5	1.1	1.0	2.1	1.4	2.3	2.4	2.3	2.3
Curr. account bal., % GDP	0,7	1.8	1.9	1.9	1.8	2.0	1.8	1.8	1.6	1.6
Fiscal balance, % GDP	-3.1	-4.2	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8
Public debt, % GDP	39	46	44	44	44	45	44	45	44	45

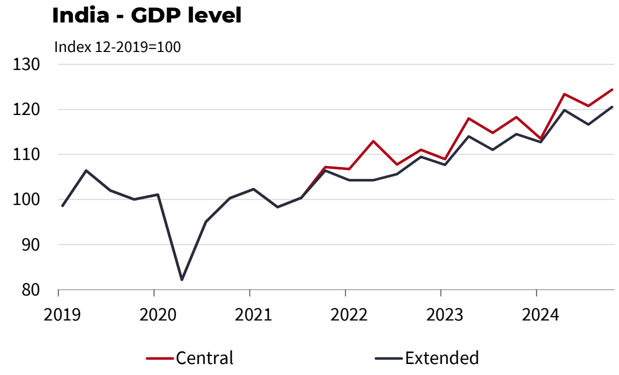
Central = Central scenario
Ext. = Extended health crisis scenario

INDIA

- **Covid19 uncertainties are weighing on the recovery.**
- **The fiscal space is very limited, the transmission of monetary policy partial.**
- **The financial system remains vulnerable.**

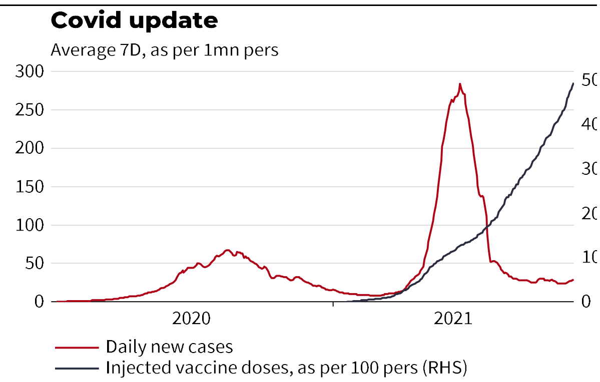
The uncertainty of a third wave of the pandemic weighs on the recovery, which was hampered by a severe wave in 2Q21. Activity will normalize once the Covid19 impact has eased, and its dynamics will converge towards a trend of long term weakened by structural problems.

Growth expected to weaken after recovery



Source: SG Economic and Sector Research

More infections, higher stringency



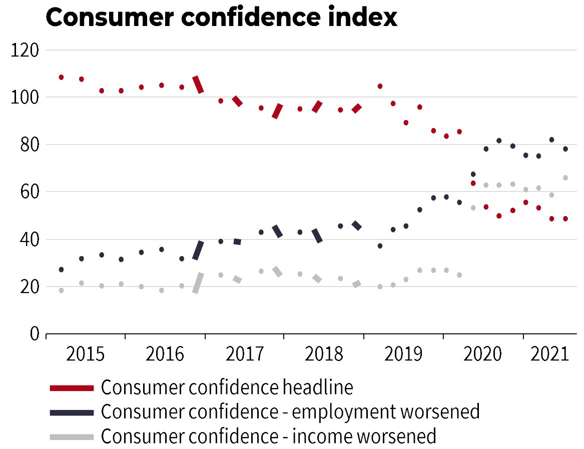
Source: Our World in Data, SG Economic and Sector Research

The vaccination rate is approaching 50 per 100 inhabitants. The progress of the campaign depends on the availability of doses and vaccine hesitancy, which seems to be higher in rural areas. With health restrictions released in the country, a possible third wave poses a threat to the already disrupted recovery trajectory.

Vulnerabilities may worsen, which undermines growth potential.

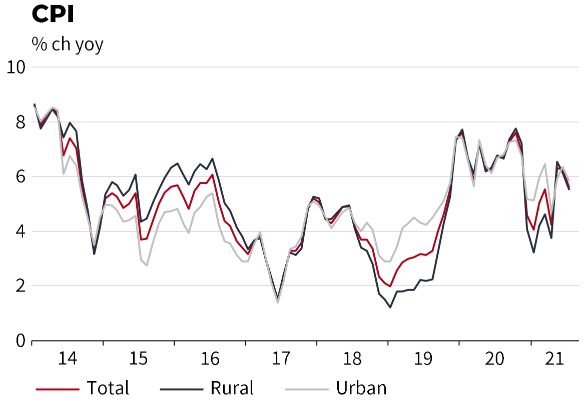
First, household confidence remains low. This probably reflects a sluggish labour market. 78% of respondents to the RBI's Confidence Survey still believe their employment situation is deteriorating in July 2021 and 66% say their income is lower. This deterioration over time is a brake on a return to normal consumption when the health situation improves.

Household confidence remains weak



Source: RBI, SG Economic and Sector Studies

Inflation constrains monetary space



Source: RBI, SG Economic and Sector Studies

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

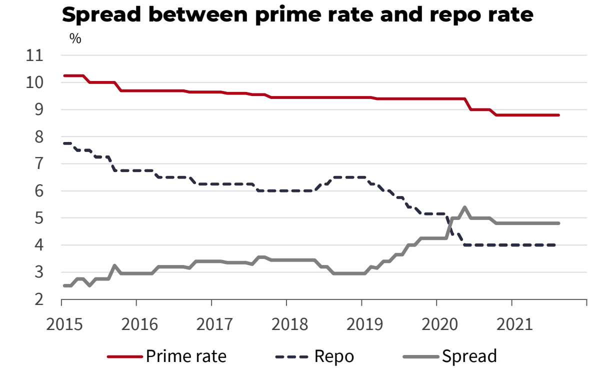
First, the government's leeway to stimulate the economy is eroded with a public debt ratio approaching 90% of GDP. The 2020 stimulus plan is, in fact, not very ambitious (less than 3% of GDP in real expenditure). The budget for fiscal year 2021-2022 provides for a 1% increase in spending but a 15% increase in revenue. Despite the Union budget being reluctant on spending, the fiscal deficit is likely to remain substantial, showing to such an extent that a stimulus policy is 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 80 mn 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

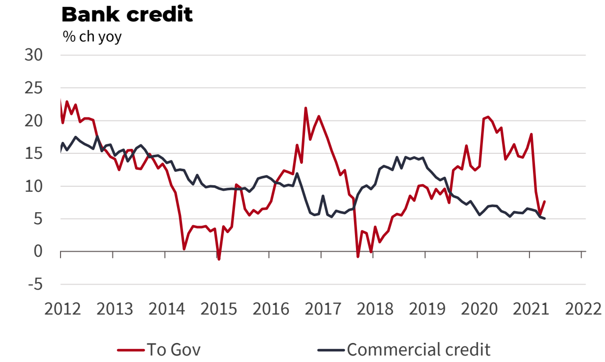
Second, the financial system is vulnerable. The transmission of monetary easing is therefore very partial. The country has already experienced a series of failures in financial institutions before the health crisis. Indian banks have a non-performing loan (NPL) ratio of 7.5% in 1Q21. But this ratio, according to the RBI, is set to increase to 9.8% in March 2022 based on a PIB growth scenario of 9.5% in 2021-2022. Public banks, representing 60% of the country's banking assets, are said to see their NPL ratio increase from 9.5% to 12.5%. 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 inflation is near the upper limit of the RBI (2%-6%), 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		2024f	
	Actual	Actual	Central	Ext.	Central	Ext.	Central	Ext.	Central	Ext.
Real GDP, % YoY	4.0	-6.0	9.5	8.4	6.2	4.2	5.2	5.7	5.0	5.2
Inflation, %	4.8	6.2	5.6	5.4	4.6	4.1	4.2	4.5	4.1	4.3
Curr. account bal., % GDP	-0,9	1.0	-1.2	-1.2	-1.6	-1.6	-1.7	-1.7	-2.0	-2.0
Fiscal balance, % GDP	-7.4	-12.3	-10.0	-10.0	-9.1	-10.3	-8.4	-8.0	-8.0	-7.8
Public debt, % GDP	74	90	87	87	86	86	86	86	85	85

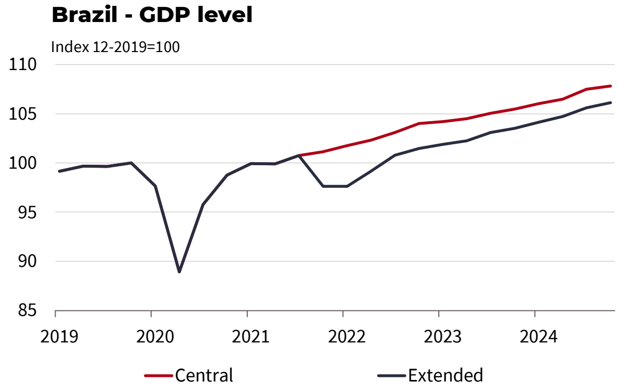
Central = Central scenario
Ext. = Extended health crisis scenario

BRAZIL

- **Activity has quickly returned to its pre-crisis level, but is expected to slow due to sluggish private consumption.**
- **The BCB has continued to tighten monetary conditions in the face of sharply accelerating inflation.**
- **The main risk is a disorderly fiscal adjustment as public debt parameters have deteriorated.**

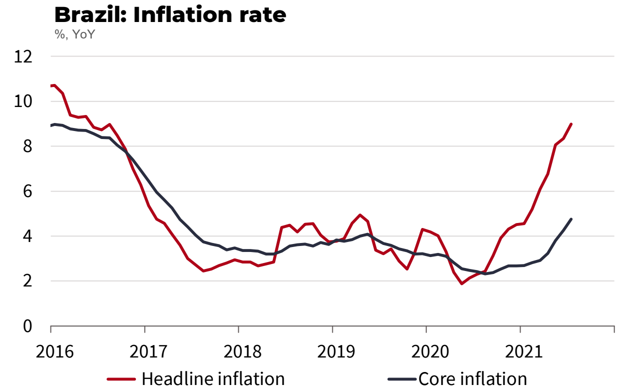
The economy is rebounding from the shock thanks to strong fiscal support and resilient external demand. Real GDP stagnated in 2Q21 (12.4% in YoY but 0% in QoQ), reflecting sluggish domestic demand. Indeed, after a strong recovery at the beginning of the year, investment contracted in 2Q21 (-3.6% QoQ, +32% in YoY) due to tighter financial conditions. Private consumption remained stagnant during the year in an environment of declining government transfers as well as worsening health conditions that led some local governors to impose restrictive measures. The external sector thus remains the main factor supporting the economy. Exports grew by 9% QoQ (14% in YoY) mainly on the back of price increases for agricultural and mining products.

GDP reached its pre-crisis level mainly on the back of higher commodities prices



Source: SG Economics & Sector Studies

Inflation has risen significantly as a result of the rise in food and energy prices.



Source: IBGE, SG Economics & Sector Studies

After a contraction of 4.1% in 2020, the economy is expected to grow by 5.6% 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 a prolonged 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 major social distancing measures and has announced that its main health policy is vaccination. In the event of a prolonged health crisis, GDP growth would only reach 4.8% in 2021 and 0.2% in 2022, affected by a less favourable global context and higher uncertainty.

"Above the line" fiscal measures	Size R$/bn
Health expenditures	2
Transfers to unemployed or informal workers of BRL 600 per month	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**
% of GDP	**9.0**

Inflation dynamics have continued to deteriorate markedly in recent months in an environment of sharply rising commodity prices and adjustments in administered prices. Inflation rose sharply from 4.5% in February to 9% in July, well above the central bank's target of 3.75%. Much of this inflationary pressure reflects the sharp rise in food prices (+13.5% in July) but also the strong recovery in transport (+16%) and housing (+11%) prices.

Given this strong acceleration, the BCB decided to raise its key rate by 350bps since February to 5.25% 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 (3% in July), non-tradable goods inflation is at 4% and inflation expectations for 2022 remain anchored at 3.5%. 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 pass-through of the exchange rate to prices, and the BCB's strong monetary tightening, inflation is expected to gradually move back towards the central bank's target from the second half of the year.

The main risk to the outlook is a disorderly fiscal adjustment. Given the depth of the recession in 2020 and the extent of the fiscal stimulus implemented, public debt increased from 74% of GDP in 2019 to 84% in July 2021. Interest rates on public debt in local currency have remained contained, and currency depreciation has had little effect on the overall public debt burden, as most debt is issued in local currency.

The measures that have been taken and the "golden fiscal rule" (primary expenditure growth cannot exceed the previous year's inflation) are expected to be more binding in the coming quarters. Nevertheless, rising inflation and monetary tightening are already beginning to affect local currency rates and are expected to increase the debt burden as it is 2/3 indexed to these elements.

A more sustained return to inflation could trigger a rise in local currency rates, which would tighten credit conditions and force 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 the government will not comply with the fiscal rule in 2021 in the run-up to the 2022 general election, which would imply a further deterioration of the public accounts.

Finally, the persistence of the political crisis climate, with tensions between Bolsonaro and the Supreme Court and Congress and the approach of the 2022 presidential campaign, could also deteriorate the economic environment.

Brazil	**2019**	**2020**	**2021f**		**2022f**		**2023f**		**2024f**	
	Actual	Actual	Central	Ext.	Central	Ext.	Central	Ext.	Central	Ext.
Real GDP, % YoY	1.4	-4.1	5.6	4.8	2.3	0.2	2.0	3.6	2.0	2.5
Inflation, %	3.7	3.2	6.8	6.8	4.0	2.6	3.5	3.3	3.3	3.3
Curr. account bal., % GDP	-3,5	-1.8	-0.3	0.5	-0.8	-0.2	-1.5	-1.0	-2.2	-2.2
Fiscal balance, % GDP	-5.9	-13.7	-7.5	-10.0	-7.0	-8.0	-6.0	-5.5	-5.0	-5.0
Public debt, % GDP	74.3	88.8	89	93	91	96	110	98	96	100

Central = Central scenario
Ext. = Extended health crisis scenario

RUSSIA

- **The growth rebound in Russia is driven by the service sector despite the resurgence of the health crisis since June 2021.**
- **Inflation continues to accelerate and has reached its highest level since 2016. In this context, monetary policy has become more restrictive since March 2021.**
- **Despite increased spending to support households in the run-up to the September parliamentary elections, fiscal policy remains conservative. However, pressures to implement a large stimulus, particularly through major national projects, are increasing within the administration itself.**

The Russian economic rebound will be limited in 2021-2022 in a context of a restrictive policy-mix and persistent underinvestment.

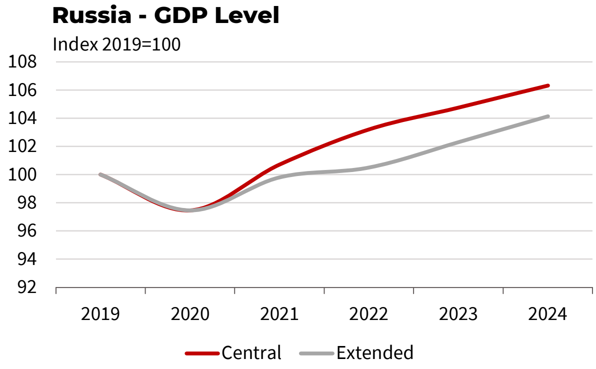
Thanks to a strong rebound in 2Q21 (10.3% YoY) linked to the base effect and to the recovery in the services and construction sector, Russian GDP is back to its pre-crisis level. However, growth could slow slightly over the rest of the year due to an upsurge in the health crisis (third wave of Covid19 in June-July 2021) and to constrained domestic demand.

The main driver of growth in 2021 will remain private consumption. In August-September 2021, the increase in social benefits of around 1% of annual household income (support for families with children and pensioners) will further support consumption in the run-up to the parliamentary elections due in September. These stimulus measures will support GDP growth between 0.2 and 0.3 pp this year.

If investment has been supported by a higher oil price, production restrictions under the OPEC+ deal are expected to remain in place until at least 2022. Indeed, the September 2021 meeting of the OPEC+ confirmed the cautious stance in adjusting the overall monthly output upward. In addition, the implementation of the national project program remains very slow and will continue to weigh on the investment dynamic.

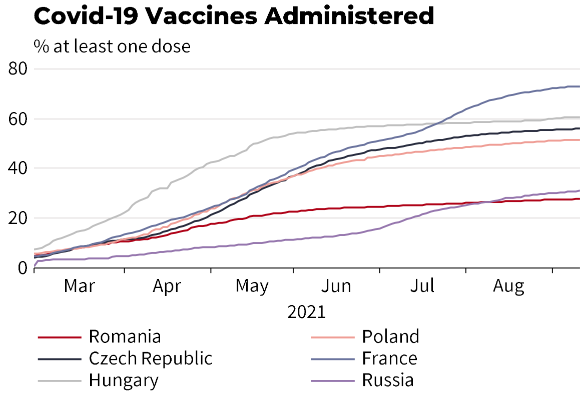
In 2022, economic growth will slow to 2.5% due to still conservative fiscal and monetary policies and to sluggish investment. In addition, the recovery in Europe will be long and oil prices will remain constrained (65 USD in 2022) due to the expected increase in world oil supply. In the medium term, growth will remain sluggish, around 1.5% due to a lack of investment and in particular to the slow implementation of the national projects program.

Growth rebound will be limited due to a restrictive policy-mix, under-investment…



Source: SG Economic and Sector Studies, Refinitiv

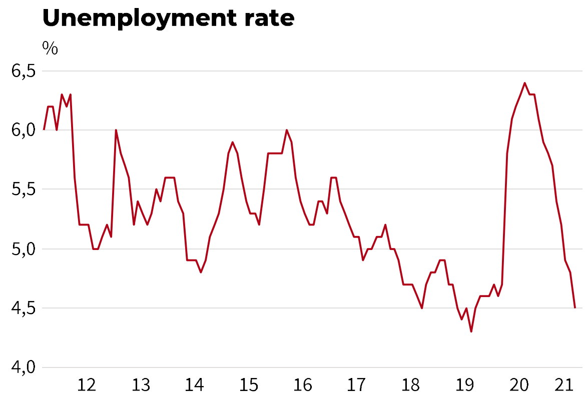
… and to resumption of the health crisis in a context of low vaccination coverage



Source: SG Economic and Sector Studies, Refinitiv

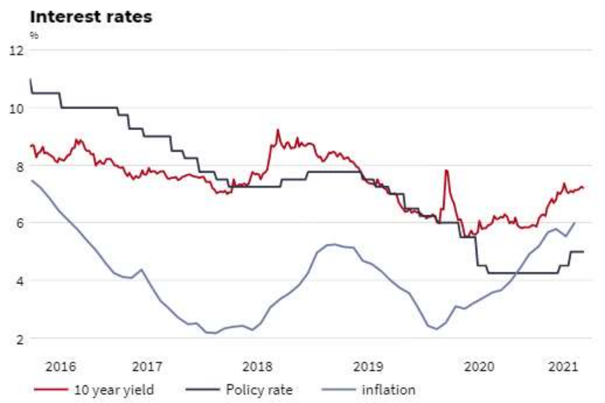
Inflation accelerated in 2021 and could reach 5.8% on average over the year due to external and domestic factors. On the external front, high commodity prices, rising shipping costs as well as supply constraints (for instance shortage of semiconductors) have pushed up prices. On the domestic front, real wages have been increasing rapidly over the past months (4.9% YoY in June 2021) in a context of tensions on the labour market: falling unemployment rate (4.5% in July) and labour shortages in several sectors. Inflation could decelerate slightly in the second half of the year, as the impact of the initial pick-up in consumer spending is expected to subside after the economy reopens. Over the 2022-2025 period, inflation will remain close to the CBR's 4% target, given the weakness of domestic demand and the expected low volatility of the rouble in a context of stable oil prices.

Inflationary pressures have increased due to global and domestic factors



Source: SG Economic and Sector Studies, Refinitiv

In this context, monetary policy has become more restrictive since March 2021



Source: SG Economic and Sector Studies, Refinitiv

In the medium term, pressures to increase fiscal spending and revive large national projects are increasing within the administration itself. The Ministry of the Economy has made proposals to the Ministry of Finance to increase spending for 2022-2024 by a cumulative amount of RUB 1.8tn. This is an unusual development since in the past the Ministry of the Economy only prepared the macroeconomic scenarios subsequently used by the Ministry of Finance to present its budget plan. Several arguments plead for a revival.

In addition to the electoral agenda (parliamentary elections of September 19, 2021), a fiscal stimulus would be justified by the slowness of the Russian economic recovery, the rebound in 2021-2022 being well below the world average: according to IMF forecasts published in Spring 2021, Russian GDP will exceed its 2019 level by 4% in 2022 while the global economy and the United States are 8% above their 2019 level and emerging countries on average 9% above their 2019 level. Second argument, fiscal revenues have shown very good performances in 2021 (+ 24% YoY in H1-21). The fiscal breakeven will reach 60$/b end- 2021 against 80 USD/ barrel in 2020. Moreover, the rise in inflation observed this year would justify a faster indexation of wages and pensions. Despite these arguments for fiscal stimulus, the most likely scenario is a moderate support through increased spending by the National Wealth Fund. This revival through the National Weath Fund will be limited as the accumulation of FX reserves remains a priority, especially as concerns are growing about the costs involved in a transition to a low-carbon economy. Indeed, a recent study by Anatoly Chubais estimates that it could cost up to 10 points of GDP.

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.

Russia	**2019**	**2020**	**2021f**		**2022f**		**2023f**		**2024f**	
	Actual	Actual	Central	Ext.	Central	Ext.	Central	Ext.	Central	Ext.
Real GDP, % YoY	1.8	-2.5	3.3	2.1	2.5	0.2	1.5	1.7	1.5	1.7
Inflation, %	4.5	3.4	5.8	5.0	4.0	3.0	4.0	3.7	4.0	3.7
Curr. account bal., % GDP	3.8	2.2	2.5	1.0	2.3	1.5	2.0	2.0	2.0	2.0
Fiscal balance, % GDP	1.9	-4.1	-0.7	-3.5	-0.5	-3.0	-0.5	-1.0	-0.5	-1.0
Public debt, % GDP	14	19	20	22	21	23	21	23	20	23

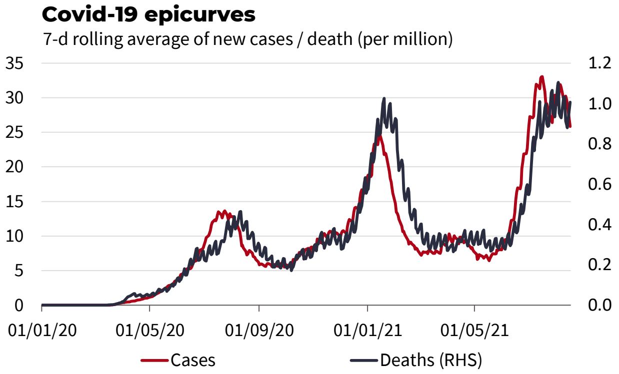
Central = Central scenario
Ext. = Extended health crisis scenario

AFRICA

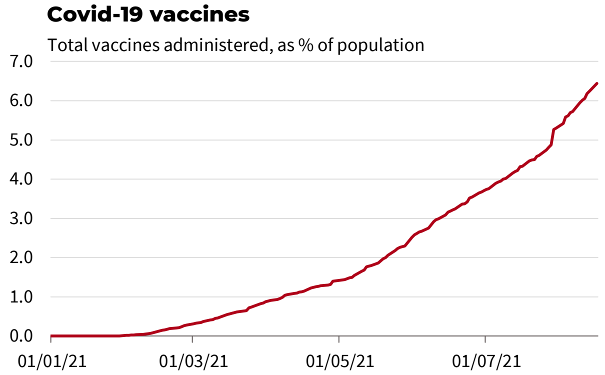
- **A new wave of Covid19 is hitting the region hard, and vaccination campaigns are progressing slowly.**
- **The rebound in growth remains insufficient: Africa's real GDP per capita will not return to its end-2019 level until 2024.**
- **Fiscal consolidation programs are now essential, but could slow growth and increase social tensions.**

A new wave of Covid19 (started in mid-May and a priori on the decline since the end of August) is hitting Africa hard, with a number of infections and deaths higher than those of the first and second waves. Like the previous ones, this wave seems, for the moment, to be concentrated in a few countries in Southern Africa and North Africa. The other countries (i.e. the majority of countries in sub-Saharan Africa) seem, as since the start of the pandemic, more spared. The problem of vaccination remains unresolved. The availability of vaccines is gradually improving, with more than 750 million doses available today - compared to a regional population of 1.3 billion - figures however significantly lower than those of other regions. But the use of these vaccines remains difficult, mainly due to i) lower rates of urbanization and less developed logistics infrastructure, and ii) persistent reluctance among local populations. Less than 10% of the African population thus received a first dose, and Morocco remains the only country to have vaccinated more than 50% of its population. At the current rate - which will be difficult to accelerate over the next few quarters - most countries are unlikely to meet herd immunity before 2023.

A third wave stronger than the first two



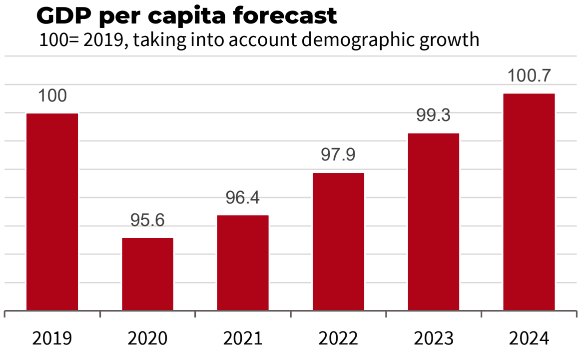
Slow progress in vaccination



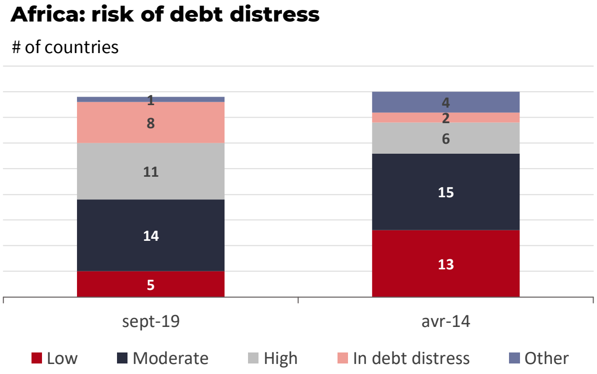
Source: SG Economics & Sector Studies, Refinitiv Datastream

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 regional economic outlook. Several recent indicators already illustrate an at least partial materialization of this risk: a slowdown in growth in 2Q21 in **Tunisia** and **South Africa** (the most affected by the third wave, as well as by major social movements in part related); disappointing PMIs in economies that are more spared - in terms of the pandemic - and usually more solid because they are more diversified (**Egypt**, **Ghana**, **Kenya**); sluggish (sometimes negative in real terms) private sector credit expansion in most countries (with some notable exceptions such as **Côte d'Ivoire**). In total, average regional growth should stand at 3.3% in 2021 (if we exclude the "technical" growth of Libya, expected at + 131% this year) then around 4% in 2022/23/24. This rebound remains largely insufficient: if we consider regional population growth of ca. 2.5%, Africa's real GDP per capita would therefore not return to its level at the end of 2019 until 2024. This regional average also continues to mask significant disparities, with nearly 15 countries expecting growth for 2021 below 2.5%.

Insufficient regional growth



Worrisome debt dynamics



Source: SG Economics & Sector Studies, Refinitiv Datastream

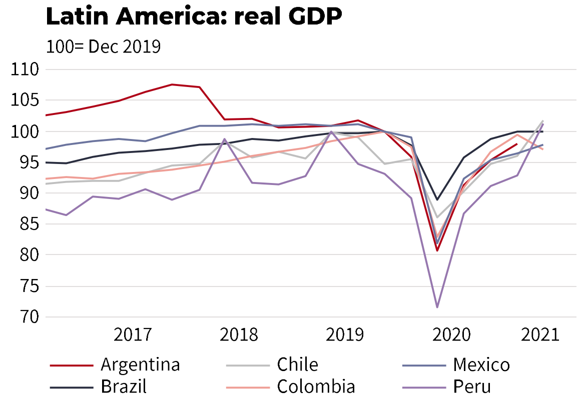
In this context, the future development of public finances will have to be watched. Countries will have to find a balance between i) the need to initiate fiscal consolidation programs capable of rapidly reducing debt ratios that have become unsustainable (with more than twenty countries in the region in a situation of over-indebtedness or presenting a high risk of over-indebtedness), and ii) their willingness to support government demand, which is one of the main drivers of pre-Covid19 growth and a too abrupt reduction would fuel social tensions and an already growing "political risk" in the region (**Algeria**, **Tunisia**, **Sahel**, **Ethiopia**, **Central Africa**, **South Africa**). For now, most countries can count on large amounts of foreign currency funding, as illustrated by record financial support from the IMF or confirmation of the growing appetite of international investors for African sovereign issues (including new "green bonds" issued by **Benin** in July or **Ghana** in August). This second source, however, remains costly overall, and rarely helps to improve debt sustainability.

LATIN AMERICA

- **Regional growth has recovered faster than expected, benefiting from the recovery of commodity prices and migrant remittances.**
- **Inflationary pressures should lead central banks to continue monetary tightening.**
- **Risks to growth remain high due to significant political and social risks and the vulnerability of commodity prices to changing health conditions.**

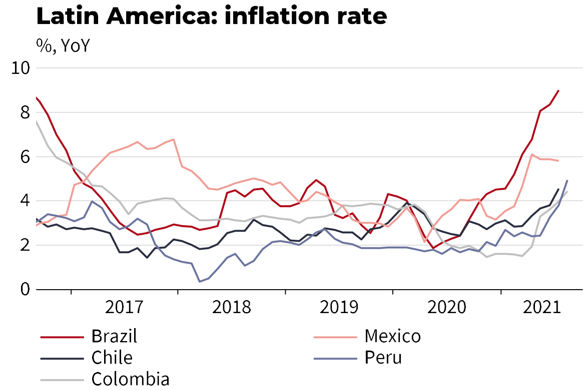
After being subdued by the economic and health crisis in Covid19, activity has recovered rapidly in most of the region's major economies. Indeed, with the exception of Argentina and Mexico, economic activity returned to its pre-crisis level in 2Q21, supported mainly by the strong recovery of commodities and significant fiscal and monetary support plans. Moreover, inflation has also risen rapidly and is above the tolerance target in most of the region's economies in a context of high energy and food price inflation. This has led central banks in the major countries to begin a monetary tightening cycle.

Higher commodity prices allowed for a faster recovery



Source: SG Economics & Sector Studies, Refinitiv

Inflation is trending upwards in most countries of the region

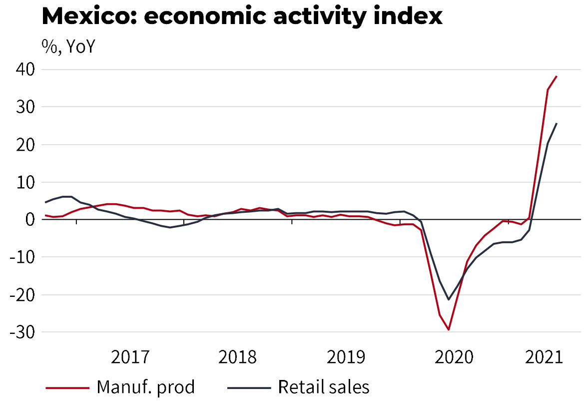


Source: SG Economics & Sector Studies, Refinitiv

Overall, regional growth is expected to remain moderate over the next few years in a favourable external environment but with a restrictive policy-mix in most countries of the region. Indeed, the recovery in commodity prices (oil, energy, agricultural) should support investment and exports in 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 remittances. On the other hand, the end of supportive fiscal policies (particularly in Brazil, Chile and Peru) and the tightening of monetary conditions should slow the growth of domestic demand. Finally, rising political and social tensions, following years of stagnating household incomes and the recent rise in food prices, and election cycles (Argentina and Chile in 2021, Colombia and Brazil in 2022) should also weigh on the investment outlook.

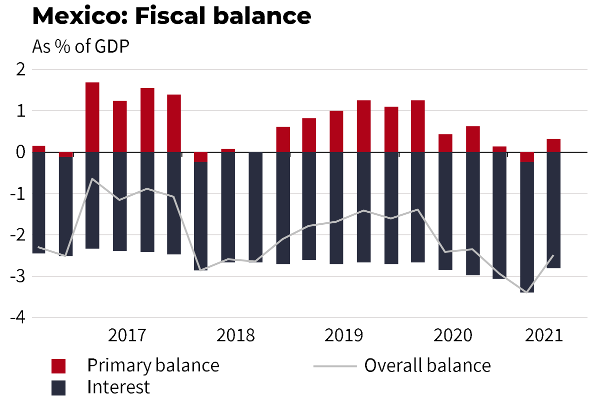
In **Brazil**, the economy has quickly returned to its pre-crisis level, supported mainly by the large fiscal support plan and the good performance of commodity prices, with the country's terms of trade at an all-time high. Inflation has also risen significantly (9% in July) under pressure from food and energy prices. Given this inflationary dynamic, the BCB is conducting a monetary tightening cycle, raising its key rate from 2% in February to 5.25% in August, and is expected to continue to do so in the coming months. Thus, economic growth is expected to remain very moderate in the coming quarters as the end of fiscal measures and the tightening of monetary conditions will slow the recovery of domestic demand.

Mexico: Solid recovery of the manufacturing



Source: SG Economics & Sector Studies, Refinitiv

Mexico: Weak fiscal support



Source: SG Economics & Sector Studies, Refinitiv

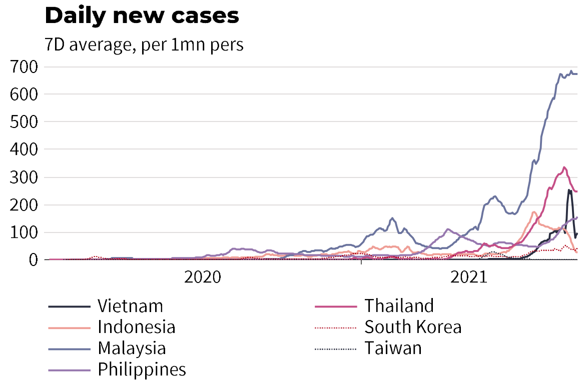
In **Mexico**, economic activity has also recovered faster than expected, being 3% below its 2019 level in 2Q21, driven, in particular, by the recovery of the US economy. Indeed, manufacturing exports increased by 15% in YoY in July and are already above pre-crisis levels. Moreover, remittances also reached their highest level in 2Q21 (3.8% of GDP), reflecting the strong growth of household income in the US, which allowed household consumption to partially recover. Inflation has moderated in recent months, stabilizing at 5.8% in July (4.6% for core inflation), but remains above the central bank's high band of 4%. This increase mainly reflects the rise in food (7.3%) and energy (10%) prices. As a result, the central bank decided to increase its benchmark rate from 4 to 4.5%. Mexico has not implemented any fiscal stimulus package and has managed to maintain a balanced primary budget balance (0.3% in 2Q21). In 2022, 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 industrial sector. On the other hand, Mexico also benefits from migrant remittances, which are expected to remain strong in 2022. Thus, the economy is expected to grow by 6.3% in 2021 and return to its pre-crisis level in 2022.

EMERGING ASIA

- **The recovery is disrupted by Covid19 outbreaks.**
- **Inflation remains in line with central bank target.**
- **Improved external fundamentals help build resilience to volatile capital flows.**

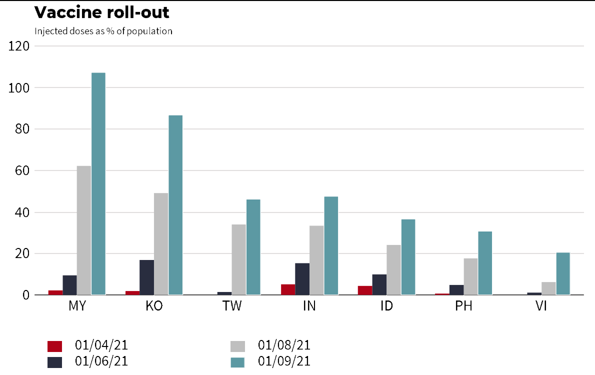
The recovery is disrupted in the region due to a wider spread of the Covid19. The economic heterogeneity remains however, the health situation offers the main explanation. The region maintains its relative performance compared to the rest of the world.

The Covid19 not totally under control…



Source: Datastream Refinitiv, SG Economic and Sector Studies

…with relatively slow progress in inoculation

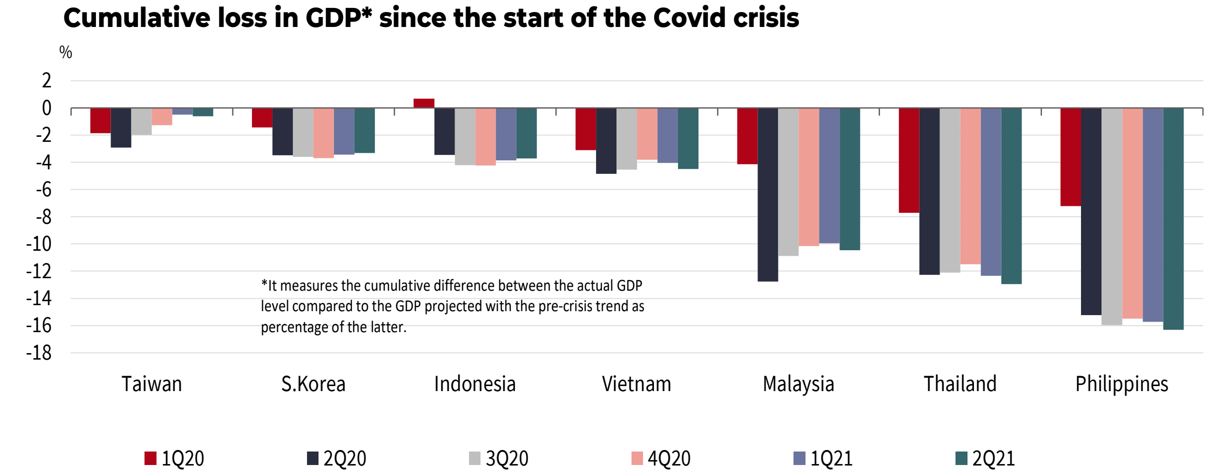


Source: Our World on Data, SG Economic and Sector Studies

The pandemic is even starting to affect economies, which until early 2021, were relatively untouched. This is the case for Thailand, Vietnam and more occasionally Taiwan. The rest of the region has not seen the health crisis abating. In addition, the progress of vaccination is relatively slow. Only Malaysia and South Korea reached a level above 80 injected doses per 100 inhabitants. The other economies are lagging behind. Faced with uncertainties due to more contagious variants, mobility remains constrained and the value chain is now more disrupted. The economic outlook is then revised downwards.

The lack of improvement in the health crisis translates into almost no catching up of GDP compared to its pre-crisis trend. The countries are divided into two groups. The first (Korea, Indonesia and Vietnam) recorded a loss of less than or close to 4 percentage points of GDP while the second (Malaysia, Thailand and the Philippines) more than 10 percentage points. Only the Taiwanese economy almost recovered from the loss in GDP (which is also more moderate), but the gap widened again in 2Q 2021 as the island was hit by its first Covid19 wave.

No catching up of GDP compared to its pre-crisis trend



Source: Datastream Refinitiv, SG Economic and Sector Studies

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

Unlike other emerging regions, the inflation risk is not high or permanent enough for monetary tightening.

First, the level of inflation is rather in line with central bank targets and, above all, core inflation remains fairly low. Second, the base effect is expected to subside from 3Q21, which is already happening in Malaysia and Thailand. Finally, international food and commodity prices have a limited impact on inflation in emerging Asia unlike other countries that have increased interest rates such as Brazil, Mexico, Russia, Angola and Mozambique. Indeed, a percentage point increase in the international price is often associated with only between 0.01 and 0.03 percentage point increase in the consumer price in emerging Asian economies.

Inflation in Emerging Asia

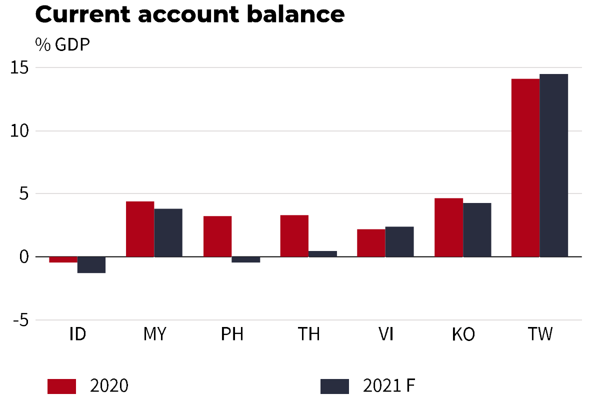
%	ID	MY	PH	TH	VI	KO	TW
Inflation 1Q21	1.4	0.5	4.5	-0.5	0.1	1.1	0.8
Inflation 2Q21	1.5	4.2	4.4	2.4	2.4	2.5	2.1
Inflation in July 21	1.5	2.2	4.1	0.5	2.4	2.6	2.0
Core inflation 1Q21	1.4	0.7	3.5	0.1	0.7	0.4	0.9
Core inflation 2Q21	1.3	0.7	3.2	0.4	1.1	1.1	1.5
Core inflation in July 21	1.4	0.7	3.0	0.5	1.1	1.2	1.3
Inflation target	2-4	3-4	2-4	1-3	4	2	--

Source: Datastream Refinitiv, SG Economic and Sector Studies

Only South Korea proceeded to a rate hike, but it was rather justified by an excessively rapid growth in property prices. In the rest of the region, monetary policy should not be a constraint on the recovery.

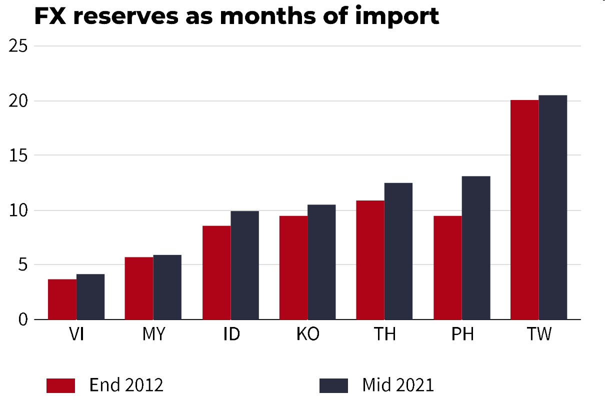
Regarding public finances, all countries have seen their public debt-to-GDP ratio increase in 2021. The margin for additional stimulus has eroded, but has not completely disappeared, especially for fiscal tools with a sufficiently high multiplier. Only Malaysia has a ratio close to 70% of GDP at the end of 2020, those of other countries should not exceed 50% or little.

Weak or absent need in external financing



Source: Datastream Refinitiv, SG Economic and Sector Studies

Comfortable external buffer



Source: IMF, SG Economic and Sector Studies

Regarding the external balance, countries are quite well armed against fluctuations in capital flows. Countries initially benefited greatly from the recovery in international trade and saw their trade balances grow in 2020 and part of 2021, with the exception of the Philippines and Thailand. Their foreign exchange reserves have also increased substantially. While Taiwan and South Korea are traditionally endowed with large foreign exchange reserves, those of Indonesia - often considered sensitive to fluctuations in foreign capital - have climbed 14% since March 2020, covering 10 months of imports.

These fairly solid external fundamentals should allow the region to be relatively resilient in the face of a risk of a turnaround in foreign capital, such as the risk of tapering.

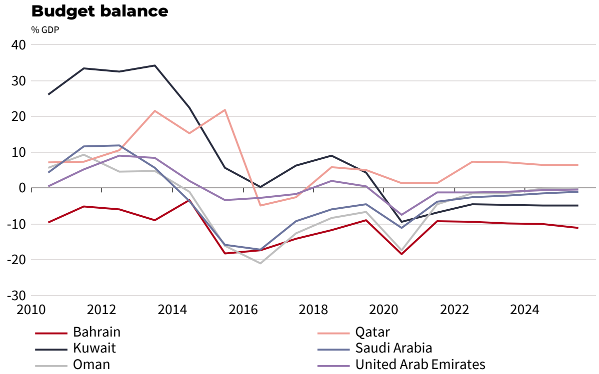
GULF STATES

- **Rising oil prices improve macroeconomic fundamentals.**
- **Sovereign debt issuance has slowed in 2021.**
- **Structural challenges related to productive diversification remain.**

The Covid19 crisis and the subsequent fall in oil prices in 2020 highlighted the vulnerability of Gulf countries due to their heavy dependence on oil revenues. Even before the pandemic, the decline in oil prices since 2014 has generated significant fiscal and external imbalances and resulted in large financing needs. Some countries, such as Oman and Bahrain where the situation has deteriorated the most, have faced higher financing costs.

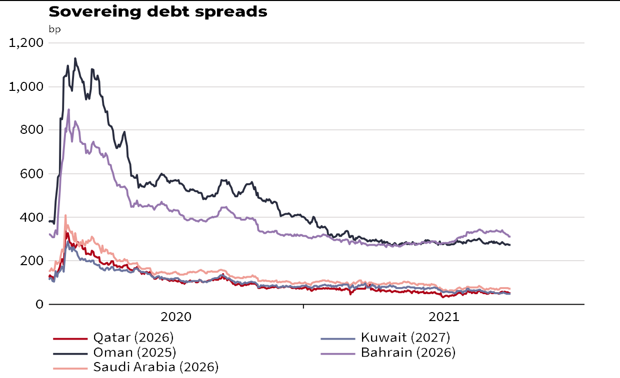
The rebound in the price of crude in 2021 (which in mid-September hovered around $73/b, or 70% above the 2020 average) is softening the blow to the Gulf countries, but the economic fallout from the Covid19 crisis is still very much present. Financial conditions are improving and budget deficits are narrowing, but business and travel hubs (such as the UAE) are still feeling the impact of the pandemic on the aviation and hospitality sectors. Employment across the region is declining, leading to an exodus of migrant workers, which is affecting the retail sector and the real estate market. Economies are expected to rebound as the global economy recovers and local vaccination campaigns run at a brisk pace, but economic growth is expected to remain lower than before the pandemic.

Budget deficits are shrinking



Source: Eikon Thompson Reuters

Financial conditions are improving



Source: FMI, World Economic Outlook

The fiscal breakeven oil price (i.e., the price per barrel that allows for balanced public finances) has generally declined ($69/b on average in 2021 according to the IMF compared to $74/b in 2018) as governments try to increase revenues (phasing in of VAT including in Oman, which had been lagging behind) and reprioritize spending such as cutting back on non-essential investment projects.

Saudi Arabia, Qatar, and the United Arab Emirates, which have external assets in their sovereign wealth funds, are in a better position than Bahrain and Oman to moderate adjustments in subsidies and civil servants' salaries, and thus limit social costs. Oman is expected to make further progress in fiscal adjustment, but rising debt service will keep financing needs high.

Gulf countries budgets are likely to remain largely unbalanced in the medium term. Governments will therefore have to continue to turn to the debt markets, albeit on a smaller scale in 2021 than in 2020 when international sovereign bond issuance reached a record level of USD 66.3bn. Due to a lower self-financing capacity for infrastructure projects, state-owned companies, on the other hand, have significantly increased their debt in the first half of 2021 (USD 12.5bn issued by Qatar Petroleum, USD 6bn by Saudi Aramco among others), trying to take advantage of cheap interest rates and abundant global liquidity.

The main factor of uncertainty for the region is still related to the volatility of oil prices. At around \$70/bbl, Brent crude is currently above its 20-year average of \$66/bbl, but oil futures (and our forecasts) point to lower prices in the future with a slow recovery in global demand and the risk of non-compliance with OPEC's production agreements.

The region has long been trying to prepare for medium-term challenges and to reduce its dependency on the highly fluctuating oil rent. Beyond fiscal consolidation, the various national economic development plans envisaged by the Gulf monarchies focus on economic modernization, renewable energy development and reforms to insulate government revenues from oil price volatility. However, this transition is not without obstacles, with considerable challenges in the labor market (differential treatment of national and migrant workers, higher wages in the civil service than in the private sector) and market regulation (favorable to state-owned enterprises), which are seen as barriers to private sector development.

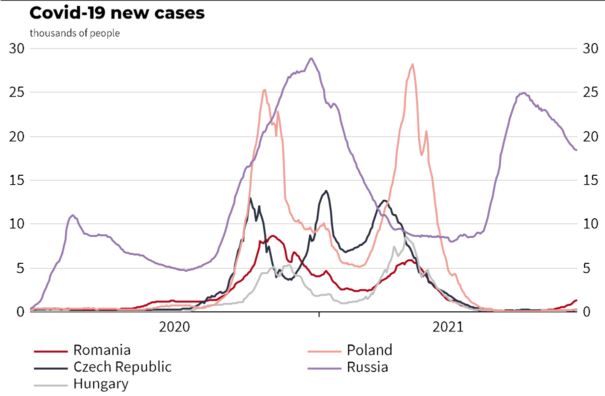
CENTRAL AND EASTERN EUROPE

- **The 2021 rebound will be limited in CEE due to rising inflation, that is weighing on domestic demand.**
- **Inflation has been rising on the backdrop of higher commodity prices, rising shipping costs and tight labor markets that leads to hawkish monetary policies in the region.**
- **Beyond 2021, growth in CEE could accelerate thanks to faster productivity gains and to EU funds – both structural funds and European recovery fund approved end-2020.**

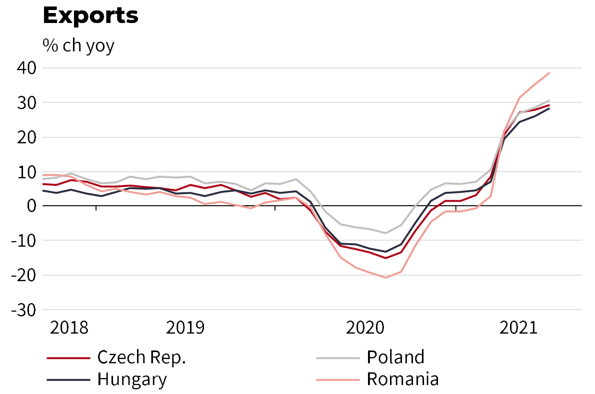
After the disappointing performance in 1Q21 linked to an upsurge in the Covid19 epidemic, regional growth rebounded in 2Q21 with the lifting of containment measures. On the demand side, the region has benefited from strong international trade, thanks to an export sector well integrated into global value chains. Investment also rebounded as household consumption was held back by a pickup in inflation and the phasing out of support measures. On the supply side, industrial production has also rebounded strongly since March 2021. Retail sales, on the other hand, are less dynamic, especially in the Czech Republic and Poland, where the third wave of Covid19 was more acute.

In addition, progress in terms of vaccination has been uneven with countries such as Bulgaria and Romania at the back of the pack and countries such as Poland or the Czech Republic which have 50 to 60% of their population vaccinated.

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



CEE countries are benefitting from booming exports



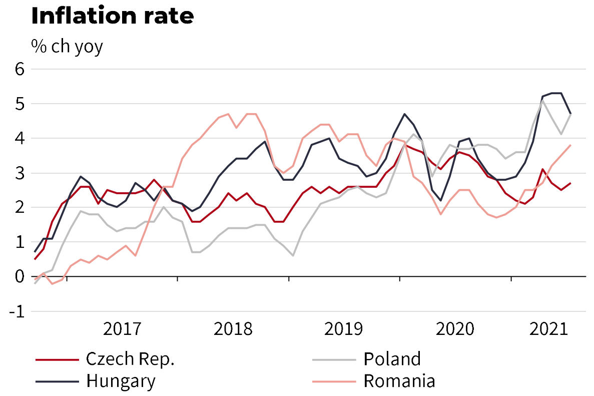
Source: SG Economics & Sector Studies, Refinitiv

Inflationary pressures have increased since the start of the year and have led to a tightening of monetary policies in the region. Inflation has accelerated in the region for several reasons. Rising commodity prices, coupled with low inventories and rising transportation costs (in part due to the shortage of freight containers) pushed up producer prices. The manufacturing industry is also facing a shortage of semiconductors. In addition to these global factors, the rise in inflation in the CEE countries is also linked to region-specific features namely tensions in the labour markets, a shortage of workforce in a context of declining active population.

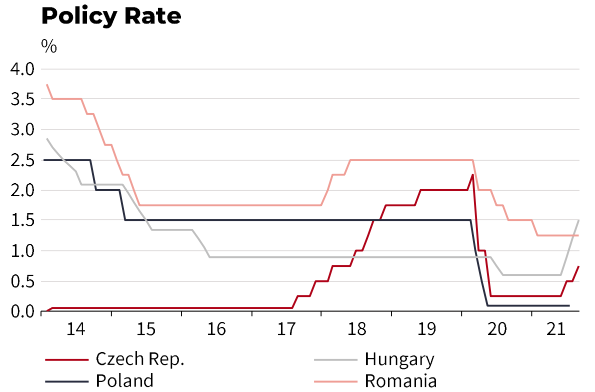
In this context, central banks increased their key rates in several countries. The Czech and Hungarian central banks were the first to raise their key rates. The Hungarian Central Bank has also announced a cut in its asset purchase program. The central banks of Romania and Poland may also have to end their quantitative easing earlier and raise rates.

However, these rate hikes should be watched as they weigh on household disposable income. In addition, the slight increase in long-term bond yields in most countries could also weigh on costs and therefore on the financing capacity of companies and households.

Inflationary pressures have been increasing recently in CEE…

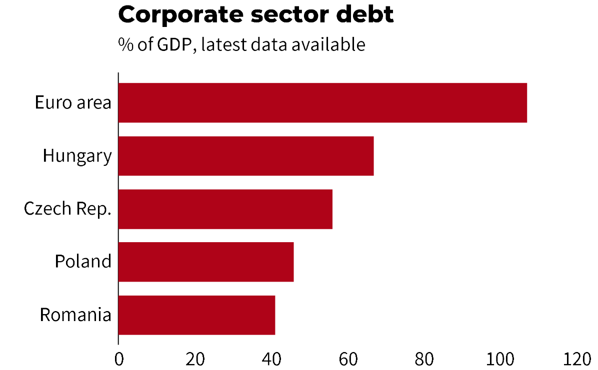


… and led to monetary policy tightening in the region

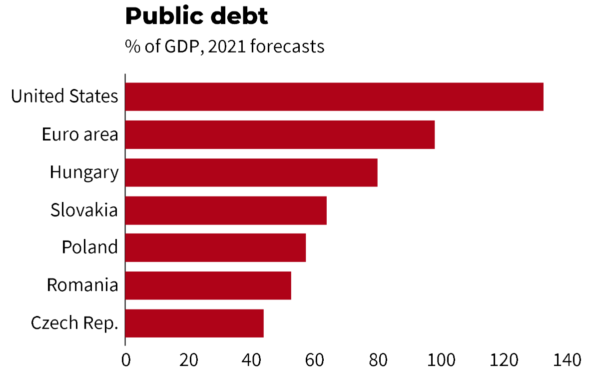


Source: SG Economics & Sector Studies, Refinitiv

CEE economies should recover more quickly than developed economies as companies in CEE post reasonable level of debt…



… and there are some budgetary margins thanks to sustainable public debt levels



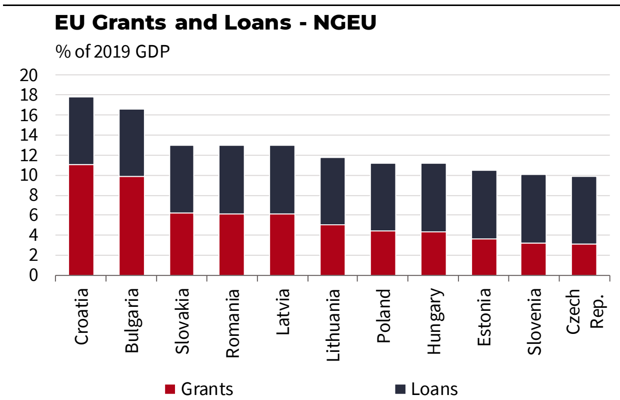
Source: SG Economics & Sector Studies, Refinitiv

For 2H21 and 2022, with the hypothesis of a lasting normalization 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.

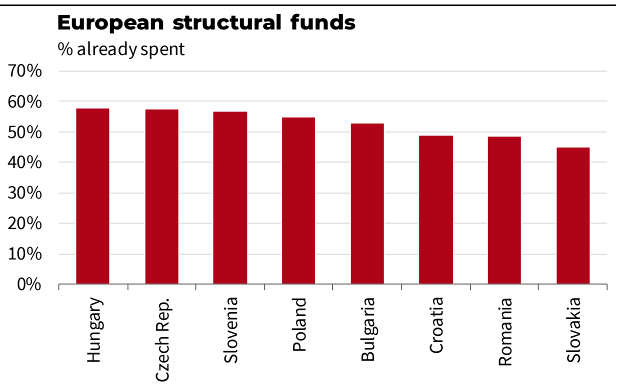
Finally, in the medium term, these countries will continue to receive funds from the EU that will foster the resumption of the catch-up process. The combination of the European Recovery Fund (Next Generation EU), the Employment Support Fund (SURE), and the European Structural Funds themselves are expected 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 Next Generation EU Funds (NGEU) will be key for the region until 2026. These NGEU funds have two components, grants and loans. In early September 2021, most EU countries submitted their national recovery and resilience plans, which have been validated by the European Commission and the Council. This validation paves the way for the first disbursements (representing 13% of the funds allocated to each country) which should take place in September-October 2021 for CEE countries. It should be noted that the bulk of euro area countries have already had access to these disbursements (i.e. Germany, Portugal, Italy, Greece, France etc.). The use of these funds should already support CEE economies this year and should give a more substantial boost in 2022. These NGEU funds should be used to finance additional expenditure oriented towards new investment and not pre-existing programs. 37% of the funds will have to be allocated to "green" projects. Low-income Central and Eastern European countries - which are the largest per capita beneficiaries of NGEU - often have infrastructure gaps and would benefit significantly from well-targeted public investments. Spending in higher income Central and Eastern European countries, which have better infrastructure, should be geared more towards achieving the NGEU objectives, namely the promotion of green projects and the digital transition.

Next Generation EU Fund should boost CEE growth already in 2021



The 2014-2020 European structural funds have been only partially spent end-2020



Source: SG Economics & Sector Studies, Refinitiv, Fitch

MACRO FORECASTS

GDP growth, YoY

Annual average, %	2019	2020	Central 2021f	Central 2022f	Central 2023f	Central 2024f	Extended 2021f	Extended 2022f	Extended 2023f	Extended 2024f
Developed Markets	**1.6**	**-5.0**	**5.2**	**3.3**	**2.2**	**1.8**	**3.3**	**2.1**	**2.4**	**1.9**
United States	2.2	-3.5	6.3	4.0	3.0	2.3	5.3	2.0	4.0	2.6
Japan	0.0	-4.7	2.7	2.3	0.8	0.5	2.2	0.1	1.8	0.6
United Kingdom	1.4	-9.8	5.6	4.3	2.0	1.5	4.9	1.4	3.0	1.8
Euro area	1.4	-6.5	4.7	3.2	1.6	1.7	3.8	1.3	2.1	2.0
Germany	1.1	-4.9	3.0	3.5	1.3	1.8	2.1	1.5	1.8	2.0
France	1.8	-8.0	6.0	3.0	1.5	1.8	5.0	1.0	2.0	2.3
Italy	0.3	-8.9	5.5	3.5	2.0	1.1	4.9	1.0	2.5	1.3
Spain	2.0	-10.8	6.5	4.0	2.0	1.8	5.5	1.5	2.5	2.0
Emerging Markets	**3.5**	**-1.8**	**5.9**	**4.5**	**4.0**	**3.9**	**4.5**	**3.1**	**4.6**	**4.1**
Asia	4.9	-0.6	7.1	5.2	4.7	4.6	5.5	4.3	5.1	4.7
China	6.0	2.3	8.0	4.9	4.6	4.5	7.5	3.9	5.1	4.7
India	4.0	-6.0	9.5	6.2	5.2	5.0	8.4	4.2	5.7	5.2
CEE	2.4	-2.0	3.9	2.9	2.7	2.6	2.9	1.0	4.0	3.0
Czech Republic	3.0	-5.8	4.2	4.5	3.0	2.8	3.3	2.7	3.4	3.2
Romania	4.1	-3.7	6.3	3.5	3.0	3.0	5.2	1.7	3.4	3.4
Russian Federation	1.8	-2.5	3.3	2.5	1.5	1.5	2.4	0.7	1.8	1.8
Latin America	0.1	-7.0	5.1	3.2	2.6	2.4	4.3	1.2	3.5	2.6
Brazil	1.4	-4.1	5.6	2.3	2.0	2.0	4.8	0.2	3.6	2.5
Middle East & C. Asia	0.3	-3.6	2.6	3.6	3.1	2.8	2.2	1.1	3.7	3.3
Africa	3.4	-1.9	4.1	4.1	4.0	4.0	2.1	2.3	4.5	4.2
World (PPP wtd.)	**2.8**	**-3.0**	**5.6**	**4.0**	**3.3**	**3.1**	**4.0**	**2.7**	**3.8**	**3.2**

Inflation, %

Annual average, %

	2019	2020	Central 2021f	Central 2022f	Central 2023f	Central 2024f	Extended 2021f	Extended 2022f	Extended 2023f	Extended 2024f
Developed Markets										
United States	1.8	1.3	4.0	2.7	2.2	2.1	3.9	2.0	2.0	2.3
Japan	0.5	0.0	-0.2	0.9	0.6	0.5	-0.3	0.4	0.8	0.6
United Kingdom	1.8	0.9	1.8	2.2	1.9	1.9	1.7	1.8	1.9	2.0
Euro area	1.2	0.3	2.1	1.6	1.3	1.6	2.0	1.3	1.0	1.3
Germany	1.4	0.4	2.6	1.4	1.3	1.6	2.5	1.0	1.1	1.4
France	1.3	0.5	1.8	1.5	1.3	1.5	1.7	1.3	1.1	1.3
Italy	0.6	-0.1	1.3	1.0	1.1	1.3	1.5	1.3	1.0	1.2
Spain	0.8	-0.3	2.3	1.8	1.0	1.4	2.2	1.5	0.9	1.3
Emerging Markets										
China	2.9	2.5	1.1	2.1	2.3	2.3	1.0	1.4	2.4	2.3
India	3.7	6.2	5.6	4.6	4.2	4.1	5.4	4.1	4.5	4.3
Russian Federation	4.5	3.4	5.8	4.0	4.0	4.0	5.4	3.2	4.3	4.3
Brazil	3.7	3.2	6.8	4.0	3.5	3.3	6.8	2.6	3.3	3.3

Unemployment, %

Annual average, %

	2019	2020	Central 2021f	Central 2022f	Central 2023f	Central 2024f	Extended 2021f	Extended 2022f	Extended 2023f	Extended 2024f
United States	3.7	8.1	5.7	4.4	4.1	3.7	6.7	6.0	4.2	4.0
Japan	2.3	2.8	2.9	2.7	2.7	2.6	2.9	3.0	2.8	2.7
United Kingdom	3.8	4.6	5.8	6.3	5.4	4.9	5.9	7.0	6.1	5.4
Euro area	7.6	7.9	8.0	8.1	7.9	7.7	8.0	8.6	8.5	8.4
Germany	5.0	5.9	6.1	6.4	6.2	5.8	6.1	6.8	6.6	6.3
France	8.2	7.9	8.1	8.8	8.7	8.4	8.1	9.2	9.1	8.8
Italy	10.0	9.3	10.3	10.7	10.3	10.1	10.5	11.2	10.9	10.7
Spain	14.1	15.6	15.4	15.4	15.3	15.1	15.6	16.9	16.7	16.3

Fiscal deficit, % GDP

			Central				Extended			
	2019	2020	2021f	2022f	2023f	2024f	2021f	2022f	2023f	2024f
Developed Markets										
United States	-6.4	-15.4	-16.1	-7.5	-5.1	-4.5	-16.1	-9.4	-6.1	-5.0
Japan	-3.1	-12.6	-8.0	-3.8	-3.0	-3.0	-8.2	-8.0	-3.8	-3.0
United Kingdom	-2.3	-12.3	-10.3	-9.3	-6.1	-4.5	-11.3	-10.1	-6.6	-4.8
Euro area	-0.9	-7.5	-9.1	-4.9	-3.7	-2.8	-9.8	-6.6	-5.1	-3.9
Germany	1.5	-4.2	-8.9	-2.6	-1.0	0.4	-9.4	-4.1	-2.2	-0.7
France	-3.1	-9.2	-9.1	-6.1	-5.5	-4.6	-9.7	-7.7	-6.9	-5.7
Italy	-1.6	-9.5	-11.8	-6.5	-4.6	-3.7	-12.3	-7.9	-6.0	-5.1
Spain	-2.9	-11.9	-8.1	-6.5	-5.8	-5.5	-10.6	-10.7	-8.8	-7.7
Emerging Markets										
China	-3.1	-4.2	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8
India	-7.4	-12.3	-10.0	-9.1	-8.4	-8.0	-10.0	-10.3	-8.0	-7.8
Russian Federation	0.8	-0.3	2.3	1.8	1.0	1.4	-3.5	-3.0	-1.0	-1.0
Brazil	-5.9	-13.7	-7.5	-7.0	-6.5	-5.0	-10.6	-10.7	-8.8	-7.7

Public debt, % GDP

			Central				Extended			
	2019	2020	2021f	2022f	2023f	2024f	2021f	2022f	2023f	2024f
Developed Markets										
United States	80	104	109	111	111	110	107	113	114	115
Japan	235	256	265	266	267	269	265	272	274	275
United Kingdom	85	102	106	109	110	111	108	114	115	115
Euro area	89	105	107	107	108	107	110	114	116	116
Germany	60	70	75	74	73	70	77	79	79	77
France	98	116	123	123	127	130	119	125	128	129
Italy	135	156	157	156	156	156	160	165	165	166
Spain	96	118	118	118	120	122	121	127	131	133
Emerging Markets										
China	39	46	44	44	44	44	44	45	45	45
India	74	90	87	86	86	85	87	86	86	85
Russian Federation	14	19	20	21	21	20	22	23	23	23
Brazil	74	89	89	91	94	96	93	96	98	100

Current account balance, % GDP

	2019	2020	Central 2021f	Central 2022f	Central 2023f	Central 2024f	Extended 2021f	Extended 2022f	Extended 2023f	Extended 2024f
Developed Markets										
US	-2.2	-3.1	-3.8	-3.8	-4.0	-3.9	-3.5	-3.5	-3.8	-3.7
Japan	3.4	3.2	3.4	3.5	3.7	3.6	3.4	3.6	3.7	3.7
UK	-3.1	-3.5	-3.0	-3.0	-3.0	-2.9	-3.0	-3.6	-3.5	-3.3
Euro area	2.4	2.1	2.4	2.2	2.4	2.5	2.4	2.0	2.2	2.5
Germany	7.8	6.6	7.0	7.1	7.4	7.9	6.8	6.6	7.0	7.5
France	-0.3	-1.9	-1.2	-1.1	-0.7	-0.6	-1.2	-1.4	-1.5	-1.2
Italy	3.2	3.5	3.0	3.4	4.0	4.0	3.2	3.2	3.6	3.6
Spain	2.1	0.7	0.1	1.4	2.0	2.1	0.0	0.4	0.8	1.5
Emerging Markets										
China	0.7	1.8	1.9	1.8	1.8	1.6	1.9	2.0	1.8	1.6
India	-0.9	1.0	-1.2	-1.6	-1.7	-2.0	-1.2	-1.6	-1.7	-2.0
Russian Federation	3.8	2.2	2.5	2.3	2.0	2.0	1.0	1.5	2.0	2.0
Brazil	-3.5	-1.8	-0.3	-0.8	-1.5	-2.2	0.5	-0.2	-1.0	-2.2

CONTACTS

Michala MARCUSSEN
Group Chief Economist
+33 1 42 13 00 34
michala.marcussen@socgen.com

Olivier de BOYSSON
Emerging Markets Chief Economist
+33 1 42 14 41 46
olivier.de-boysson@socgen.com

Marie-Hélène DUPRAT
Senior Advisor to the Chief Economist
+33 1 42 14 16 04
marie-helene.duprat@socgen.com

Ariel EMIRIAN
Macroeconomic analysis
+33 1 42 13 08 49
ariel.emirian@socgen.com

François LETONDU
Macro-sector and macro-finance analysis
+33 1 57 29 18 43
francois.letondu@socgen.com

Constance BOUBLIL-GROH
Central & Eastern Europe, Russia
+33 1 58 98 98 69
constance.boublil-groh@socgen.com

Olivier DENAGISCARDE
Macro-sector analysis
+33 1 58 98 74 22
olivier.denagiscarde@socgen.com

Juan Carlos DIAZ MENDOZA
Americas
+33 1 57 29 61 77
juan-carlos.diaz-mendoza@socgen.com

Clément GILLET
Africa
+33 1 42 14 31 43
clement.gillet@socgen.com

Erwan JAIN
Macro-sector analysis
+33 1 58 98 05 35
erwan.jain@socgen.com

Alan LEMANGNEN
Euro area, France, Germany
+33 1 42 14 72 88
alan.lemangnen@socgen.com

Simon RAY
Macro-finance analysis, UK
+33 1 4213 70 80
simon.ray@socgen.com

Valérie RIZK
Macro-sector analysis
+33 1 58 98 82 85
valerie.rizk@socgen.com

Danielle SCHWEISGUTH
Western Europe
+33 1 57 29 63 99
danielle.schweisguth@socgen.com

Edgardo TORIJA ZANE
Global economic forecasting
Middle East, Turkey and Central Asia
+33 1 42 14 92 87
edgardo.torija-zane@socgen.com

Bei XU
Asia
+33 1 58 98 23 14
bei.xu@socgen.com

Yolande NARJOU
Assistant
+33 1 42 14 83 29
yolande.narjou@socgen.com

Société Générale | SG Economics and Sector Studies | 75886 PARIS CEDEX 18

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