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SCENARIOECO

Economic and sectoral research department

CYCLICAL RECOVERY, FULL OF RISKS

- Activity is picking up further in the United States and in emerging countries, supporting the recovery in international trade.
- The acceleration of GDP growth expected in 2017 and 2018 is set to remain modest and fragile, as political uncertainties are likely to remain elevated…
- … and the "Trump" stimulus' effects are likely to be dampened by faster policy interest rate hikes in the United States, which would also penalize emerging market economies.

SOCIETE GENERALE

Ended the 15th of December 2016
Next issue: March 2017

Outlook Summary 3

Why is the global economy still a disappointment? 4

Economic Forecasts 6

EUROZONE 7

GERMANY 8

FRANCE 9

ITALY 10

SPAIN 11

UNITED KINGDOM 12

UNITED STATES 13

JAPAN 14

CHINA 15

INDIA 16

BRAZIL 17

RUSSIA 18

Economic Data 19

Structural Data 22

Cyclical Data 23

Financial Data 24

Outlook Summary

GLOBAL ECONOMY

- After a prolonged lackluster period, global activity has been showing signs of recovery since mid-2016. The stabilization of the Chinese growth momentum is confirmed, international trade is recovering, and commodity producers are benefiting from rising prices. The more favorable climate is set to continue in 2017-2018, but will be fragile and uneven, driven by the cyclical recovery in emerging countries and the United States.
- The imminent change in US policy mix after the Republican Party's victory in the 8 November elections brings both hopes and risks for global GDP growth. We expect the fiscal stimulus proposed by D. Trump to support US growth and imports starting in the second half of 2017, assuming any protectionist measures are limited.
- However, the impact of this stimulus on global growth will likely be curbed by an acceleration of the Federal Reserve's policy rate hikes in 2017-2018. Already, this prospect has resulted in a pricier US dollar and higher long-term rates in the United States. It also fuelled an increase in long-term interest rates in Europe as well as in several emerging countries.

DECELOPED ECONOMIES

- US GDP growth is recovering, after a soft patch in late 2015 and early 2016. In 2017 and 2018, we expect it will accelerate further thanks to fiscal stimulus, even though the scope of that stimulus, at close to 1% of GDP in our scenario, is less than what Donald Trump called for during his campaign (2.5% of GDP). With the US economy already close to full employment, wages and inflation will likely accelerate.
- The increase in oil prices is set to continue to drive a moderate rise in inflation rates in developed countries in 2017, putting the brakes on consumption. Consequently, growth will likely slow down slightly in the eurozone, especially since we expect fiscal policy to be less supportive of activity, and political uncertainties to hinder investment in spite of low interest rates. In the United Kingdom, activity is confirming its relative resilience to Brexit-related uncertainties, thanks to the action by the Bank of England (BoE). Nevertheless, growth is expected to slow in 2017, while the risk of a “hard Brexit” seems to be increasing.

EMERGING ECONOMIES

- A cyclical recovery is taking shape, driven by China's fiscal stimulus, the rise in commodity prices, and the gradual recovery in global trade. However, this recovery could be undermined in 2017-2018 by a steady increase in US interest rates and the dollar.
- In China, the fiscal stimulus and dynamic lending are supporting activity, specifically in real estate. As a result, growth has stabilized for the moment, but the pick-up in capital outflows pushed the central bank to tighten capital controls. In India, it looks like the disruption created by the demonetization of some banknotes will stunt growth, but only temporarily.
- Brazil and Russia are expected to exit their recessions in late 2016. Their recoveries will probably be modest, driven by disinflation and improved terms of trade.

CENTRAL BANKS

- The US Federal Reserve raised the fed funds target range by 25bp to 0.5-0.75% on 14 December. We expect it to accelerate policy rate hikes in 2017-2018, in view of stronger growth and inflation resulting from the fiscal stimulus that is likely to be implemented as from H2 2017.
- The ECB has extended its asset purchase programme until December 2017 at the earliest, instead of March 2017, even though the monthly pace of purchases will be reduced from EUR80bn to EUR60bn starting in April. We expect this programme to end in 2018, after a period of tapering. This would help the ECB to prevent the interest rate hikes in the United States from spreading to the eurozone. An increase in the ECB policy rates is set to wait until after 2018.
- After having eased their monetary policy in Q3-16, the Bank of Japan and the BoE are expected to maintain the status quo. As such, we do not think the BoE will react to the higher imported inflation in the UK in 2017.

FINANCIAL MARKETS

- Long-term sovereign interest rates have recovered notably since September. This global trend, triggered by rising inflation expectations, has been heightened by D. Trump's election.
- US short- and long-term interest rates are expected to increase further in 2017-2018, gradually reflecting a quicker monetary tightening by the Fed and the acceleration of nominal growth in the US.
- In the eurozone, long-term interest rates will probably stay contained by the ECB's policy, but could be volatile in the face of political uncertainty in Italy and upcoming elections (Netherlands, France and Germany).

Why is the global economy still a disappointment?

— **Weak growth in the developed countries has restarted the debate over "secular stagnation": growth is still hemmed in by financial and structural limitations (surplus debt, lower productivity growth, and demographic decline).**

— **The world economy should adapt to a new phase in globalization, with lesser growth in the developed countries and international trade.**

— **Will future US economic policy be suited to this environment?**

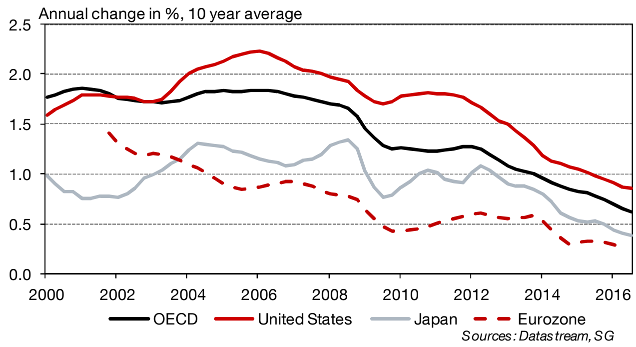
The possibility of secular stagnation

The possibility of a long period of so-called secular stagnation was identified in 1938 by Alvin Hansen when reviewing the repercussions of the economic and financial crisis of the 1930s. The expression was revived by Larry Summers in November 2013. Several economists then adopted it to describe a prolonged period of weak or no economic growth. Two main reasons are proffered to explain this situation: overall demand would be deficient due to surplus savings over investment, and capacity for increased supply would be limited by low growth in innovation. In both cases, growth would remain weak for a long time.

In the United States, the weaker-than-expected growth environment has fuelled a debate over the disappointing trend in productivity; the US is considered to be positioned at the frontier of efficiency and innovation. Indeed, there has been a decline in the growth of labour productivity since the 2008 financial crisis, in all of the developed countries. In the US, productivity has clearly fallen since 2012, and annual productivity growth has closed in on 0.5%, like in other countries. The question is whether this decline is mainly a legacy of the financial crisis and therefore set to disappear over time, or whether the slowdown is a durable one, breaking the trend seen in previous growth cycles.

Productivity often falls in the aftermath of a financial crisis. As excessive debt levels need to be reduced, businesses delay their investment spending in order to restore their financial position. As employment adjusts, productivity levels are re-established, but these levels subsequently rise more slowly. Another reason is that the period preceding the crisis was marked by bubbles in various sectors that warped not only prices but also the structure of the economy. Industries that were overly stimulated by the bubble must then contract or even disappear. A long period of consolidation is needed to restore productive capital to profitability. With the downturn, the high level of productivity as measured before the crisis appears to be artificially inflated by the financial cycle. The clearing of capacities exacerbates the resulting decline in productivity.

LABOUR PRODUCTIVITY GROWTH



However, as well as the after-effects of past events linked to the crisis, there are obstacles to a recovery in demand in the developed economies. With the baby boomers retiring, the growth of active population has begun to drop significantly since 2010 and it is shrinking in several countries. The impending stagnation or decline of total population is dragging down the outlook for demand. In addition, as illustrated by Japan's trajectory, this ageing would drive further savings, contrary to life cycle theories, due to greater longevity and unforeseen end-of-life situations. Rising inequalities also curb the recovery in demand, as they have benefited individuals who save more. The resulting excess savings may account for very low interest rates, but would be unable to stimulate a true recovery in investment, as per the idea of secular stagnation. This trend would be reinforced by falling prices on capital goods, and the development of activities requiring less tangible capital. Errors in economic policy, such as excessive fiscal austerity or extreme financial regulation, are also put forward sometimes as a possible explanation.

Labor-saving but also capital-saving innovations

Beyond the obstacles dragging down demand and the remedies for it, questions about the pace of productivity revolve around the trend in supply.

The speed with which technology is disseminated throughout the economy seems slow. This seems paradoxical given the rapid development of new information and digital technology. A renowned US

The speed with which technology is disseminated throughout the economy seems slow. This seems paradoxical given the rapid development of new information and digital technology. A renowned US expert in this area, R. Gordon, nonetheless believes that the pay-off in productivity terms could be much smaller than expected. While the digital economy shakes up our lives and methods of consumption and probably improves well-being, it would do little to change the methods of production. In addition, for the first time in history, technological advances are bringing savings in not only labor but also capital, with the possibility of making better use of existing capital stock. It eliminates expenses more than it stimulates investment.

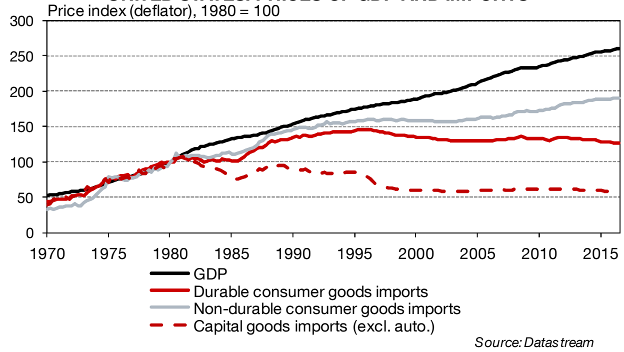
Other economists disagree with these theories and remain optimistic about the effects of the digital revolution. They believe we could be close to a turning point that would allow a faster distribution of progress throughout the productive system. The impact would not yet be visible in statistics owing to the difficulty in correctly measuring productivity, which involves the distribution between production prices and volumes. At constant levels of quality, the fall in prices linked to new products would not sufficiently be taken into account and this would limit how the productivity gains are perceived. However, this measurement problem is not a new one, the real question is whether the distortion it causes has increased in the recent period. Moreover, it is likely to apply to sectors closest to technological breakthroughs rather than the economy as a whole. The extent of the distortion should therefore not be overstated.

Will the new US policy be appropriate?

US economic data for the past three years, with employment rising more quickly than GDP, are fairly consistent with a slowdown in productivity. The decline in investment relative to GDP does not bode well for an improvement in productive capital nor an acceleration in productivity gains. For these reasons, the potential growth of the US economy has been revised downward, to below 2%. Thus, the US economy is now following a trajectory close to its potential.

The Republican victory in the US elections on 8 November means that we expect an upcoming change in economic policy in the United States. The Trump administration and Congress are expected to agree to stimulate growth significantly, with tax cuts first. In the current phase of the cycle, with an economy close to full employment, this additional stimulus would imply a rise in inflation. In addition, even though it is hard to evaluate the impacts of protectionist measures on the economy, these would reinforce upward pressure on prices, curbing growth potential.

UNITED STATES: PRICES OF GDP AND IMPORTS



Source: Datastream

Consequently, the Federal Reserve could be encouraged to normalize its monetary policy more rapidly. The other components of the new administration's economic policy involve deregulation in the energy and finance sectors as well as an infrastructure investment policy. These other components would be more likely to remedy secular stagnation if they make room for growth potential to increase across the economy. However, such measures have not really been set out. The devil is in the details, because excessive deregulation would tend to increase the violence of economic cycles while reducing the ability of the fiscal and monetary authorities to deal with it.

Economic Forecasts

Real GDP (growth rate, as %)[1]	2014	2015	2016 (f)	2017 (f)	2018 (f)	Share of world GDP 2015 (As %) Purchasing power parities[2]	Current prices rates	GDP - 2015 USDbn Current prices rates
Industrialised countries	**1.8**	**2.1**	**1.6**	**1.7**	**1.9**	**38.7**	**56.5**	**41,438**
United States	2.4	2.6	1.6	2.2	2.5	15.9	22.3	18,037
Japan	0.2	1.2	0.9	0.7	0.9	4.4	5.9	4,126
Euro area	1.2	1.9	1.6	1.5	1.5	12.0	17.1	11,601
Germany	1.6	1.5	1.8	1.5	1.6	3.4	5.0	3,362
France	0.7	1.2	1.2	1.3	1.5	2.4	3.7	2,420
Italy	0.2	0.6	0.9	0.9	1.0	2.0	2.8	1,821
Spain	1.4	3.2	3.2	2.3	1.9	1.4	1.8	1,200
United Kingdom	3.1	2.2	2.0	1.1	1.4	2.4	3.9	2,859
Emerging countries	**4.3**	**3.9**	**3.8**	**4.4**	**4.6**	**61.3**	**43.5**	**31,021**
Asia	6.3	6.0	5.8	5.7	5.7	33.3	22.7	18,109
China	7.3	6.9	6.7	6.4	6.0	16.7	13.6	10,903
India	7.2	7.6	6.5	7.0	7.5	6.7	2.6	2,063
Africa	4.7	2.9	1.2	2.8	3.6	4.0	2.6	1,244
Latin America	0.9	-0.3	-0.6	2.0	2.5	8.5	7.6	4,996
Brazil	0.1	-3.8	-3.4	0.7	1.5	3.0	3.1	1,791
Eastern Europe (incl. Turkey, ex. Russia)	2.3	2.5	2.5	2.8	2.9	4.6	3.4	2,223
Russia	0.7	-3.7	-0.5	1.0	1.2	3.5	2.6	1,331
Middle East	2.3	3.0	2.5	2.9	3.3	7.4	4.6	3,117
World - Purchasing power parities ponderation	**3.4**	**3.2**	**3.0**	**3.4**	**3.6**	**100**		
World - Current prices rates ponderation	**2.8**	**2.9**	**2.5**	**2.9**	**3.1**		**100**	**72,459**
Oil price (Brent USD/Barrel)	**99**	**53**	**43**	**51**	**60**			

Consumer prices index (growth rate, as %)	2014	2015	2016 (f)	2017 (f)	2018 (f)
United States	1.6	0.1	1.2	2.0	2.2
Japan (CPI national)	2.8	0.8	-0.3	0.4	0.8
Euro area	0.4	0.0	0.2	1.3	1.6
Germany (HICP)	0.8	0.1	0.3	1.6	1.9
France (CPI)	0.5	0.0	0.2	1.1	1.6
Italy (HICP)	0.2	0.1	-0.1	0.8	1.0
Spain (HICP)	-0.1	-0.5	-0.3	1.3	1.6
United Kingdom (HICP)	1.5	0.0	0.7	2.4	2.1

[1] The annual numbers are seasonnaly and working-day adjusted and hence may differ from the basis used for official projections.

[2] Purchasing Power Parity (PPP) is the monetary exchange rate that equalises the cost of a standardised basket of goods between different countries. The GDP weighting of different countries as a share of world GDP expressed in PPP is based on the latest estimates by the World Bank

	14/12/2016	Jun 2017	Dec 2017	Dec 2018	2015	2016 (f)	2017 (f)	2018 (f)
Interest rates								
United States								
Fed Funds target rate	0.5-0.75	0.75-1	1.25-1.5	2.25-2.5	0.15	0.40	0.90	1.85
10 year Gvt Bonds	2.5	2.6	2.9	3.0	2.1	1.8	2.6	3.0
Japan								
Complementary Deposit Facility rate	-0.10	-0.10	-0.10	-0.10	0.10	-0.08	-0.10	-0.10
10 year Gvt Bonds	0.0	0.0	0.0	0.2	0.4	-0.1	0.0	0.1
United Kingdom								
Bank rate	0.25	0.25	0.25	0.25	0.50	0.40	0.25	0.25
10 year Gvt Bonds	1.4	1.5	1.6	1.8	1.8	1.3	1.5	1.7
Euro area								
Refinancing rate	0.00	0.00	0.00	0.00	0.05	0.00	0.00	0.00
10 year Gvt Bonds								
Germany	0.2	0.5	0.6	0.9	0.5	0.1	0.5	0.8
France	0.7	0.9	1.0	1.2	0.8	0.5	0.9	1.1
Italy	1.8	2.0	1.9	2.1	1.7	1.5	1.9	2.0
Spain	1.4	1.8	1.8	2.1	1.7	1.5	1.8	2.0
Exchange rates								
EUR / USD	1.06	1.05	1.07	1.10	1.11	1.11	1.05	1.10
EUR / GBP	0.84	0.86	0.86	0.86	0.73	0.82	0.86	0.86
EUR / JPY	122	119	122	125	134	120	119	125
GBP / USD	1.27	1.22	1.24	1.28	1.53	1.35	1.22	1.28
USD / JPY	117	114	114	114	121	108	113	114

EUROZONE

- **Activity maintained a modest upward trend in Q3, thanks to domestic demand.**
- **Growth is set to moderate slightly in 2017, with the upturn in energy prices curbing consumption, while fiscal policy should be more or less neutral.**
- **We expect the ECB to gradually taper its asset purchase programme in 2018, but modest growth and inflation would likely push the first hike in its policy rates beyond 2018.**

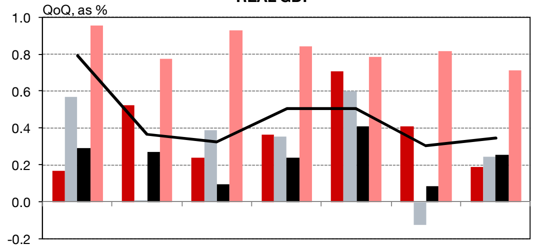
GDP growth remained unchanged at 0.3% QoQ in Q3 2016, confirming the eurozone's recovery is solid, albeit modest in pace. Activity was driven by domestic demand and particularly private and public consumption. Exports made weak gains and were less robust than imports despite the slight recovery in international trade.

In 2017, GDP growth is set to dip slightly, staying close to 1.5%. The private consumption driver is likely to lose momentum as a result of rising energy prices, which is expected to drive inflation up above 1%. We do not forecast any further easing of fiscal policy; its impact would likely become neutral in spite of the European Commission's call for a measured stimulus. While investment in construction is expected to benefit from low interest rates (France, Spain, Netherlands, etc.), business investment is likely to struggle to pick up the pace. It would be held back by political uncertainties (transitional government in Italy; elections in the Netherlands, France and Germany; and Brexit negotiations).

We expect GDP growth to stabilize in 2018. The improved situation on the labor market would feed into higher wages, limiting inflation's impact on consumption. In addition, exports are expected to support activity more meaningfully.

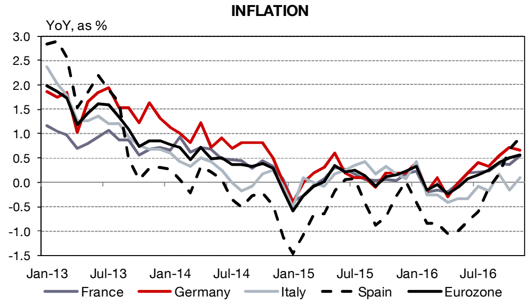
The ECB prolonged its asset purchase programme by 9 months, to December 2017, although it decided to scale back the monthly net purchase target from EUR80bn to EUR60bn starting in April. Hence, these net purchases are only set to be stopped over the course of 2018, following a period of tapering. Policy rates hikes are likely to be decided only after 2018, in order to keep the rise in US interest rates from having too much of a ripple effect on rates in the eurozone. This would keep the euro weak against the dollar.

REAL GDP



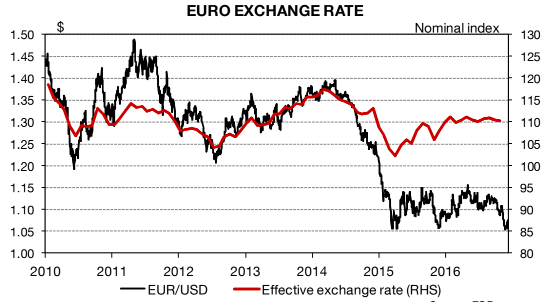
Source: Eurostat

INFLATION



Source: Eurostat

EURO EXCHANGE RATE



Source: ECB

As %	2014	2015	2016 (f)	2017 (f)	2018 (f)
Real GDP	**1.2**	**1.9**	**1.6**	**1.5**	**1.5**
Household consumption	0.8	1.8	1.7	1.5	1.5
Investment	1.4	2.9	2.8	2.1	2.1
Exports	4.4	6.2	2.4	3.4	3.7
Imports	4.9	6.2	3.1	3.7	3.9
Contribution of inventories to growth	0.4	-0.2	-0.1	0.0	0.0
Purchasing power of disposable income	**0.8**	**1.9**	**2.2**	**1.2**	**1.1**
Unemployment rate	**11.6**	**10.9**	**10.1**	**9.5**	**9.1**
Saving rate	**12.5**	**12.4**	**12.8**	**12.6**	**12.3**
Inflation rate	**0.4**	**0.0**	**0.2**	**1.3**	**1.6**
Public sector balance (as % of GDP)	**-2.6**	**-2.1**	**-1.8**	**-1.6**	**-1.5**
Current account balance (as % of GDP)	**2.4**	**3.1**	**3.2**	**2.9**	**2.9**

GERMANY

— **The moderation in growth in Q3 2016, resulting from stagnating exports and investment, is not a concern, because consumption is still strong.**

— **GDP growth is not expected to drop below 1.5% in 2017-2018, and would thus keep supporting employment and, in turn, a gradual re-acceleration in nominal wages.**

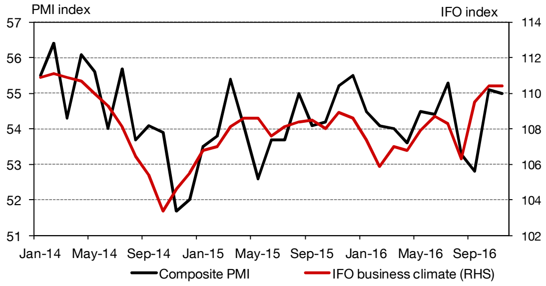
— **In spite of tax cuts planned in 2017, we only expect a marginal easing of fiscal policy next year, because public consumption growth is likely to slow down.**

The slight slowdown in GDP growth observed in Q2 2016 continued into Q3, with GDP rising only 0.2% QoQ after 0.4% in the previous quarter. In fact, activity was hampered by another downturn in investment in durable goods and a dip in exports. In particular, exports of goods to the United States and the United Kingdom declined. However, both private and public consumption stayed solid in Q3, and business confidence surveys picked up in October and November.

In 2017, we expect GDP growth to come out slightly below its 2016 pace. Indeed, the trend of very strong increase in public consumption, which has been apparent since 2015, is likely to ease, although it should still continue to outstrip GDP growth. To a lesser extent, consumer spending is set to decelerate due to rising inflation, which we expect will weigh down purchasing power. Still, tensions on the labour market would allow nominal wages to accelerate, though with a slight lag compared to inflation. Moreover, modest tax cuts (EUR6bn, 0.2% of GDP) are set to limit the natural progression of tax pressure in 2017. This should preserve the upward trend in consumption, which we expect to remain the top growth driver. As a result, imports are expected to be more buoyant than exports.

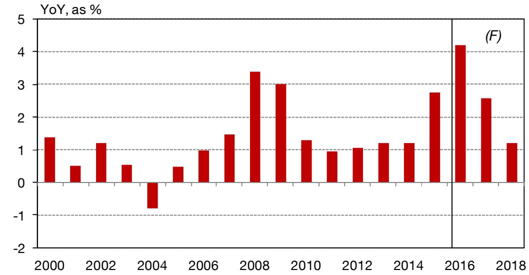
Consumer spending is likely to stay strong in 2018, thanks to robust wage trends and assuming that the federal elections in H2 2017 do not result in a significant change in economic policy. At the same time, the strengthening recovery in international trade is likely to drive exports and business investment. As such, we expect growth to pick up again slightly.

BUSINESS CONFIDENCE SURVEYS



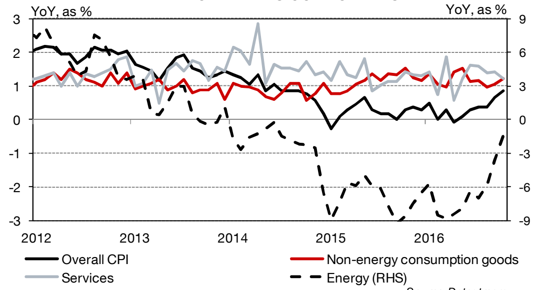
Sources: Markit, IFO, Datastream

REAL PUBLIC CONSUMPTION



Sources: Datastream, SG forecasts

INFLATION AND ITS COMPONENTS



Source: Datastream

As %	2014	2015	2016 (f)	2017 (f)	2018 (f)
Real GDP	**1.6**	**1.5**	**1.8**	**1.5**	**1.6**
Household consumption	1.0	1.9	1.8	1.6	1.6
Investment	3.4	1.1	1.9	1.6	2.3
Exports	4.0	4.6	2.2	3.0	3.7
Imports	4.0	5.0	3.1	3.8	4.1
Contribution of inventories to growth	0.0	-0.5	-0.2	0.0	0.0
Purchasing power of disposable income	**1.4**	**2.4**	**1.9**	**1.6**	**1.4**
Unemployment rate	**6.7**	**6.4**	**6.1**	**5.8**	**5.5**
Saving rate	**9.4**	**9.7**	**9.6**	**9.6**	**9.4**
Inflation rate	**0.8**	**0.1**	**0.3**	**1.6**	**1.9**
Public sector balance (as % of GDP)	**0.3**	**0.7**	**0.7**	**0.6**	**0.4**
Current account balance (as % of GDP)	**7.4**	**8.4**	**8.9**	**8.3**	**8.2**

FRANCE

— **The third-quarter rebound in activity was modest and, ultimately, GDP growth in 2016 is unlikely to be stronger than in 2015.**

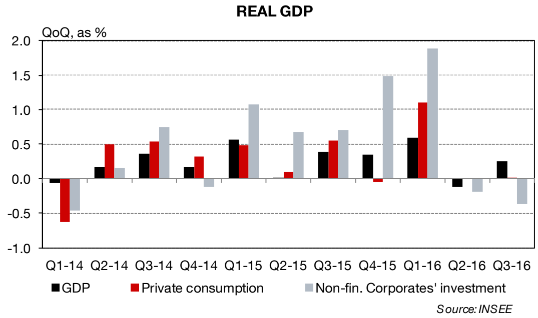
— **Growth is not expected to accelerate by much in 2017. The pick-up in inflation is set to temper consumption, and business investment is likely to slow down, offsetting the effects of the real estate market's recovery and the rebound in exports.**

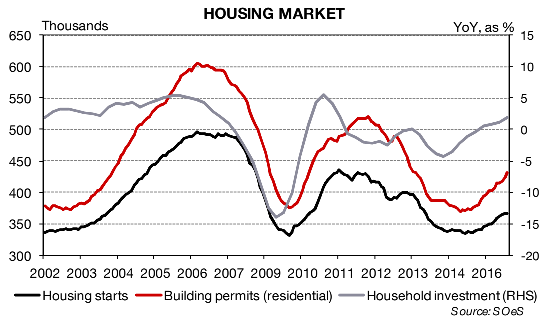
— **We expect a more noticeable improvement in 2018, once uncertainties over presidential and legislative elections are eased.**

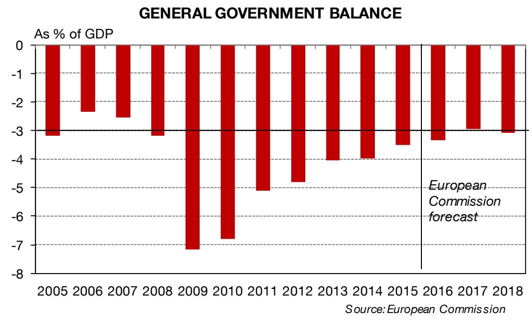
The growth recovery in Q3 2016, after the slight contraction in GDP in Q2, turned out to be modest (0.2% QoQ) even though the recovery in household investment picked up speed. In particular, private consumption and corporate investment, the main drivers of the recovery until Q1 2016, were once again anaemic.

This recent rebalancing of domestic demand is likely to be confirmed in 2017. Indeed, the housing market recovery, driven by the ECB's monetary policy and the labour market recovery, is expected to continue, bringing household investment along with it. On the other hand, the gradual increase in energy prices is likely to limit the rise in real household income and, as a result, consumption. Moreover, we expect business investment to increase at a more modest pace. The improvement in the business margin rate should indeed level off, while the investment effort of said businesses is already high in light of lacklustre activity. Ultimately, only fresh momentum in exports, in line with the anticipated recovery in international trade, would allow growth to stay close to its recent pace over 2017.

In 2018, we expect GDP growth to strengthen, primarily under the impact of a renewed pick-up in consumption. The latter is likely to benefit from the recovery in real wages and the reduction in the household savings rate that we anticipate after the 2017 elections. Nonetheless, the economic outlook will be influenced by the direction in which the next government steers economic policy. Our forecasts are based on the conventional assumption that fiscal policy would remain broadly unchanged.







As %	2014	2015	2016 (f)	2017 (f)	2018 (f)
Real GDP	**0.7**	**1.2**	**1.2**	**1.3**	**1.5**
Household consumption	0.7	1.5	1.5	1.2	1.6
Investment	-0.4	0.9	2.7	1.4	1.9
Exports	3.4	6.0	0.7	3.3	3.4
Imports	4.8	6.4	2.9	3.6	3.4
Contribution of inventories to growth	0.6	0.1	0.1	0.1	0.0
Purchasing power of disposable income	**0.7**	**1.6**	**1.7**	**1.1**	**1.2**
Unemployment rate	**9.9**	**10.0**	**9.7**	**9.3**	**8.8**
Saving rate	**14.4**	**14.5**	**14.7**	**14.7**	**14.3**
Inflation rate	**0.5**	**0.0**	**0.2**	**1.1**	**1.6**
Public sector balance (as % of GDP)	**-4.0**	**-3.5**	**-3.3**	**-3.0**	**-3.0**
Current account balance (as % of GDP)	**-1.1**	**-0.2**	**-0.7**	**-0.8**	**-0.9**

ITALY

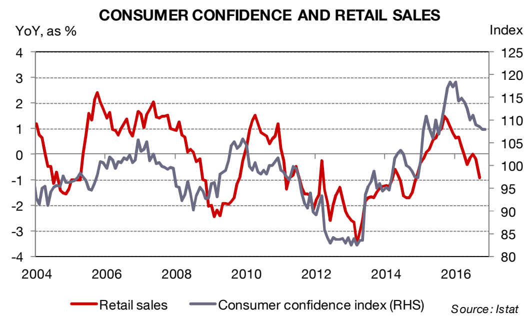
— **The recovery is expected to continue at a very moderate rate of 0.9% in 2017 and 1.0% in 2018.**
— **The persistent restrictions in terms of credit supply and the political uncertainties in the wake of the referendum on constitutional reform are likely to prevent growth from picking up.**
— **Furthermore, rising inflation in 2017 is expected to drag down household consumption, against a backdrop of low wage increases.**

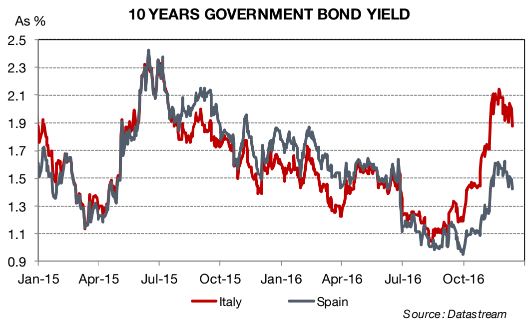
GDP growth was better than expected in Q3 (0.3% QoQ), thanks to a pick-up in investment in capital goods and transport equipment.

However, the results of the 4 December referendum are compromising the hopes of a more substantial recovery in investment next year. In fact, Matteo Renzi's resignation immediately after the "No" victory is increasing political uncertainty and could reduce private investor appetite for capital increases at Italian banks, while recapitalisation requirements for the banking system are estimated to be over EUR40bn. Financing the economy is expected to also be impacted by the increase in Italian interest rates (by close to 100bp since September), which is not only the result of a global trend but also due to the rising risk premium specific to Italy.

As such, growth is not expected to pick up in 2017 or 2018. We expect weak domestic demand to be offset by a contribution from external trade that will move out of the red. Household consumption is likely to slow down as of 2017 due to reduced purchasing power gains that are expected to continue in 2018. For one, rising inflation on the back of increasing oil prices is not expected to be completely offset by wage adjustments. Secondly, the gradual end to tax breaks for companies hiring new employees on permanent contracts is likely to lead to slower job creations.

The draft budget for 2017 has planned for additional measures valued at 0.4 point of GDP to tackle the refugee crisis and an investment plan to mitigate the risks linked to earthquakes. As such, the public deficit is expected to remain stable at -2.4% despite the request of the European Commission.





As %	2014	2015	2016 (f)	2017 (f)	2018 (f)
Real GDP	**0.2**	**0.6**	**0.9**	**0.9**	**1.0**
Household consumption	0.4	1.5	1.4	0.9	1.0
Investment	-2.9	1.1	1.9	1.1	1.3
Exports	2.6	4.0	1.3	3.4	3.2
Imports	3.2	5.8	1.9	3.4	3.3
Contribution of inventories to growth	0.7	0.0	-0.3	0.0	0.0
Purchasing power of disposable income	**0.0**	**0.8**	**2.1**	**1.3**	**1.4**
Unemployment rate	**12.6**	**11.9**	**11.6**	**11.4**	**11.2**
Saving rate	**10.5**	**10.4**	**11.0**	**11.3**	**11.7**
Inflation rate	**0.2**	**0.1**	**-0.1**	**0.8**	**1.0**
Public sector balance (as % of GDP)	**-3.0**	**-2.6**	**-2.4**	**-2.4**	**-2.4**
Current account balance (as % of GDP)	**1.9**	**1.6**	**2.5**	**2.2**	**2.0**

SPAIN

— **Economic growth continues to exceed expectations and is expected to surpass 3% again in 2016.**

— **Nonetheless, domestic demand is expected to slow down in 2017 and 2018, due to rising inflation, while the contribution by external trade should remain positive.**

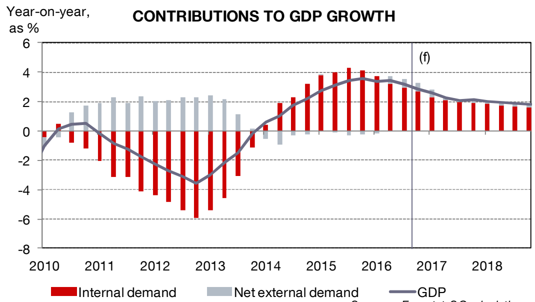
— **The lack of a government majority complicates the budget adjustment, and the public deficit is expected to only decline slightly, despite a buoyant economy.**

Growth continued its momentum in Q3, coming out at 0.7% QoQ after 0.8% in Q1 and Q2. Consumer spending remained vigorous, while investment slowed significantly and external trade contracted. The indicators continue to point to brisk growth in consumption: retail sales remain strong, and vehicle registrations are still growing by more than 10% year-on-year (compared to an average of 22% in 2015).

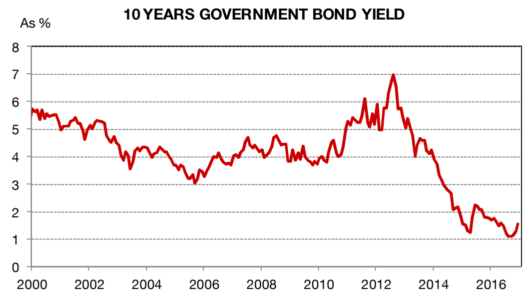
In 2017, we expect the pace of job creation to taper off and inflation to accelerate, both of which are likely to drag down consumer spending. Momentum in business investment is also expected to ease, after four years of strong growth (averaging 6.2% since 2013), while activity should remain modest in the construction segment. We expect exports to continue to support growth thanks to past wage restraint, allowing Spain to gain market share over its European competitors (France and Italy especially) and a tourist industry that will likely continue to benefit from the security situation around the Mediterranean basin.

Growth is expected to continue in 2018, however, another slowdown in household purchasing power is likely to drag down consumption. We expect fiscal policy to remain neutral, as Mr Rajoy's administration does not have the leeway required to roll out new budget restrictions. The public deficit will likely be reduced only gradually, and Spain could once again be threatened by sanctions from the European Commission. The main risk weighing on this scenario is that tensions return over sovereign interest rates, which would drag down investment and force the government to limit public spending.

Source : INE



Sources : Eurostat, SG calculations



Source : Datastream

As %	2014	2015	2016 (f)	2017 (f)	2018 (f)
Real GDP	**1.4**	**3.2**	**3.2**	**2.3**	**1.9**
Household consumption	1.6	2.9	3.0	2.2	1.8
Investment	3.8	6.0	3.6	2.9	2.4
Exports	4.2	4.9	4.3	4.3	4.2
Imports	6.5	5.6	3.3	3.9	4.0
Contribution of inventories to growth	0.3	0.1	0.1	0.0	0.0
Purchasing power of disposable income	**0.7**	**2.1**	**2.7**	**2.0**	**1.8**
Unemployment rate	**24.4**	**22.1**	**19.7**	**17.9**	**16.3**
Saving rate	**9.0**	**8.4**	**8.2**	**8.0**	**8.0**
Inflation rate	**-0.1**	**-0.5**	**-0.3**	**1.3**	**1.6**
Public sector balance (as % of GDP)	**-5.9**	**-5.1**	**-4.6**	**-3.8**	**-3.4**
Current account balance (as % of GDP)	**1.1**	**1.4**	**1.9**	**1.5**	**1.5**

UNITED KINGDOM

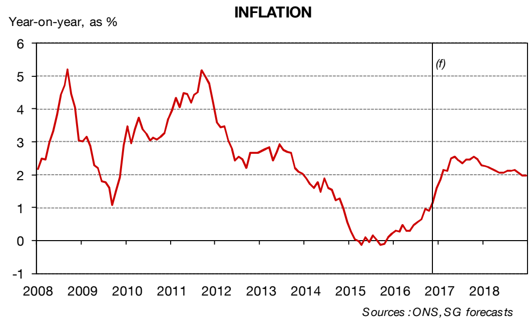
— **Until now, growth has held up well against the Brexit shock, but it is nonetheless expected to slow to 1.1% in 2017, then 1.4% in 2018, due to weaker domestic demand momentum.**
— **Investment will likely suffer from persistent uncertainty as to the terms of Brexit, while imported inflation will drag down households' purchasing power.**
— **We expect fiscal policy to be less restrictive than anticipated previously, while monetary policy will remain quite expansionist despite rising inflation.**

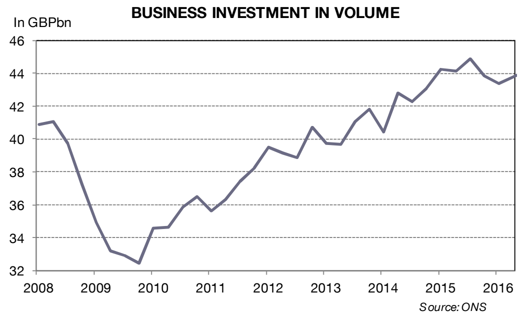
Driven by domestic demand, growth slipped only slightly and remained robust in Q3 (0.5% QoQ). The uncertainty stemming from the 23 June 2016 referendum on exiting the European Union has, as yet, had little effect on activity.

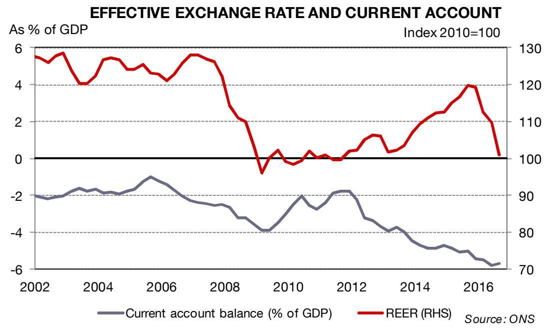
However, investment will likely come to a halt in 2017, with investors in wait-and-see mode until negotiations with the EU start up, before resuming slowly in 2018. Consumer spending is expected to weaken in 2017 and 2018, due to a dramatic slowdown in gains in purchasing power. We think the latter will suffer from rising imported inflation after the pound's depreciation (nearly 20% since 23 June) and the slowdown in job creation. Households will likely try to spread their consumption out, due to the decline in the savings rate, but moderately, because that rate is already historically low.

The rise in prices could also feed through into interest rates and make the Bank of England's monetary policy harder to implement. However, our scenario is still one of very expansionist monetary policy until the end of 2018, to support the UK economy.

We expect fiscal policy to stay restrictive, but the new government has adjusted public deficit targets upward to account for eroding growth forecasts. However, additional public spending is projected (GBP 23 billion in infrastructure spending planned over five years), and will partially counteract Brexit's negative impact on British growth. In addition, the pound's depreciation is likely to stabilize the current account deficit and support the economy through external demand.







As %	2014	2015	2016 (f)	2017 (f)	2018 (f)
Real GDP	**3.1**	**2.2**	**2.0**	**1.1**	**1.4**
Household consumption	2.2	2.5	2.7	1.7	1.7
Investment	6.7	3.4	1.1	0.1	1.3
Exports	1.5	4.5	2.7	2.7	3.5
Imports	2.5	5.4	2.7	2.7	3.3
Contribution of inventories to growth	0.5	0.1	-0.4	0.0	0.0
Purchasing power of disposable income	**1.5**	**3.4**	**2.9**	**1.4**	**2.1**
Unemployment rate	**6.1**	**5.3**	**4.9**	**5.3**	**5.3**
Saving rate	**6.8**	**6.1**	**5.3**	**4.9**	**5.1**
Inflation rate	**1.5**	**0.0**	**0.7**	**2.4**	**2.1**
Public sector balance (as % of GDP)	**-5.7**	**-4.3**	**-3.7**	**-3.0**	**-2.3**
Current account balance (as % of GDP)	**-4.7**	**-5.4**	**-5.6**	**-5.4**	**-5.2**

UNITED STATES

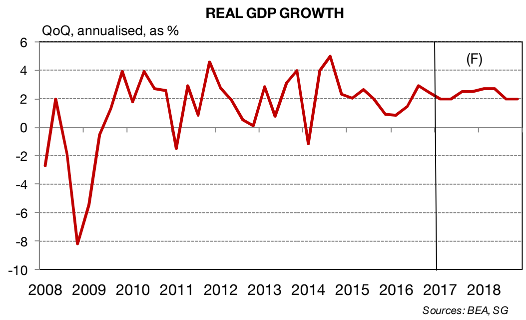
— We are upgrading our forecasts for growth and inflation between now and end-2018, our scenario expecting a fiscal stimulus to be implemented as from H2 2017. However, there is still considerable uncertainty over the measures that will actually be implemented.
— With more growth and more inflation, the Federal Reserve is likely to have to tighten its monetary policy more rapidly, with an expected key rate of 2.5% at end-2018.
— However, with the economy already being close to full employment, this stimulus impact on activity is likely to be short-lived, and growth looks set to slow sharply beyond 2018.

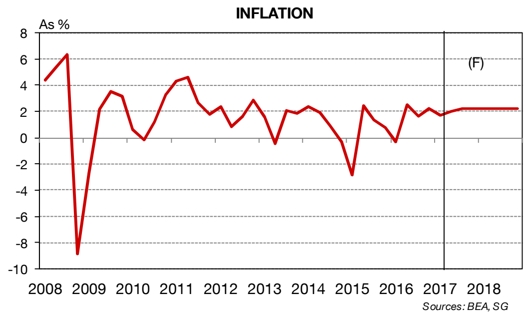
The coming weeks will continue to be marked by considerable uncertainty over the choice of economic policies that will be decided by the teams of the new President and validated by Congress. The principal announcements during the campaign period represented a fiscal stimulus of around 2% of GDP, supplemented by measures to limit imports as well as the relaxation of regulations in some sectors.

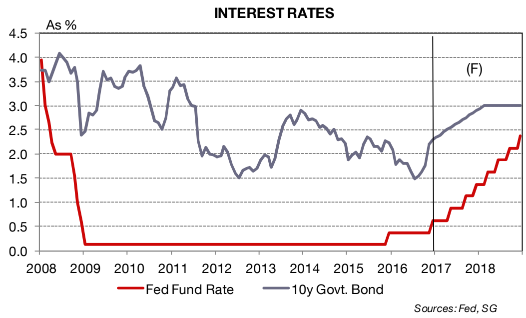
Passing these measures in Congress would probably require either reducing the size of them or partially financing them through expenditure savings. We are therefore assuming a moderate fiscal stimulus in relation to the announcements (around 1% of GDP), involving additional growth in H2 2017 and in 2018 of around 0.7 point of GDP. The decline in household taxation would support household consumption, but the impact is likely to be moderated by an increase in savings. Productive investment, benefiting from a reduction in corporate taxation, and public spending are also expected to help bolster growth.

In the current phase of the cycle, with an economy close to full employment, this additional growth would imply a rise in inflation. In addition, even though it is difficult to assess the impact of protectionist measures on the economy, these are likely to further increase the pressure on prices. Consequently, the Federal Reserve would be encouraged to normalize its monetary policy more rapidly. We therefore forecast a rise in policy rates of +75bp in 2017 and +100bp in 2018.

The impact of the stimulus is likely to be short-lived and followed by a slowdown in activity as from H2 2018, potentially accentuated by the negative impact of restrictive trade and immigration measures, not taken into account at this stage.







As %	2014	2015	2016 (f)	2017 (f)	2018 (f)
Real GDP	**2.4**	**2.6**	**1.6**	**2.2**	**2.5**
Household consumption	2.9	3.2	2.6	2.8	2.9
Investment	5.5	3.9	0.6	2.7	3.5
Exports	4.3	0.1	0.8	3.8	3.1
Imports	4.4	4.6	0.8	3.7	4.3
Contribution of inventories to growth	-0.1	0.2	-0.4	0.0	0.0
Purchasing power of disposable income	**3.5**	**3.5**	**2.5**	**3.1**	**3.1**
Unemployment rate	**6.2**	**5.3**	**4.9**	**4.7**	**4.5**
Saving rate	**5.6**	**5.8**	**5.7**	**6.2**	**6.5**
Inflation rate	**1.6**	**0.1**	**1.2**	**2.0**	**2.2**
Public sector balance (as % of GDP)	**-2.8**	**-2.4**	**-3.2**	**-3.2**	**-3.6**
Current account balance (as % of GDP)	**-2.3**	**-2.6**	**-2.5**	**-2.5**	**-2.7**

JAPAN

— **Four years after the implementation of the "Abenomics", real GDP growth and inflation are expected to remain low, below 1% in 2017 and in 2018.**

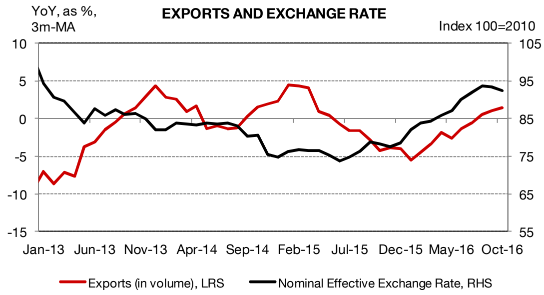
— **Monetary options to further easing are limited for the Bank of Japan (BoJ) and thus have to be complemented by additional fiscal stimulus to succeed in reflating the economy.**

GDP growth eased to Q3-16 (0.3% QoQ) and was mainly driven by exports while domestic demand remains lackluster as credit has continued to slow. After being stuck in negative territory since March, inflation turned slightly positive in October.

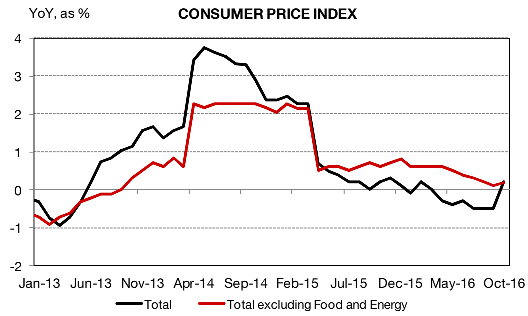
Against this backdrop, economic growth is projected to remain low at 0.8% in 2017. Weak recovery in wages and in profits is likely to put a drag on private consumption and investment respectively. The fiscal stimulus unveiled last summer is expected to provide some growth support, albeit limited, in 2017. In 2018, exports are likely to benefit from past JPY depreciation and gradual improvement in external demand. Meanwhile, the end of fiscal stimulus is likely to be less supportive to growth.

Inflation is projected to remain below 1% over the next two years, undershooting the 2% price stability target that the BoJ has committed to achieve at the earliest possible time. Inflation is expected to rise to 0.4% in 2017 and to 0.8% in 2018 thanks to oil prices favorable base effects and moderate economic activity.

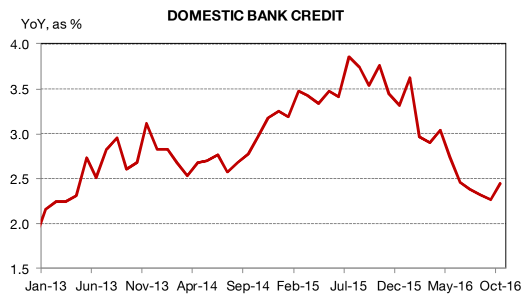
The BoJ is technically running out of ammunition as it already has a negative deposit interest rate and a 0% target on 10 year government bonds yields. More forceful fiscal stimulus would thus be instrumental to further boost domestic demand and inflation in the near term.



Sources : Datastream, BIS



Source: Datastream



Source: Datastream

As %	2014	2015	2016 (f)	2017 (f)	2018 (f)
Real GDP	**0.2**	**1.2**	**0.9**	**0.7**	**0.9**
Household consumption	-0.9	-0.4	0.4	0.5	0.6
Investment	2.7	0.2	0.9	1.3	1.5
Exports	9.3	3.0	0.2	1.4	3.0
Imports	8.2	0.1	-1.9	2.1	3.0
Contribution of inventories to growth	0.1	0.6	-0.2	-0.1	0.0
Purchasing power of net disposable income	**-1.5**	**0.6**	**1.5**	**0.3**	**-1.1**
Unemployment rate	**3.6**	**3.4**	**3.2**	**3.0**	**3.0**
Saving rate	**-0.8**	**1.5**	**2.9**	**2.9**	**1.2**
Inflation rate	**2.8**	**0.8**	**-0.3**	**0.4**	**0.8**
Public sector balance (as % of GDP)	**-6.2**	**-5.4**	**-5.2**	**-5.2**	**-4.3**
Current account balance (as % of GDP)	**0.8**	**3.2**	**3.7**	**3.8**	**3.8**

CHINA

— **Economic growth is projected to gradually decline from 6.7% in 2016 to 6% in 2018 due to a weaker contribution from investment.**

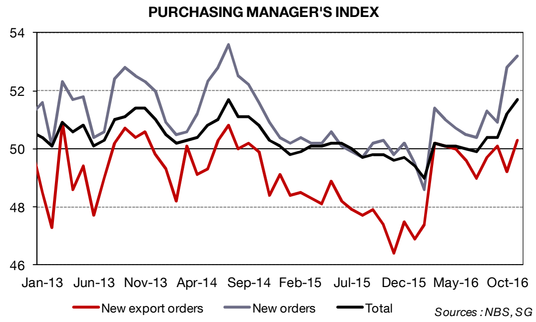
— **Fiscal policy would be supportive to growth while monetary policy is unlikely to be further eased to avoid building further imbalances.**

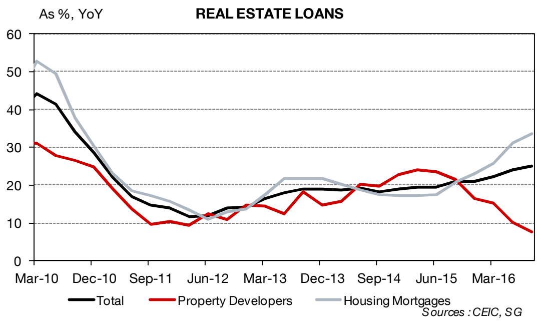
— **No major policy changes are expected before the 19th Congress of the Communist Party scheduled to take place in October 2017.**

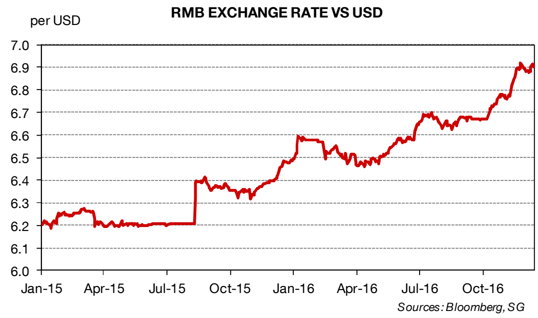
The latest batch of high-frequency indicators show continued positive growth momentum: the manufacturing PMI reached its highest reading since July 2014 in November, investment and retail sales picked up, industrial production stabilized, and bank loans (notably mortgages) accelerated. Rising property prices have helped to underpin the economy so far this year. Yet, stricter purchase measures put in place by several cities since October are expected to negatively impact activity in the coming months.

Capital outflows accelerated in Q3-16 in a context of higher expectations of US interest rate hike. As a result, forex reserves dropped by USD 69bn to USD 3.0trn in November. Meanwhile, the authorities have allowed the RMB to depreciate further against the USD since October to reach an eight-year low at end-November and seem to be satisfied with this RMB weakness.

Economic growth is projected to gradually ease to 6.4% in 2017 and to 6% in 2018 with a continued rebalancing from investment towards consumption. Meanwhile, the heavy industry sector is expected to further slow and the services sector would remain the key driver of growth. In 2017, the authorities would try to avoid any economic and financial volatility ahead of the big political transition that would see the reshuffling of the Politburo in October and would clarify economic policy direction for the next five years. Hence, the accommodative fiscal stance would remain supportive to growth. Yet, the policy mix could be complicated by rising capital outflows in a context of a stronger USD, increasing worries about US trade frictions, and continued concerns on the rapid and rising trend of leverage of the economy (250% of GDP). As a result, monetary policy is unlikely to be eased further.







As %	2014	2015	2016 (f)	2017 (f)	2018 (f)
Real GDP	**7.3**	**6.9**	**6.7**	**6.4**	**6.0**
Consumption	7.1	8.2	10.1	9.1	9.3
Investment	7.2	6.3	5.6	3.8	2.7
External trade (contrib. to growth, pp)	0.3	-0.1	-1.0	0.0	0.0
Inflation rate	**2.0**	**1.4**	**1.9**	**1.9**	**2.0**
General Government Balance (as % of GDP)	**-0.9**	**-2.7**	**-3.0**	**-3.3**	**-3.0**
General Government Debt (as % of GDP)	**39.8**	**42.9**	**46.3**	**49.9**	**52.6**
External Debt (as % of GDP)	**16.9**	**12.7**	**10.2**	**9.6**	**9.8**
Current Account Balance (as % of GDP)	**2.6**	**3.0**	**2.4**	**1.6**	**1.4**

INDIA

— **The recent demonetization of banknotes in circulation is expected to have a disruptive yet only temporary impact on activity and prices in the forthcoming quarters.**

— **The economy is projected to register again a brisk growth at 7% in 2017, mainly driven by private consumption.**

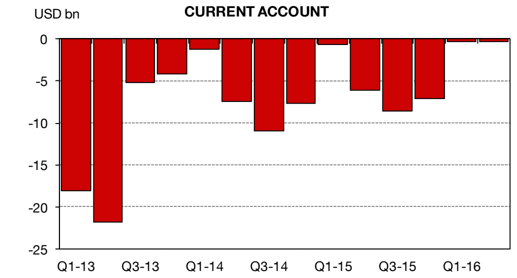
— **Inflation is set to accelerate modestly, in the context of forthcoming implementation of the Goods and Services Tax (GST), higher world oil prices and lax monetary conditions, limiting the room for further policy rate cuts by the Reserve Bank of India (RBI).**

The economy continues to rapidly expand: real GDP grew by 7.3% YoY in Q3-16, and imports accelerated in November. Meanwhile, exports increased for two months in a row for the first time since mid-2014, supported by past INR depreciation. Unlike previous episodes, strong activity has not translated into higher inflation and wider current account deficit.

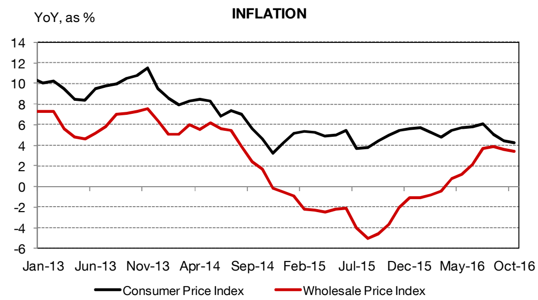
In early November, the government announced a demonetization of banknotes accounting for 90% of currency in circulation. As the Indian economy is largely cash-based, activity would be severely affected in end-2016 and early 2017. As a consequence, we expect GDP growth to weaken to 6.5% in 2016.

Nevertheless, real GDP growth is expected to pick-up over the course of 2017, eventually reaching an annual pace of 7%. It would be mainly driven by private consumption. Public investment would also be supportive to growth. Economic growth is projected to remain sustained at 7.5% in 2018. Private investment is likely to continue to recover while consumption would remain the main growth engine.

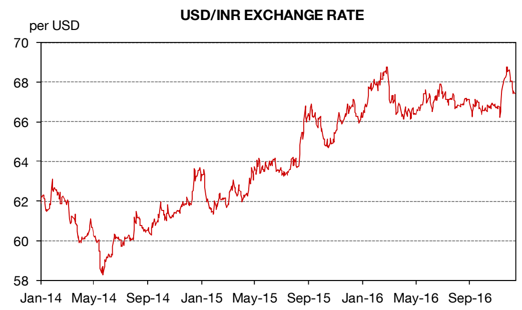
Inflationary expectations being now better anchored, the RBI would have some room to further ease if activity decelerates more than expected due to the demonetization. Yet, inflation is more likely to accelerate modestly next year, due to the forthcoming implementation of the Goods and Services Tax, higher oil prices and lax monetary conditions, limiting the room for further policy rate cuts by the RBI.



Sources : CEIC, SG



Source : CEIC



Sources : Bloomberg

As %	2014	2015	2016 (f)	2017 (f)	2018 (f)
Real GDP	**7.2**	**7.6**	**6.5**	**7.0**	**7.5**
Household consumption	6.2	7.4	4.7	6.4	8.1
Investment	4.9	3.9	2.1	6.7	7.9
Exports	1.7	-5.2	2.3	5.8	6.7
Imports	0.8	-2.8	-4.9	2.5	4.1
Inflation rate	**6.0**	**4.9**	**4.8**	**5.0**	**5.1**
General Government Balance (as % of GDP)	**-7.3**	**-6.9**	**-6.7**	**-6.6**	**-6.2**
General Government Debt (as % of GDP)	**68.3**	**69.1**	**68.5**	**67.2**	**65.6**
External Debt (as % of GDP)	**23.6**	**23.0**	**23.2**	**21.2**	**20.4**
Current Account Balance (as % of GDP)	**-1.3**	**-1.1**	**-1.4**	**-2.0**	**-2.2**

BRAZIL

— **The economy continued to contract in Q3-16. It would recover only mildly in 2017 helped by external demand and the revival of investment.**

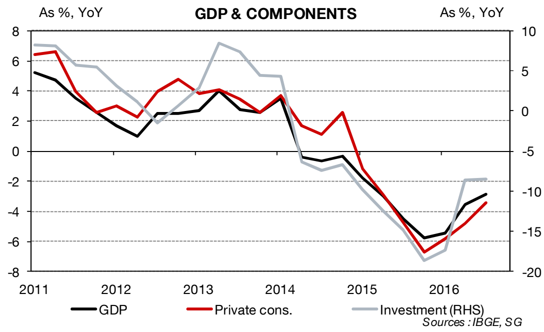
— **Despite the downward trend of inflation, the BCB could slow down its easing cycle in the case of a stronger Fed tightening cycle.**

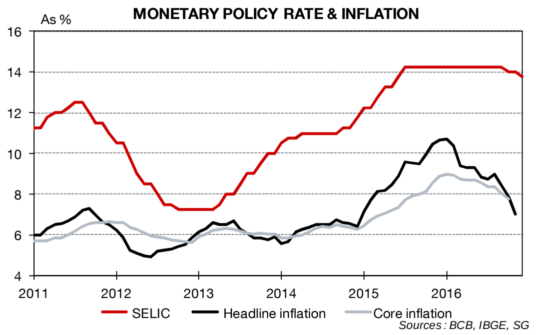
— **The fiscal consolidation plan, comprising the cap on primary expenditures and a reform of the social security regime, would only correct the important deficit in the medium term.**

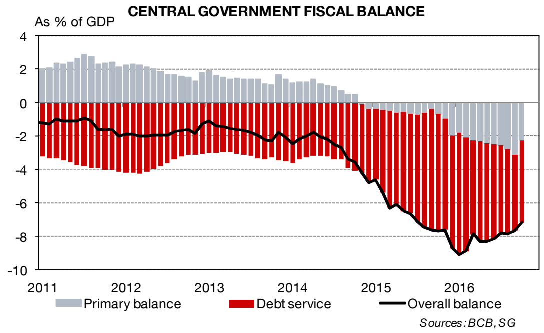
Activity remains disappointing. Real GDP continued to decline during Q3-16 (-0.8% QoQ, -2.9% YoY) reflecting a still ailing domestic consumption. The latter would remain weak in the coming year as it will still face headwinds from a deteriorated labor market and tight credit conditions. In this context, the economy is expected to recover very gradually in 2017 and to modestly accelerate in 2018, driven mainly by exports and higher private investment linked to the improvement of confidence indicators and terms of trade.

The inflation outlook is improving. Inflation decelerated to 7% in November helped by declining food prices and the ongoing adjustment of regulated prices. This downward trend is expected to continue to reach the 4.5% target in 2018 supported by better anchored inflation expectations and lower imported price pressures. Despite this favorable backdrop, the BCB could slowdown its easing cycle, preventing a faster recovery of domestic demand. Indeed, a faster Fed tightening cycle could trigger capital outflows, renewing pressures on the currency.

Thanks to one-off revenues, the fiscal primary deficit declined to 2% of GDP in October from 3%, allowing hence the authorities to reach the -2.7% of GDP primary balance target for 2016. For the coming years, public balances would correct only modestly mainly on the back of the recovery of fiscal revenues and the stabilization of the debt service. The capping of primary expenditures growth to past inflation as well as the social security reform (expected to be voted during the S1-17), though essential to maintain confidence indicators, would only have a significant effect on curbing fiscal ratios on the medium term.







As %	2014	2015	2016 (f)	2017 (f)	2018 (f)
Real GDP	**0.1**	**-3.8**	**-3.4**	**0.7**	**1.5**
Household consumption	2.3	-3.9	-4.2	0.2	1.2
Investment	-4.1	-14.0	-10.0	2.2	8.0
Exports	-0.8	6.3	3.8	4.0	4.1
Imports	-1.9	-14.1	-10.2	2.6	7.8
Inflation rate	**6.4**	**9.5**	**8.0**	**5.5**	**4.5**
General Government Balance (as % of GDP)	**-6.2**	**-10.3**	**-8.5**	**-7.5**	**-7.0**
General Government Debt (as % of GDP)	**57.2**	**66.5**	**71.0**	**75.0**	**79.0**
External Debt (as % of GDP)	**20.9**	**25.6**	**29.0**	**27.0**	**27.0**
Current Account Balance (as % of GDP)	**-4.5**	**-3.3**	**-1.5**	**-1.0**	**-1.3**

RUSSIA

— **Economic activity continues to disappoint. The drop in inflation failed to stimulate consumption, which is still contracting. The too-slow increase in oil prices is not expected to enable the long-awaited recovery to begin.**

— **The economy is likely to continue to suffer from a still restrictive policy mix.**

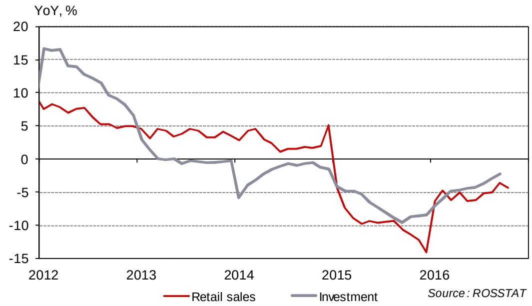
— **The draft budget for 2017-2019, which was announced in October, contains plans for significant spending cuts. It is likely to drag down the country's growth outlook.**

Activity is still not showing any signs of picking up. Even though GDP contracted slightly less in the third quarter than it did in the second, domestic demand has still been continuously contracting since the beginning of 2015. Retail sales and investment are still in sharp decline. After the slight recovery in the first half of the year, industrial output has once again been on a downtrend since September, particularly due to the contraction in manufacturing output. This seems to indicate that the positives of devaluation are no longer at play. Moreover, fiscal and monetary policies remain restrictive, which is contributing to the sluggishness of domestic demand. Nonetheless, the gradual increase in oil prices, and the recovery in real income beginning in January 2017 are likely to contribute to stabilising activity. The recovery in activity will start later than previously expected.

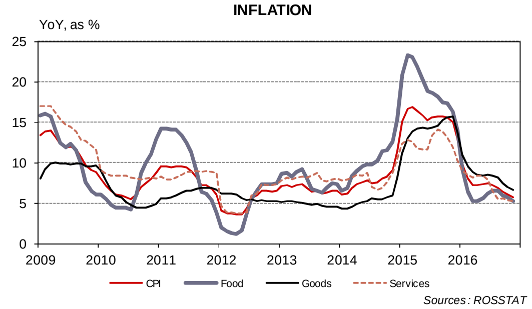
Inflation continues to decline, which should ultimately end up benefiting real household income. Pressure on the appreciation of the rouble, alongside rising oil prices, will be conducive to further disinflation in 2017. Continued restrictive monetary policy is also likely to contribute to the slowdown in prices. Nonetheless, this should allow the central bank to restart its rate cutting cycle during the year.

Fiscal policy will remain the primary factor impacting the country's economic trend. The draft budget submitted to the Duma in October contains plans for deep spending cuts in all areas. If adopted in full, with spending cuts of around 20% in real terms already planned in 2017, this could compromise the very slight recovery expected over the next two years.

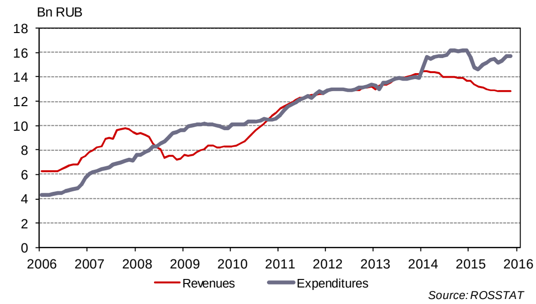
ACTIVITY



INFLATION

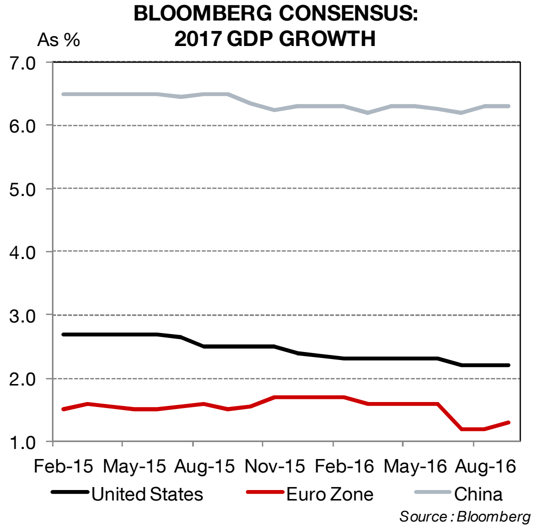


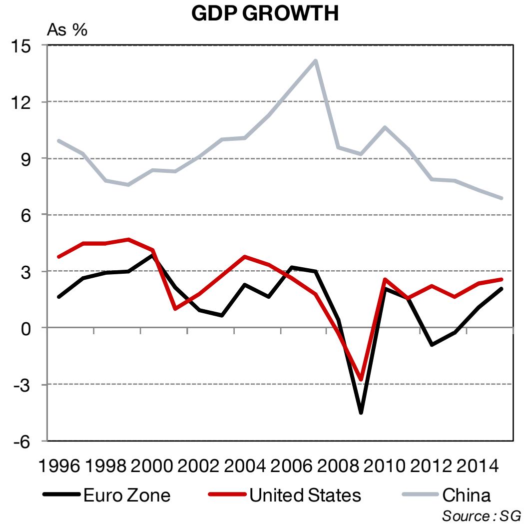
FEDERAL BUDGET



As %	2014	2015	2016 (f)	2017 (f)	2018 (f)
Real GDP	**0.7**	**-3.7**	**-0.5**	**1.0**	**1.2**
Household consumption	1.5	-8.4	-4.0	1.5	1.5
Investment	-4.0	-7.6	-5.0	0.0	2.0
Exports	0.6	0.7	2.0	3.0	3.0
Imports	-7.6	-17.7	-10.0	4.0	5.0
Inflation rate	**6.5**	**15.7**	**7.2**	**5.5**	**5.0**
General Government Balance (as % of GDP)	**-0.1**	**-3.5**	**-4.0**	**-3.0**	**-2.0**
General Government Debt (as % of GDP)	**13.0**	**14.0**	**16.0**	**18.0**	**19.0**
External Debt (as % of GDP)	**32.0**	**40.0**	**43.0**	**44.0**	**45.0**
Current Account Balance (as % of GDP)	**2.9**	**4.9**	**4.2**	**4.0**	**4.0**

Economic Data

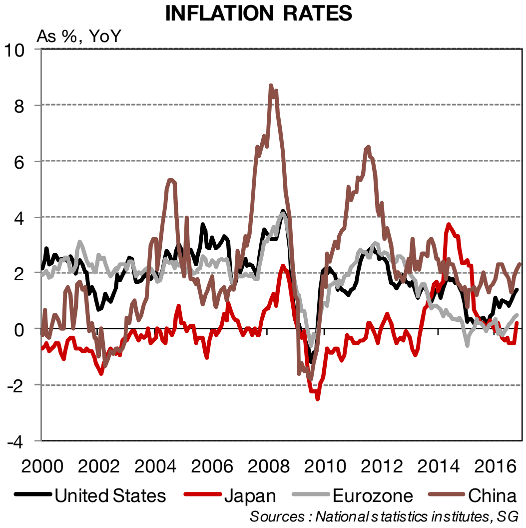




As %	2009	2010	2011	2012	2013	2014	2015	2016(f)	2017(f)	2018(f)
GDP, volume										
World	**-1.9**	**4.2**	**3.1**	**2.5**	**2.5**	**2.8**	**2.7**	**2.5**	**2.9**	**3.1**
United States	-2.8	2.5	1.6	2.2	1.7	2.4	2.6	1.6	2.2	2.5
Japan	-5.4	4.2	-0.1	1.5	2.0	0.2	1.2	0.9	0.7	0.9
United Kingdom	-4.3	1.9	1.5	1.3	1.9	3.1	2.2	2.0	1.1	1.4
Eurozone	-4.5	2.0	1.6	-0.9	-0.2	1.2	1.9	1.6	1.5	1.5
Germany	-5.6	3.9	3.7	0.7	0.6	1.6	1.5	1.8	1.5	1.6
France	-2.9	1.9	2.1	0.2	0.6	0.7	1.2	1.2	1.3	1.5
Italy	-5.5	1.6	0.7	-2.9	-1.7	0.2	0.6	0.9	0.9	1.0
Spain	-3.6	0.0	-1.0	-2.9	-1.7	1.4	3.2	3.2	2.3	1.9
China	9.2	10.6	9.5	7.9	7.8	7.3	6.9	6.7	6.4	6.0
India	8.5	10.3	6.6	5.6	6.6	7.2	7.6	6.5	7.0	7.5
Brazil	-0.1	7.5	3.9	1.9	3.0	0.1	-3.8	-3.4	0.7	1.5
Russia	-7.8	4.5	4.0	3.5	1.3	0.7	-3.7	-0.5	1.0	1.2
Investment, volume										
World*	**-1.5**	**6.2**	**5.5**	**4.3**	**4.3**	**3.9**	**3.4**	**3.3**	**4.1**	**4.6**
United States	-16.7	1.5	6.3	9.8	5.0	5.5	3.9	0.6	2.7	3.5
Japan	-9.6	-1.6	1.7	3.5	5.0	2.7	0.2	0.9	1.3	1.5
United Kingdom	-15.2	5.0	1.9	2.3	3.2	6.7	3.4	1.1	0.1	1.3
Eurozone	-11.2	-0.5	1.7	-3.3	-2.5	1.4	2.9	2.8	2.1	2.1
Germany	-10.0	5.0	7.4	-0.1	-1.1	3.4	1.1	1.9	1.6	2.3
France	-9.0	1.9	2.1	0.4	-0.7	-0.4	0.9	2.7	1.4	1.9
Italy	-10.0	-0.6	-1.7	-9.4	-6.6	-2.9	1.1	1.9	1.1	1.3
Spain	-16.9	-4.9	-6.9	-8.6	-3.4	3.8	6.0	3.6	2.9	2.4
China	18.8	15.2	9.2	7.1	9.1	7.1	8.2	10.1	9.1	9.3
India	-0.7	15.2	11.5	2.4	7.4	4.9	3.9	2.1	6.7	7.9
Brazil	-2.1	17.9	6.7	0.8	5.8	-4.1	-14.0	-10.0	2.2	8.0
Russia	-14.6	6.4	9.2	7.1	0.8	-4.0	-7.6	-5.0	0.0	2.0

Sources: Datastream, IMF, OECD, SG computations and forecasts

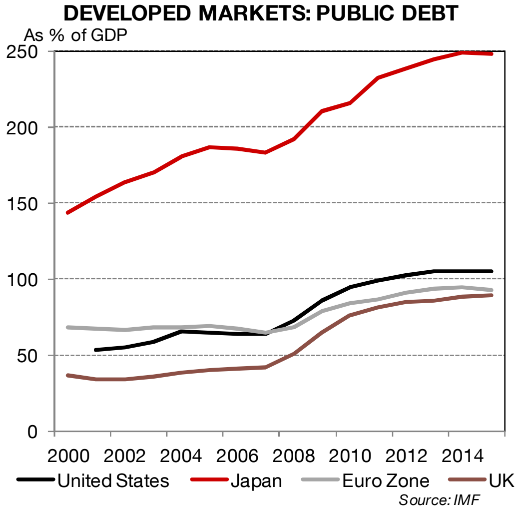
* Weighted average of the 11 countries shown here

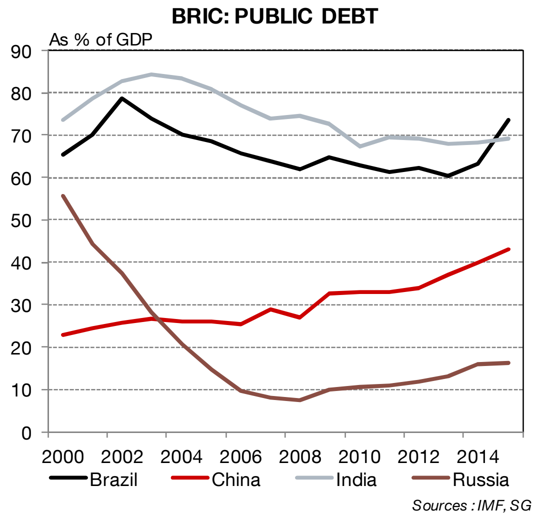


As %	2009	2010	2011	2012	2013	2014	2015	2016(f)	2017(f)	2018(f)
Inflation										
World*	**0.9**	**2.3**	**3.7**	**2.8**	**2.4**	**2.2**	**1.6**	**1.6**	**2.1**	**2.3**
United States	-0.3	1.6	3.1	2.1	1.5	1.6	0.1	1.2	2.0	2.2
Japan	-1.4	-0.7	-0.3	-0.1	0.3	2.8	0.8	-0.3	0.4	0.8
United Kingdom	2.2	3.3	4.5	2.8	2.6	1.5	0.0	0.7	2.4	2.1
Eurozone	0.3	1.6	2.7	2.5	1.4	0.4	0.0	0.2	1.3	1.6
Germany	0.2	1.1	2.5	2.1	1.6	0.8	0.1	0.3	1.6	1.9
France	0.1	1.5	2.1	2.0	0.9	0.5	0.0	0.2	1.3	1.6
Italy	0.8	1.6	2.9	3.3	1.3	0.2	0.1	-0.1	0.8	1.0
Spain	-0.1	1.6	3.2	2.4	1.4	-0.1	-0.5	-0.3	1.3	1.6
China	-0.7	3.3	5.4	2.6	2.6	2.0	1.4	1.9	1.9	2.0
India	10.6	9.5	9.5	9.9	9.4	6.0	4.9	4.8	5.0	5.1
Brazil	4.9	5.0	6.6	5.4	6.2	6.4	9.5	8.0	6.0	5.5
Russia	11.7	6.9	8.4	5.1	6.8	6.5	15.7	7.2	5.5	5.0
Current account balance (as % of GDP)										
United States	-2.7	-3.0	-3.0	-2.8	-2.2	-2.3	-2.6	-2.5	-2.5	-2.7
Japan	2.8	3.9	2.1	1.0	0.9	0.8	3.2	3.7	3.8	3.8
United Kingdom	-3.0	-2.8	-1.8	-3.7	-4.4	-4.7	-5.4	-5.6	-5.4	-5.2
Eurozone	0.1	0.2	0.2	1.3	2.2	2.4	3.1	3.2	2.9	2.9
Germany	5.6	5.4	6.0	7.1	6.8	7.4	8.4	8.9	8.3	8.2
France	-0.8	-0.8	-1.0	-1.2	-0.9	-1.1	-0.2	-0.7	-0.8	-0.9
Italy	-1.9	-3.4	-3.0	-0.4	1.0	1.9	1.6	2.5	2.2	2.0
Spain	-4.3	-3.9	-3.2	-0.2	1.5	1.1	1.4	1.9	1.5	1.5
China	4.7	3.9	1.8	2.5	1.5	2.6	3.0	2.4	1.6	1.4
India	-2.8	-2.8	-4.3	-4.8	-1.7	-1.3	-1.1	-1.4	-2.0	-2.2
Brazil	-1.6	-3.4	-2.9	-3.0	-3.0	-4.5	-3.3	-1.5	-1.0	-1.3
Russia	3.8	4.1	4.8	3.3	1.5	2.9	4.9	4.2	4.0	4.0

Sources: Datastream, IMF, SG computations and forecasts

* Weighted average of the 11 countries shown here



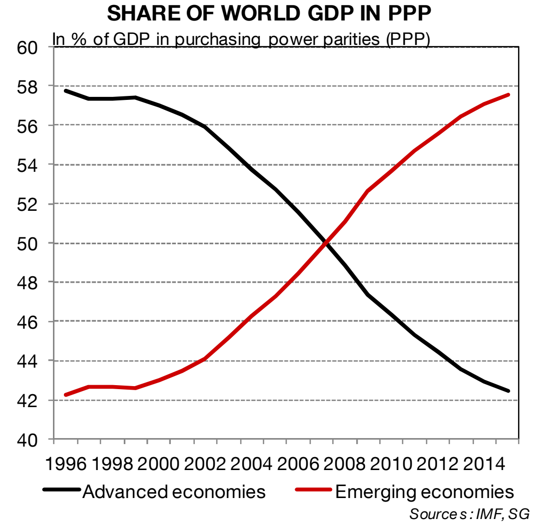


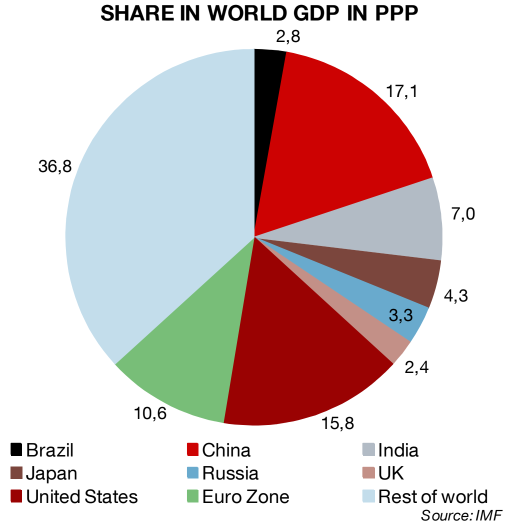
As % of GDP	2009	2010	2011	2012	2013	2014	2015	2016(f)	2017(f)	2018(f)
Public sector balance										
United States	-12.8	-12.2	-10.7	-9.0	-5.5	-4.9	-4.3	-4.5	-3.7	-3.5
Japan	-8.8	-8.3	-8.8	-8.7	-8.5	-6.2	-5.4	-5.2	-5.2	-4.3
United Kingdom	-10.2	-9.6	-7.6	-8.3	-5.7	-5.7	-4.3	-3.7	-3.0	-2.3
Eurozone	-6.3	-6.2	-4.2	-3.6	-3.0	-2.6	-2.1	-1.8	-1.6	-1.5
Germany	-3.2	-4.2	-1.0	0.0	-0.2	0.3	0.7	0.7	0.6	0.4
France	-7.2	-6.8	-5.1	-4.8	-4.0	-4.0	-3.5	-3.3	-3.0	-3.0
Italy	-5.5	-4.5	-3.5	-3.0	-2.7	-3.0	-2.6	-2.4	-2.4	-2.4
Spain	-10.8	-9.3	-9.4	-10.6	-7.1	-5.9	-5.1	-4.6	-3.8	-3.4
China	-1.8	0.6	-0.1	-0.7	-0.8	-0.9	-2.7	-3.0	-3.3	-3.0
India	-9.8	-8.4	-8.2	-7.5	-7.6	-7.3	-6.9	-6.7	-6.6	-6.2
Brazil	-3.2	-2.7	-2.5	-2.5	-3.0	-6.2	-10.3	-8.5	-7.5	-7.0
Russia	-5.9	-3.2	1.4	0.4	-1.2	-0.1	-3.5	-4.0	-3.0	-2.0
Public debt*										
United States	81.3	89.5	94.4	98.9	101.2	102.3	101.7	103.9	102.2	102.0
Japan	188.7	193.2	209.4	215.4	221.5	227.7	229.9	233.7	237.5	239.7
United Kingdom	64.5	76.0	81.6	85.1	86.2	88.1	86.7	86.1	86.5	86.1
Eurozone	78.5	84.0	86.2	89.6	91.5	92.2	90.5	89.6	88.9	88.1
Germany	72.6	81.0	78.7	79.9	77.5	74.9	71.2	68.3	65.7	63.3
France	79.0	81.7	85.2	89.6	92.4	95.3	96.1	96.8	97.1	97.4
Italy	112.5	115.4	116.4	123.1	129.0	131.9	132.3	132.9	133.3	133.5
Spain	52.7	60.1	69.5	85.7	95.4	100.4	102.3	103.9	105.4	106.3
China	32.6	33.1	33.1	34.0	36.9	39.8	42.9	46.3	49.9	52.6
India	72.5	67.5	69.6	69.1	68.0	68.3	69.1	68.5	67.2	65.6
Brazil	64.9	63.0	61.2	62.3	60.4	57.2	66.5	71.0	75.0	79.0
Russia	9.9	10.6	10.9	11.8	13.1	13.0	14.0	16.0	18.0	19.0

Sources: Datastream, IMF, SG computations and forecasts

* BRIC: source IM; Developed countries: national sources (Maastricht methodology for EU countries)

Structural Data





In 2015	GDP in $ (USDbn)	GDP p. capita ($, at PPP)	Population (Millions)	Credit (% GDP)*	Ext. Position, net** (% GDP)	Openness ratio***
United States	18,037	56,084	322	150	-40	21
Euro Zone	11,601	35,904	339	164	-10	69
Germany	3,365	46,974	82	106	48	71
France	2,420	41,476	64	182	-16	45
Italy	1,816	35,781	61	121	-23	48
Spain	1,200	34,861	46	172	-88	49
Netherlands	751	49,624	17	236	63	143
China	11,182	14,340	1,373	205	14	36
Japan	4,124	38,142	127	167	68	31
United Kingdom	2,858	41,499	65	160	-14	38
India	2,073	6,187	1,293	61	-18	32
Brazil	1,773	15,646	204	75	-27	21
Canada	1,551	45,602	36	212	23	54
South Korea	1,378	36,612	51	194	14	70
Russia	1,326	25,965	143	73	26	40
Australia	1,225	47,644	24	206	-57	30
Mexico	1,144	18,430	121	41	-38	69
Indonesia	859	11,149	255	40	-43	34
Turkey	718	20,420	78	78	-53	49
Switzerland	664	58,647	8	210	93	82
Saudi Arabia	646	53,802	31	62	109	58

Sources: World Bank, BIS, IMF, Datastream

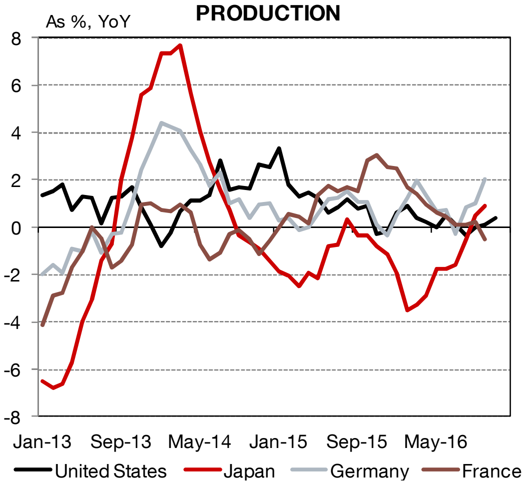
*Bank loans and debt securities of the non financial private sector

** Foreign assets, net of liabilities to the rest of the world

*** Sum of imports and exports, divided by GDP

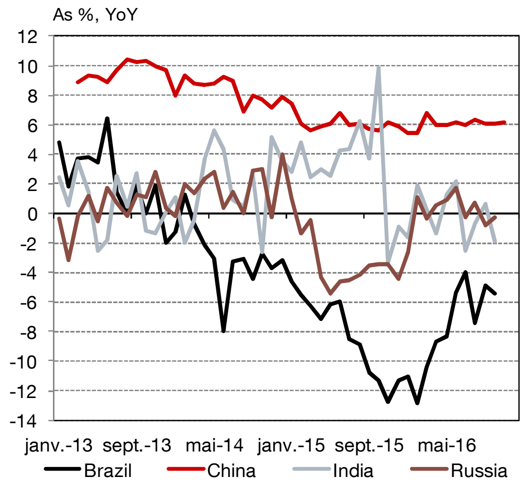
Cyclical DATA

DEVELOPED MARKETS: INDUSTRIAL PRODUCTION



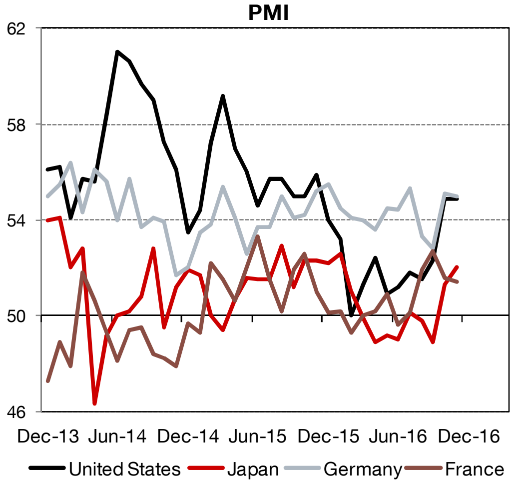
Sources : Nationals, SG

BRIC: INDUSTRIAL PRODUCTION



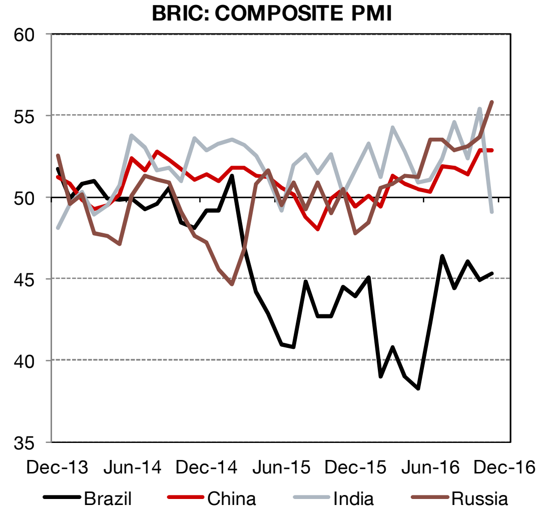
Sources : Nationals

DEVELOPED MARKETS: COMPOSITE PMI



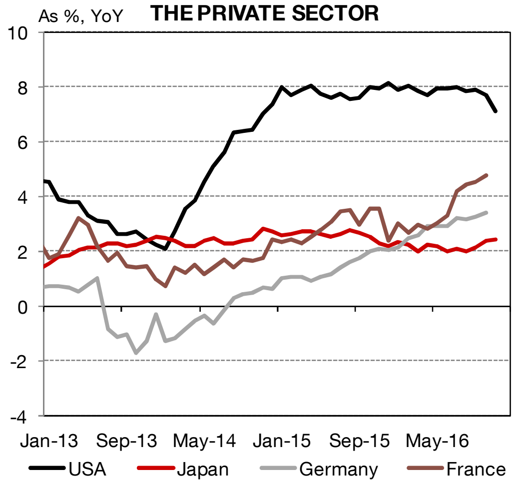
Source : Datastream

BRIC: COMPOSITE PMI



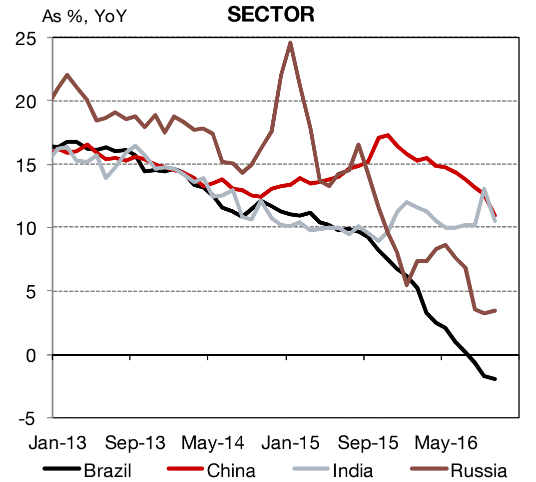
Source : Datastream

DEVELOPED MARKETS: CREDIT TO THE PRIVATE SECTOR



Sources : Nationals

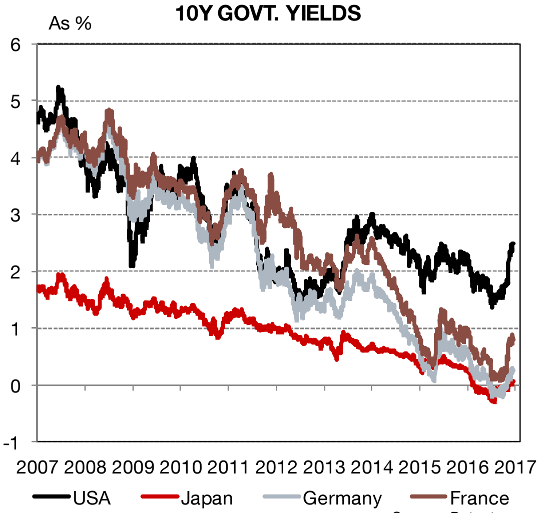
BRIC: CREDIT TO THE PRIVATE SECTOR



Sources : Nationals, SG

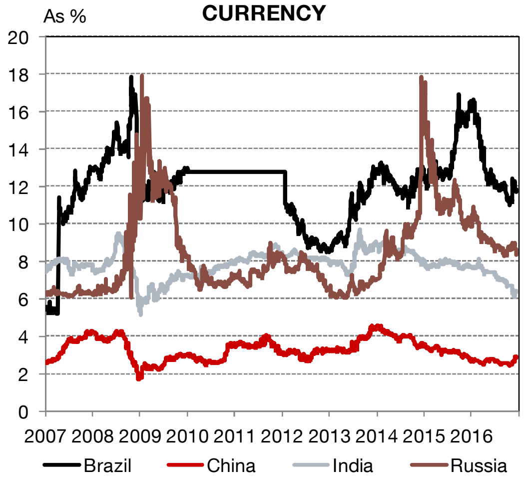
Financial Data

10Y GOVT. YIELDS



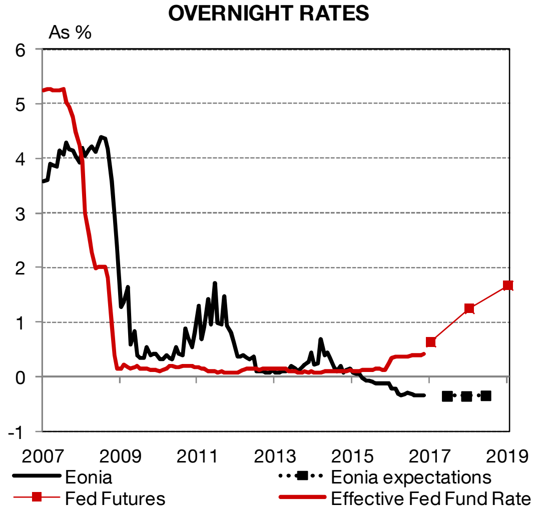
Source : Datastream

5Y SOV. INTEREST RATES IN LOCAL CURRENCY



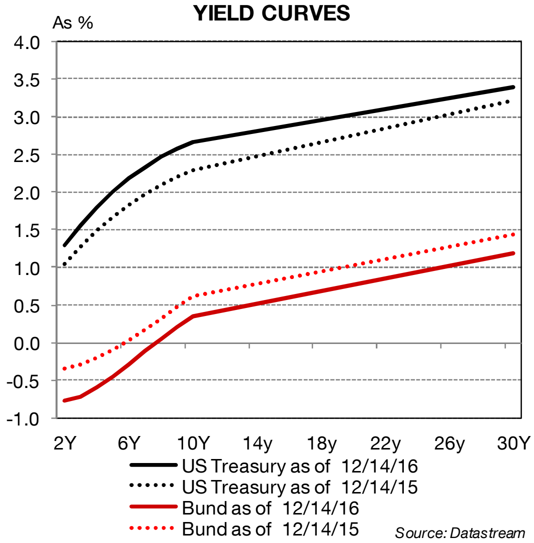
Source: Datastream

OVERNIGHT RATES



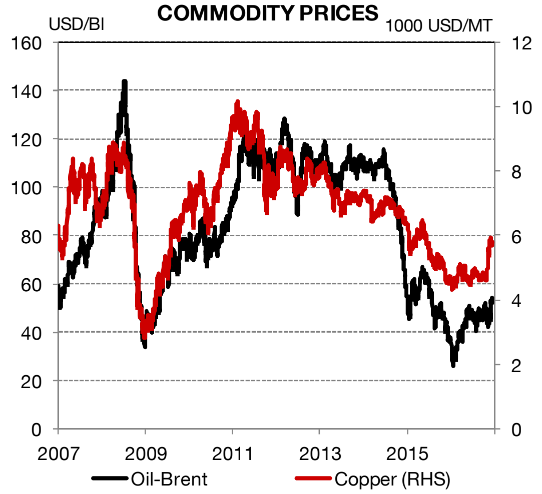
Source: Bloomberg

YIELD CURVES



Source: Datastream

COMMODITY PRICES



Source : Datastream

STOCK INDEXES

Source : Datastream

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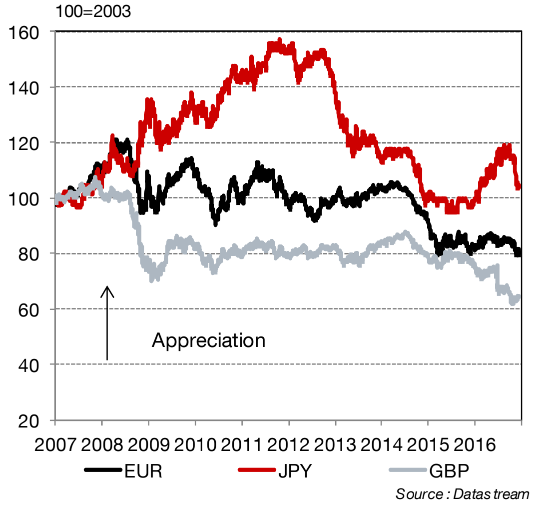
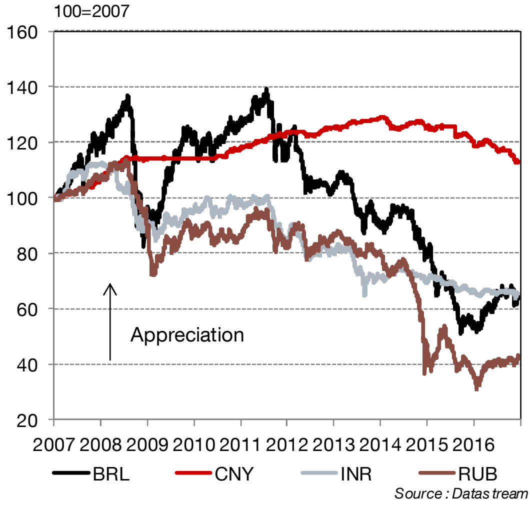
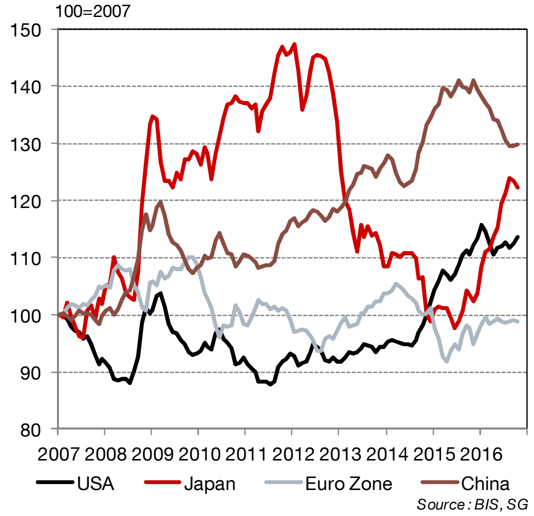
DM: EXCHANGE RATE AGAINST USD



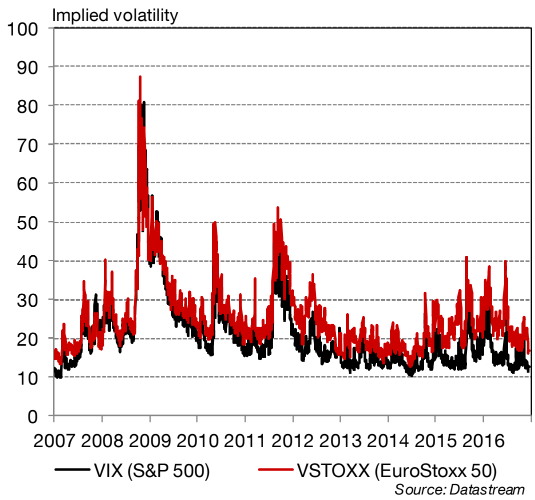
BRIC: EXCHANGE RATE AGAINST USD



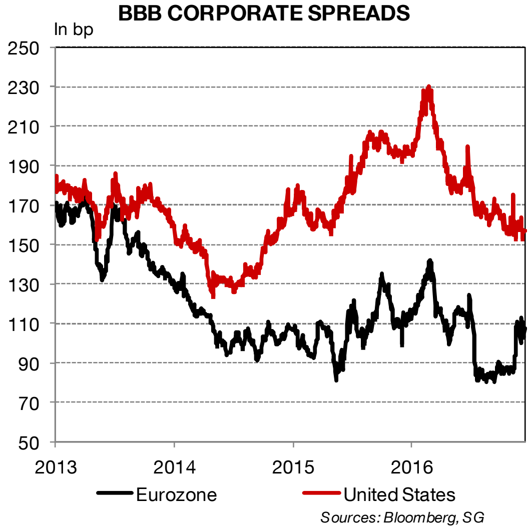
NOMINAL EFFECTIVE EXCHANGE RATE



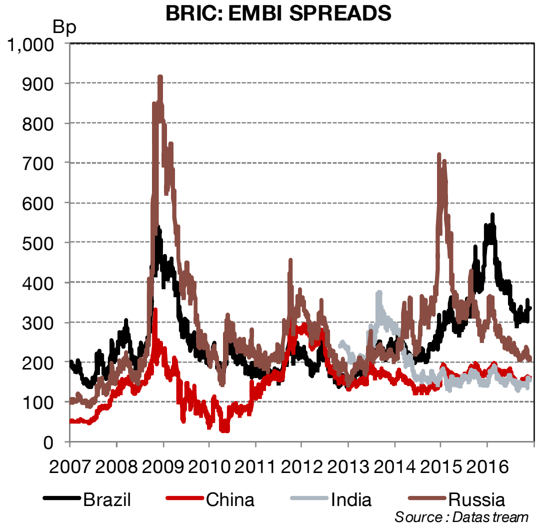
EQUITY MARKETS VOLATILITY



BBB CORPORATE SPREADS



BRIC: EMBI SPREADS



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