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SCENARIOECO

Economic and Sector Studies

LESS SYNCHRONISED GROWTH, RISING UNCERTAINTIES

- Global growth is expected to clock in at 3.8% in 2018 and slow to 3.6% in 2019; a rate of expansion that is still firm and comparable to that of 2017 (+ 3.7%). That said, growth is less synchronized. Activity in Europe remains above trend, but is softening in the wake of the deceleration of world trade, while fiscal stimulus measures are prolonging the expansion in the United States.
- Oil prices are significantly higher than previously expected and global inflation is rising, but very gradually and remains at moderate levels.
- The increase in US tariffs on imports from China adds to uncertainty. Mechanically, higher tariffs will lift inflation, add friction to supply chains and generate financial market volatility.
- Given the strength of the cycle, the Fed is expected to tighten policy further in 2018 and 2019. Normalization of the ECB's monetary policy is set to be slower. Contrary to the US, the euro area has not engaged aggressive fiscal expansion and faces additional uncertainty headwinds from Brexit and Italian politics.
- Emerging markets were shaken during the summer and currencies such as the Turkish lira, the Argentine peso and the Indian rupee suffered sharp depreciation. Less favorable financing conditions, partly linked to the fragility of macro fundamentals, are expected to weigh on the growth prospects in these countries.

SOCIETE GENERALE

Document completed on 24 September 2018

Outlook Summary

GLOBAL ECONOMY

- Global growth is expected to reach 3.8% in 2018 and 3.6% in 2019, a rate that remains firm and in line with 2017 (+3.7%). We forecast a marked slowdown, however, for 2020-22. The build-up of uncertainty surrounding trade protectionism, Brexit, political uncertainty in Europe and the various geopolitical risks will weigh on global growth at a time when debt ratios are already high and the US is expected to begin withdrawing its fiscal stimulus.
- While oil prices are significantly higher than previously forecast, global inflation is rising, but only slowly and is still at low levels. We are forecasting a drop in oil prices in 2019 against a backdrop of continually increasing supply, with a trend towards $70/b in the medium term. This trend may be disrupted by the US sanctions against Iran (due to come into effect on 4 November 2018).
- The United States announced 10% tariffs on approximately $200 billion of imports covering almost 6,000 products from China, effective as of 24 September. This tariff could be increased to 25% in early 2019. Almost half of Chinese exports to the US are now subject to tariffs. The direct impact on global growth and inflation appears moderate, however, uncertainty could well rise and generate financial volatility.

ADVANCED ECONOMIES

- In the developed economies, growth remains above trend potential, despite the recent moderation, while fiscal stimulus measures are extending the growth cycle in the US.
- Growth has been losing steam in the euro area in 2018 due to the slowdown in global trade. In France, temporary negative factors such as the scheduled tax changes, transport strikes and rising oil prices are also weighing on activity. This softness means that we are lowering our 2018 annual growth forecast for France from 1.8% to 1.6%.
- In terms of Brexit, negotiations have stalled and political uncertainty remains high. Absent a Withdrawal agreement, there will be no transition period and EU law will immediately cease to apply in the UK on 30 March 2019, when Brexit takes effect. The consequences of a no-deal scenario would be severe for individuals and businesses alike.
- In Japan, despite robust growth, rising wages and energy prices, inflation remains very weak. In light of their inclusion in the Asian value chains, Japanese companies are also concerned about the trade tensions between China and the United States.

EMERGING MARKETS

- In China, growth started to lose steam in 2Q18 in the wake of a slowdown in investment. We now expect monetary easing to offset this, which will delay the deleveraging process.
- The rise in external debt has increased emerging market vulnerability. Currencies of countries with fragile fundamentals such as Turkey and Argentina have been hit hard since August. These two countries are now moving toward a recession. Currency volatility has also increased in India, Indonesia and South Africa – countries where growth is reliant on external funding.

CENTRAL BANKS

- The Fed is expected to continue to raise interest rates in 2018 and 2019, peaking at 2.75-3.00% in 4Q19, while reducing the size of its balance sheet until 2020.
- The ECB announced that it would continue its net asset purchases at a monthly pace of €30 bn until September 2018, then cut them by half after September and end QE altogether at year-end, while continuing to reinvest nonetheless. The ECB is not expected to raise key interest rates until after summer 2019.
- In the UK, monetary policy is expected to remain accommodative, with one 25bp rate hike between now and 2020.

FINANCIAL MARKETS

- US equities outperformed in 2018, driven primarily by rising profits and share buybacks. The US markets may become more sensitive to data surrounding the upcoming end of the cycle. The Fed's balance sheet reduction combined with a substantial government bond issue is expected to put some upward pressure on bond yields.
- On the European markets, equity performance is being hampered by political uncertainties (Brexit, Italy) and weak progress by financial sector stocks that are being dragged down by the Turkish crisis. In light of core inflation that remains weak and a highly accommodative monetary policy, bond yields remain at historically low levels. However, the Italian spread has widened, on the back of rising political uncertainty.

Less synchronized growth and rising uncertainties

- **In developed economies, activity continues to grow above potential**
- **The weak link in global growth is now the emerging markets**
- **After the stress of August, market tensions have eased but uncertainties remain**

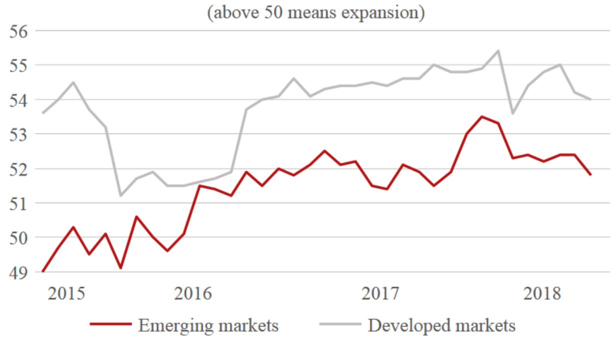
Less synchronized global growth

Since the beginning of the year, despite rising uncertainties, global growth has continued to show a respectable performance. Growth forecasts for the United States were even revised up for 2018-2019 due to the expansionary effects of its fiscal policy. The euro area slowed at the beginning of the year with less dynamic exports, but confidence levels remain generally robust, despite the uncertainties arising from Brexit and the political risk in Italy.

In contrast, the weak link in global growth is now the emerging world. Despite the good performance of global trade, economic activity in emerging countries has lost momentum, even in hydrocarbon exporting countries benefiting from rising oil prices.

PMI

(above 50 means expansion)



Source: Thomson Reuters Datastream

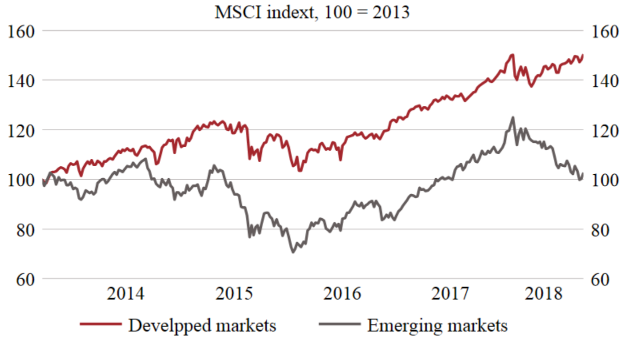
The weakness of economic growth in emerging markets is attributable to the ongoing slowdown in China, but also to weaker momentum in Russia and Brazil in a context of political and geopolitical uncertainty. Growth in Central and Eastern Europe also slowed in 2018 after an exceptional 2017 year. More generally, and as observed during the financial turbulence of the summer, emerging markets are the subject of concern. The Turkish and Argentinian currency crises raised the question again: when will a new systemic crisis emerge?

For the advanced economies, the growth cycle remains firm and supported by the dynamics of the business investment cycle that has been at work since last year, but which has restarted after several years of stagnation of investment. The United States also benefits from large-scale fiscal stimulus.

Rising uncertainties related to trade tensions and political agendas risk eroding confidence among business managers and consumers alike, risk accelerating the end of the cycle of economic expansion both in the United States and Europe.

Stock markets

MSCI indext, 100 = 2013



Source: Thomson Reuters Datastream

The market stress of August has been left behind, stock markets are on the rise, the US dollar has slightly depreciated and risk premiums remain compressed.

In terms of the global economy, one can question the strength of the growth cycle in developed countries, the dynamics of world trade, and the potential impact of monetary tightening on financial markets.

Risks are still moderated but uncertainties are on the rise

In the immediate future, the risk of a hard landing is limited. First, the tightening of monetary policy in the United States is expected to remain gradual, limiting the risk of an interest rate shock and the fiscal impulse remains dynamic. Moreover, in the euro area, the business investment cycle seems still solid. Secondly, systemic risk in emerging markets remains muted at this stage. Most of emerging market economies have significantly reduced their external deficits and hold sufficient international reserves to face a potential US dollar shortage. Even though external debt has risen, it remains relatively moderate relative to GDP. Finally, unlike past systemic crises, most of public debt in emerging economies is denominated in local currency and the level of dollarization of banking systems has also declined.

In this context, financial markets are still showing resiliency, but beyond a potential cyclical downturn, or localized risks in emerging markets, there are many sources of uncertainty:

1/ **Rising protectionism**. The decision of the US to impose tariffs on a variety of imports already prompted retaliatory measures from trading partners. There is a growing risk of a "trade war" in which countries take more aggressive steps including broader-based tariffs. An escalation of trade tensions would undermine business and financial market sentiment, denting investment and trade. Higher trade barriers would disrupt global supply chains and slow the spread of new technologies, weighing on productivity.

ii/ **No-deal Brexit**. Brexit negotiations are at an impasse and the risk is a no-deal Brexit that would be much more detrimental to trade and financial linkages than assumed in the central scenario. A no-deal Brexit would be a source of potentially very significant disruption to both trade in goods and services.

iii/ **Hard landing in China**. Since 2008, corporate debt has soared, including for poorly performing companies. China has sufficient buffers to avoid a systemic banking crisis, but a liquidity crunch among corporate borrowers would trigger a disorderly repricing of financial assets and increase rollover risks. A hard landing scenario involving a sharp slowdown in economic activity would trigger capital outflows and CNY depreciation, increasing the risk of further clashes with the US. In such a scenario, commodity prices would collapse (especially metals), while oversupply capacities in China would create global deflationary pressures. Commodity exporters would be hit (Africa, Latin America).

iv/ **Political risks in Europe**. The new Italian government's policies could trigger tensions with other euro area member states, leading to a significant widening of peripheral spreads. Poor compromises in deepening the euro area, and not least on debt restructuring, is a further risk.

v/ **Geopolitical risks**. Geopolitical tensions could have disruptive effects on global growth. Threats may come from tensions in the Middle East, North Korea's nuclear ambitions, hostilities in the South China Sea, new terrorist attacks or major cyber-attacks paralyzing online activity.

Positive surprises are not excluded. They could come from:

i/ **Easing protectionist policies** of the US administration after the mid-term elections on 6 November 2018. Even partial improvement in this area would be beneficial to global growth through its effect on trade, oil prices and market volatility.

ii/ **Upturn in productivity gains**. Productivity gains related to the new digital technologies and automation with the introduction of industrial robots may boost potential growth and extend the life span of expansion cycles in advanced economies, including the US.

iii/ **Further life in the US cycle**. The current US expansion is already the second longest in history (9 consecutive years). If i) the fiscal impulse triggers a sustained jump in real business investment and ii) an increase in labour participation rates allows more expansion with no significant wage and prices tensions, then the length of the current expansion could be extended. This is not our baseline, however.

iv/ **Progress in European integration**. A swift Withdrawal Agreement on Brexit and support for reform of euro area institutions would reduce political uncertainty and favour stronger-than-expected economic activity.

In 1921 the economist Franck Knight states the difference between the notions of risk and uncertainty. Risk has a probability while the uncertainty does not. The increase in uncertainties could therefore be a source of binary reactions, particularly in the financial markets. This is to be taken under consideration in the current context of relative calm.

Economic Forecasts

Real GDP growth (annual, %)	2015	2016	2017	2018 (f)	2019 (f)	Share of world GDP 2016 (%) Purchasing power parities[1]	Share of world GDP 2016 (%) Current exchange rates	GDP - 2016 USDbn Current exchange rates
Developed markets	**2.3**	**1.6**	**2.3**	**2.3**	**2.0**	**37.8**	**57.1**	**43 137**
United States	2.9	1.6	2.2	3.0	2.5	15.5	24.7	18 707
Japan	1.4	1.0	1.7	1.0	0.9	4.4	6.6	4 961
Euro area	1.9	1.8	2.5	2.1	1.7	11.6	15.7	11 934
Germany	1.5	2.2	2.5	2.0	1.9	3.3	4.6	3 473
France	1.0	1.1	2.3	1.6	1.7	2.3	3.3	2 464
Italy	0.8	1.0	1.6	1.2	1.1	1.9	2.5	1 861
Spain	3.4	3.3	3.1	2.6	2.1	1.4	1.6	1 238
United Kingdom	2.3	1.8	1.7	1.5	1.3	2.3	3.5	2 667
Emerging markets	**4.1**	**4.2**	**4.6**	**4.6**	**4.5**	**62.2**	**42.9**	**31 277**
Asia	6.3	6.0	6.2	6.1	5.8	35.0	24.8	18 728
China	6.9	6.7	6.9	6.6	6.2	17.7	14.9	11 181
India	8.2	7.1	6.7	7.2	7.1	7.3	3.0	2 210
Sub-Saharan Africa	3.2	0.9	2.4	3.0	3.7	3.9	2.3	1 151
Latin America	0.2	-0.6	1.5	1.6	2.1	7.9	6.6	4 806
Brazil	-3.5	-3.5	1.0	1.2	2.0	2.6	2.4	1 809
Eastern Europe (incl. Turkey, ex. Russia)	3.0	2.6	5.2	3.8	2.4	4.8	3.1	2 342
Russia	-2.6	-0.2	1.5	1.2	1.2	3.2	1.7	1 296
North Africa and Middle East	2.8	5.3	1.9	2.9	3.3	7.4	4.3	2 953
World - Weighted by PPP rates	**3.4**	**3.2**	**3.7**	**3.8**	**3.6**	**100**		
World - At current exchange rates	**3.1**	**2.7**	**3.3**	**3.3**	**3.1**		**100**	**74 414**
Oil price (Brent USD/Barrel)	**52.5**	**43.5**	**54.0**	**70.0**	**65.0**			
Consumer prices index (annual growth rate, %)								
United States	0.1	1.3	2.1	2.4	2.4			
Japan	0.8	-0.1	0.5	0.9	1.6			
Euro area	0.0	0.2	1.5	1.6	1.5			
Germany (HICP)	0.2	0.5	1.7	1.8	1.8			
France (CPI)	0.0	0.2	1.0	1.9	1.6			
Italy (HICP)	0.1	-0.1	1.3	1.2	0.9			
Spain (HICP)	-0.6	1.4	1.5	1.6	1.3			
United Kingdom	0.0	0.7	2.6	2.4	2.3			

[1] Purchasing Power Parity (PPP) rates are used to equalise 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.

	22/08/2018	dec 2018	june 2019	dec 2019	2016	2017	2018 (f)	2019 (f)
Interest rates								
United States								
Fed Funds target rate	1.75-2	2-2.25	2.5-2.75	2.75-3	0.39	0.95	1.80	2.50
10 year Gvt Bonds	2.83	3.40	3.50	3.65	1.84	2.35	3.00	3.50
Japan								
Complementary Deposit Facility rate	-0.10	-0.10	-0.10	-0.10	-0.08	-0.10	-0.10	-0.10
10 year Gvt Bonds	0.10	0.20	0.25	0.40	-0.05	0.05	0.10	0.25
United Kingdom								
Bank rate	0.75	0.75	0.75	0.75	0.40	0.30	0.60	0.75
10 year Gvt Bonds	1.32	1.50	1.50	1.50	1.25	1.20	1.45	1.50
Euro area								
Refinancing rate	0.00	0.00	0.00	0.25	0.01	0.00	0.00	0.10
10 year Gvt Bonds								
Germany	0.35	0.85	1.12	1.39	0.13	0.36	0.60	1.15
France	0.63	1.15	1.40	1.75	0.46	0.80	0.85	1.45
Italy	3.05	3.30	3.45	3.55	1.48	2.05	2.65	3.45
Spain	1.33	1.90	2.15	2.35	1.41	1.55	1.55	2.20
Exchange rates								
EUR / USD	1.16	1.15	1.17	1.20	1.11	1.13	1.18	1.18
EUR / GBP	0.90	0.91	0.93	0.94	0.82	0.88	0.89	0.93
EUR / JPY	128	127	129	132	120	127	129	129
GBP / USD	1.29	1.26	1.27	1.27	1.35	1.29	1.33	1.27
USD / JPY	111	110	110	110	109	112	109	110

Euro Area

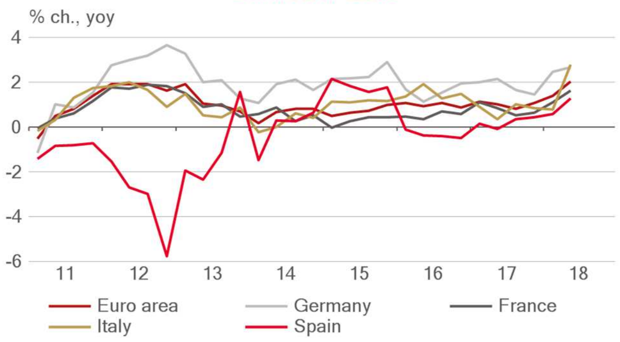
- **Growth looks set to return to normality in 2018-2019 after a very buoyant 2017.**
- **The ECB will end its net asset purchases in December 2018 and raise rates in September 2019.**
- **Political and protectionist risks persist.**

Growth decelerated in 1H18 to 1.5% on an annualised quarterly basis in 181Q and 2Q18 after nearly 3% on average in 2017, a rate that was significantly higher than the potential. In our view, the figures for 1H18 testify more to the normalisation of activity than a durable slowdown. Growth is projected to reach 2.1% in 2018 and 1.7% in 2019.

Export growth is likely to remain dynamic, but less so than in 2017 due to the slowdown in global trade observed at the beginning of the year. As a result, domestic demand is expected to remain the main driver of activity. The tightening of conditions in the labour market is likely to drive wages higher. Household income therefore looks set to accelerate this year before returning to its 2017 growth path next year. Moreover, we expect the oil price to fall, which will bolster purchasing power. Overall, household consumption is set to remain robust over our forecast horizon.

Investment growth is expected to moderate in 2018-2019. Increased trade protectionism could prompt companies to postpone some expenditures, especially in export-oriented sectors. Consequently, the catching-up process, after several years of under-investment, is likely to continue at a more moderate pace than in 2015-2017.

The acceleration in wages is driving up unit labour costs. As a result, core inflation is expected to pick-up over our forecast horizon. With the stabilisation of oil prices, inflation is projected to reach 1.6% in 2018 and 1.5% in 2019. Against this backdrop, the ECB is expected to pursue a strategy of very gradually withdrawing from its expansionary monetary policy. Accordingly, the ECB is set to end its asset purchases in December, as announced. We do not expect a rise in key rates before September 2019.



Source: Thomson Reuters Datastream

The risks to this scenario are first and foremost political, concentrated around the United Kingdom (in the event of a disorderly exit from the EU) and Italy (if the government were to lose market confidence and face higher spreads). A further rise in oil prices and the intensification of trade protectionism are other factors that could hurt activity. Finally, we will monitor the growing decoupling between Italy and the rest of the euro area. Growth remains solid in Germany and Spain and is forecast to rebound in France, whereas according to leading indicators, it appears to be slowing significantly in Italy.

	2015	2016	2017	2018 (f)	2019 (f)
Real GDP, % ch	**1.9**	**1.8**	**2.5**	**2.1**	**1.7**
Household consumption	1.8	1.9	1.7	1.3	1.5
Public consumption	1.3	1.8	1.2	1.2	1.4
Investment	4.6	3.7	2.9	3.2	2.5
Exports	6.3	3.0	5.5	3.0	3.8
Imports	7.5	4.0	4.2	3.0	4.1
Purchasing power of disposable income, % ch	**1.6**	**1.9**	**1.3**	**2.0**	**1.6**
Unemployment rate, %	**10.9**	**10.0**	**9.1**	**8.5**	**8.0**
Households saving rate, % of disposable income	**12.5**	**12.2**	**12.0**	**12.5**	**12.5**
Inflation rate, %	**0.0**	**0.2**	**1.5**	**1.6**	**1.5**
Fiscal balance, % of GDP	**-2.0**	**-1.5**	**-0.9**	**-1.0**	**-1.1**
Current account balance, % of GDP	**3.2**	**3.6**	**3.5**	**3.0**	**2.7**

Germany

- **Economic growth will slow from its 2017 level, but remain robust.**
- **Rising wages will drive inflation in 2019.**
- **Increased trade protectionism and the impact of a disorderly Brexit are the main risks.**

GDP rose by 2.5% in 2017, the strongest annual expansion level since 2011. 1H18 figures confirm our scenario of a normalisation of growth rates in 2018-2019, at 2.0% and 1.9% respectively.

Export growth will remain buoyant over our forecast horizon, despite the soft patch witnessed early this year. However, it will not be quite as strong as in 2017, when China's expansionist policy mix was partly responsible for a temporary pick-up in global trade. The increasing uncertainty surrounding rising protectionism is expected to cause businesses to defer a portion of their investment spending. As such, although private investment held up well during the early part of the year, we expect to see its growth moderate over our forecast horizon.

Household consumption will remain firm but less robust than in 2016-2017 due to the negative impact of rising oil prices witnessed this year. The labour market will continue on its solid track, with ongoing strong growth in employment (although a slight slowdown is expected in 2019) and wage increases (in the public sector and metals sector in particular). The pick-up in unit labour costs is expected to be felt in core inflation starting at the end of this year. With the rebound in oil prices witnessed in 2018, inflation is expected to hit 2% at the end of the year and 1.8% in 2019 (compared to an average of 0.8% in 2015-2017).

Wage and inflation

Source: Thomson Reuters Datastream, Destatis, Bundesbank

Fiscal policy will remain slightly expansionary, with increased public investment, which will be primarily focused on education and digital research (€6bn over four years), as well as construction and social housing (€4bn over the same timeframe). The government is also planning an additional €12bn in family-related spending, but will maintain a budget surplus nonetheless.

Bond yields will continue to rise very gradually against this backdrop.

The main risks to our scenario are the continued rise in protectionism and a disorderly Brexit. In the longer term, very moderate growth in the working population and weak efficiency gains could curb the economy's potential.

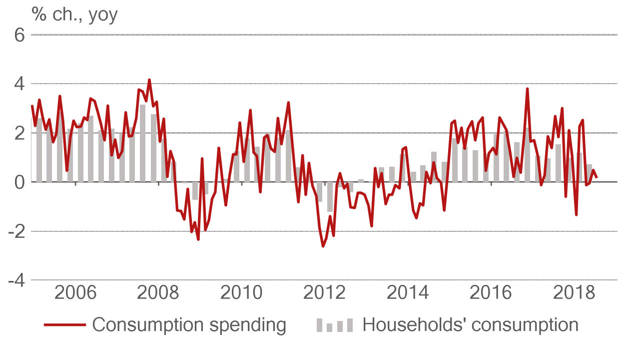
	2015	2016	2017	2018 (f)	2019 (f)
Real GDP, % ch	**1.5**	**2.2**	**2.5**	**2.0**	**1.9**
Household consumption	1.6	1.9	2.0	1.5	1.6
Public consumption	2.9	4.0	1.6	1.1	2.0
Investment	1.0	3.4	3.6	2.9	2.0
Exports	4.7	2.1	5.3	3.2	4.0
Imports	5.2	4.0	5.3	3.7	4.4
Purchasing power of disposable income, % ch	**1.9**	**2.2**	**1.9**	**2.0**	**1.7**
Unemployment rate, %	**6.4**	**6.1**	**5.7**	**5.2**	**4.8**
Households saving rate, % of disposable income	**9.7**	**9.8**	**9.9**	**10.2**	**10.4**
Inflation rate, %	**0.2**	**0.5**	**1.7**	**1.8**	**1.8**
Fiscal balance, % of GDP	**0.7**	**0.8**	**0.9**	**1.0**	**1.0**
Current account balance, % of GDP	**8.9**	**8.4**	**7.9**	**7.9**	**7.7**

France

- **Growth slowed in 1H18, but will rebound in 2H and in 2019.**
- **Inflation will gradually slow in 2H18 and 2019.**
- **A further rise in oil prices and a disorderly Brexit are the main risk factors.**

Growth slowed down sharply in 1H. GDP rose by just 0.2% qoq in 1Q and 2Q18 (compared to an average of 0.7% in 2017), dragging annualised growth down below the 2% mark in 2Q18 (1.7%) compared to 2.8% at the end of last year. Of note is that household consumption and investment both contracted in 2Q18.

Households' consumption (% YoY)



Source: Thomson Reuters Datastream

Like the rest of the euro area, France's economy was hit by the slowdown in global trade in 1H18. However, it also suffered from the effect of other temporary negative factors, including the scheduled tax changes, transport strikes and rising oil prices. Moreover, the rise in the euro over 2H17 is partly responsible for the contraction in exports in 1Q18. Overall, this soft patch means that we are lowering our 2018 annual growth forecast from 1.8% to 1.6%. Our forecast for 2019 remains unchanged and above potential at 1.7%.

Our forecast is based on an expected pick-up in private consumption starting in 2H18 (and in particular in 4Q18). We expect oil prices to ease, which would provide some support to households' purchasing power. Furthermore, changes to the tax code will be more favourable to consumers from now on (further decrease in social security contributions and the first property residence tax reduction expected in October).

Increasingly robust consumption will underpin business investment, all the more so given that the capacity utilisation rate is already high in the industrial sector. However, the outlook for household investment is more modest. Public support mechanisms are being gradually withdrawn, while the rise in interest rates will reduce the affordability of real estate over the coming years.

Exports will remain buoyant, although less vigorous than they were in 2017. The impact on competitiveness of the recent and ongoing reforms (labour market, professional training, unemployment insurance, etc.) is likely to stem the drop in export market share in the medium term.

The main risks to our growth scenario are a further increase in oil prices and a disorderly Brexit. The introduction of income tax withholding at source at the beginning of 2019 could also impact consumption. High debt levels have increased France's exposure to a rise in interest rates. Finally, the increasing scarcity of labour in certain sectors, despite high unemployment, could curb growth.

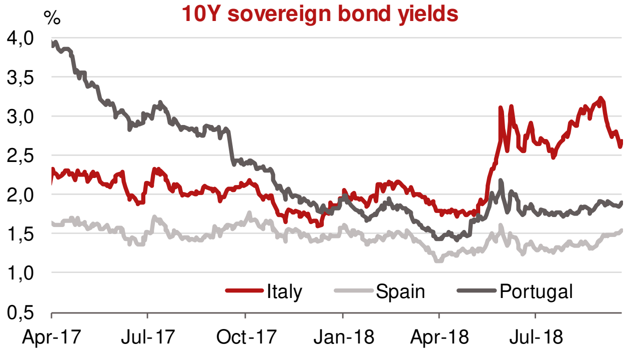
	2015	2016	2017	2018 (f)	2019 (f)
Real GDP, % ch	**1.0**	**1.1**	**2.3**	**1.6**	**1.7**
Household consumption	1.4	2.0	1.1	0.8	1.6
Public consumption	1.0	1.4	1.4	1.1	1.2
Investment	0.9	2.7	4.7	2.9	2.3
Exports	4.4	1.5	4.7	3.4	3.8
Imports	5.7	3.1	4.1	2.1	3.9
Inflation rate, %	**0.0**	**0.2**	**1.0**	**1.9**	**1.6**
Purchasing power of disposable income, % ch	**0.9**	**1.8**	**1.4**	**0.5**	**1.7**
Unemployment rate, %	**10.0**	**9.8**	**9.1**	**8.6**	**8.1**
Households saving rate, % of disposable income	**14.1**	**14.0**	**14.2**	**13.9**	**14.0**
Fiscal balance, % of GDP	**-3.6**	**-3.5**	**-2.7**	**-2.6**	**-2.9**
Current account balance, % of GDP	**-0.4**	**-0.8**	**-0.6**	**-1.0**	**-0.9**

Italy

- **GDP growth is expected to slow in 2018-2019**
- **The budget stimulus will be limited and the public deficit will deepen in 2019**
- **The widening in sovereign spreads could dampen growth**

Economic growth slowed significantly in the first half of the year due to a sharp contraction in exports and a decline in capital goods investments. It is expected to slow further in 2019 as domestic demand slackens. Political uncertainties and higher interest rates for businesses will stifle investment. After a period of very strong growth (8% in 2017), capital goods investments will normalise. Consumer spending, however, will remain sluggish. The Italian government's stimulus plan, which has been toned down considerably in relation to its campaign promises, will only have a marginal impact. However, it does include measures to boost household income (tax cuts and the universal income).

The main outline of the budget will be published at the end of September but the outcome of negotiations remains unclear. The need to combine the manifestos of the League and the Five-Star Movement while observing European budget rules makes for an equation that is proving difficult to solve. Two opposing views have been voiced. On the one hand, the Finance Minister, Giovanni Tria, wants to spread the stimulus plan over time and to apply compensatory budget measures to keep the deficit in check. For example, the tax reform (transition from five tax bands to two, at 15% and 20%, for individuals and SMEs) would be financed by removing tax exemptions (in particular the €80 bonus introduced by Matteo Renzi). On the other hand, Matteo Salvini and Luigi Di Maio insist on the need to rapidly implement all the measures announced in their respective election pledges (tax reform, universal income, dismantling of the pension reform, postponing of the VAT increase, infrastructure spending, stimulus plan for the "South", removal of the regional value-added tax (IREP), etc.).



Source : Thomson Reuters Datastream

If the fiscal expansion plan comes to between €15bn and €20bn - which seems a reasonable assumption - the budget stimulus will represent nearly one percentage point of GDP. The public deficit will widen to 3% of GDP. All in all, the trajectory of public finances remains highly uncertain, against a backdrop of weak growth.

Banking risk also remains in Italy with in addtion possible repercussions from the Turkish crisis. Moreover, early elections before the end of the current mandate remain likely, given the persisting gap between The League and Five stars opinions. Finally, a downgrade of Italy's sovereign rating could trigger a new episode of financial stress.

	2015	2016	2017	2018 (f)	2019 (f)
Real GDP, % ch	**0.8**	**1.0**	**1.6**	**1.2**	**1.1**
Household consumption	1.9	1.4	1.4	1.0	1.1
Public consumption	-0.6	0.6	0.1	0.2	0.5
Investment	1.9	3.3	3.9	4.3	2.5
Exports	4.2	2.6	6.0	0.5	3.4
Imports	6.6	3.8	5.7	1.9	4.4
Inflation rate, %	**0.1**	**-0.1**	**1.3**	**1.2**	**0.9**
Purchasing power of disposable income, % ch	**1.3**	**1.2**	**0.6**	**1.0**	**1.5**
Unemployment rate, %	**11.9**	**11.7**	**11.3**	**10.8**	**10.4**
Households saving rate, % of disposable income	**10.6**	**10.4**	**9.7**	**9.8**	**10.2**
Fiscal balance, % of GDP	**-2.6**	**-2.5**	**-2.3**	**-2.0**	**-3.0**
Current account balance, % of GDP	**1.5**	**2.6**	**2.8**	**2.3**	**2.1**

Spain

- **Spanish growth is expected to remain robust at 2.6% and 2.1% in 2018 and 2019**
- **The public deficit is forecast to decline despite an expansionary fiscal policy**
- **Political tensions with Catalonia have eased but early general elections are likely**

In the wake of slowing growth in Europe and the soft patch in global trade in H1, Spanish growth has slowed slightly due to less dynamic exports. For the first time since 2015, external trade is expected to make a negative contribution in 2018.

Growth is likely to amount to 2.6% in 2018 and 2.1% in 2019, after three years at more than 3%, a rate still higher than the average for the eurozone. However, a slower rate of job creations and wage increases remaining below nominal GDP growth will hit household consumption. In addition, household savings would cease to support consumption after the sharp decline in recent years.

Inflation and wages

Source: Thomson Reuters Datastream, INE

The unemployment rate is expected to hit 14% in 2019, close to its structural level. Core inflation is likely to gradually accelerate from 1.2% in 2018 to 1.7% in 2020 with the rise in wage pressures.

Growth in investment looks set to stabilise, after the strong momentum of the last two years, which was particularly significant for capital goods. The rise in interest rates in the wake of the ECB's monetary tightening would hamper companies, whose margin would start to erode.

Fiscal policy is likely to maintain an expansionary bias in 2018 with the public deficit declining only marginally (from 3.1% to 2.8% of GDP), far from the initial 2.1% target in the Stability Programme. The 2018 budget provides for an income tax cut for low-income households, a 1.75% rise in public sector wages and a general pension increase of 1.6%, with up to 3% for the lowest pensions. Spain is nevertheless expected to exit the excessive deficit procedure this year, but the decline in public debt remains very moderate.

The political situation in Catalonia has eased with the lifting of Madrid's direct rule following the appointment of Quim Torra (close to Carles Puigdemont) as the region's president. However, given the fragmentation of the political landscape, the Sanchez government has very limited capacity to act (the PSOE party has 84 out of 350 parliamentary seats). In this context, early elections before spring 2020 cannot be ruled out.

In the medium term, the Spanish economy is expected to slow to a rate of less than 1.5% due to a deteriorated external environment with the soft patch in the US economy that we forecast for 2020-2021.

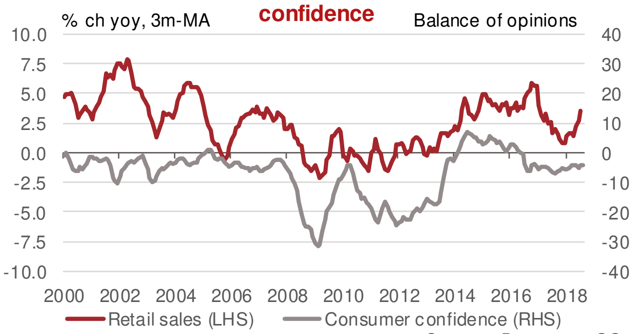
	2015	2016	2017	2018 (f)	2019 (f)
Real GDP, % ch	**3.4**	**3.3**	**3.1**	**2.6**	**2.1**
Household consumption	3.0	3.0	2.4	2.2	1.6
Public consumption	2.1	0.8	1.6	2.1	2.1
Investment	6.5	3.3	5.0	5.1	3.8
Exports	4.2	4.8	5.0	2.1	3.0
Imports	5.9	2.7	4.7	2.6	3.3
Inflation rate, %	**-0.6**	**1.4**	**1.5**	**1.6**	**1.3**
Purchasing power of disposable income, % ch	**2.3**	**2.0**	**1.2**	**1.6**	**1.7**
Unemployment rate, %	**22.1**	**19.7**	**17.2**	**15.3**	**14.0**
Households saving rate, % of disposable income	**8.6**	**7.7**	**6.9**	**6.4**	**6.5**
Fiscal balance, % of GDP	**-5.3**	**-4.5**	**-3.1**	**-2.8**	**-2.4**
Current account balance, % of GDP	**1.1**	**1.9**	**1.9**	**1.2**	**1.4**

United Kingdom

- **Brexit uncertainty is set to further weigh on GDP growth throughout the withdrawal process**
- **A withdrawal bill is likely to be ratified by year-end, but a "cliff-edge" scenario remains alive**
- **Monetary policy will remain accommodative as the BoE delivers one further rate hike by 2020**

GDP growth is set to recover in 2H18 after a tepid H1. Private consumption is likely to pick up with household income growing faster than inflation. However, a record-low saving rate and rising indebtedness offer little scope for stronger household consumption over the medium-term. Recent weakness in business investment is set to continue, reflecting Brexit uncertainty. The withdrawal from the EU's single market will deteriorate the business environment in the long-term. As such, and against the backdrop of a global slowdown in 2020, we expect GDP growth to remain below potential for an extended period.

British households consumption and confidence



Sources : Datastream, SG

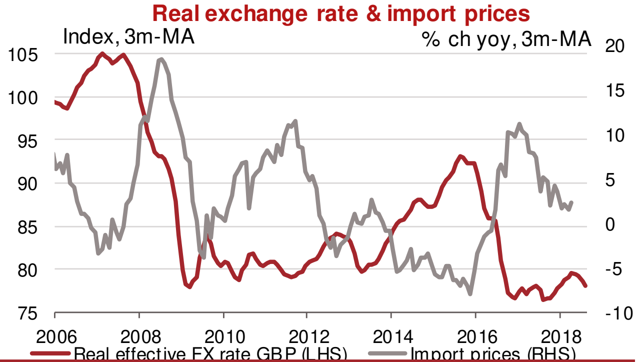
The labour market remains robust with limited slack. Earnings growth is projected to rise slightly further in coming months. Yet, with productivity growth likely to remain weak, labour cost pressures are likely to materialize and erode corporate profit margins. Therefore, the unemployment rate is not likely to drop further below 4.1% in this cycle.

In this context, and with inflation gradually heading towards 2%, monetary policy will remain accommodative throughout Brexit. We expect the BoE to proceed with only one rate hike of 25bp throughout 2020. Should Brexit negotiations collapse, sterling depreciation is likely to feed a surge inflation, forcing the BoE to tighten policy at a quicker pace.

Our baseline assumes a Withdrawal agreement is reached this year, including provisions for a 21-month transition period. Yet, we also see a greater risk of a no-deal Brexit scenario given the current impasse. A no-deal Brexit could see the UK lose 4pp of GDP and the euro area 1pp in the first year after the shock, absent any offsetting actions.

A Withdrawal Agreement must be completed by December to allow sufficient time to legislators from both sides to ratify it. With no resolution in sight to avoid a hard border in Ireland, the EU's backstop proposal, which considers Northern Ireland as part of the EU's single market and customs union, could be included in the bill as a temporary solution, with a high-level declaration on the future trade relationship. Meanwhile, a new referendum seems unlikely. Over the longer-run, there are considerable uncertainties regarding the post-transition period, with potential disruptions in supply chains should trade relations deteriorate sharply.

Real exchange rate & import prices



	2015	2016	2017	2018 (f)	2019 (f)
Real GDP, % ch	**2.3**	**1.8**	**1.7**	**1.5**	**1.3**
Household consumption	2.6	3.1	1.8	1.2	0.7
Public consumption	1.4	0.8	-0.1	1.3	1.6
Investment	3.4	2.3	3.4	0.7	0.4
Exports	4.4	1.0	5.4	-1.2	1.1
Imports	5.5	3.3	3.2	-0.1	0.8
Purchasing power of disposable income, % ch	**5.2**	**0.0**	**-0.6**	**2.0**	**1.9**
Unemployment rate, %	**5.3**	**4.9**	**4.4**	**4.1**	**4.0**
Households saving rate, % of disposable income	**9.4**	**6.8**	**5.5**	**4.9**	**6.0**
Inflation rate, %	**0.0**	**0.7**	**2.6**	**2.5**	**2.3**
Fiscal balance, % of GDP	**-4.3**	**-3.0**	**-1.8**	**-1.6**	**-2.0**
Current account balance, % of GDP	**-5.0**	**-5.3**	**-3.9**	**-4.2**	**-4.0**

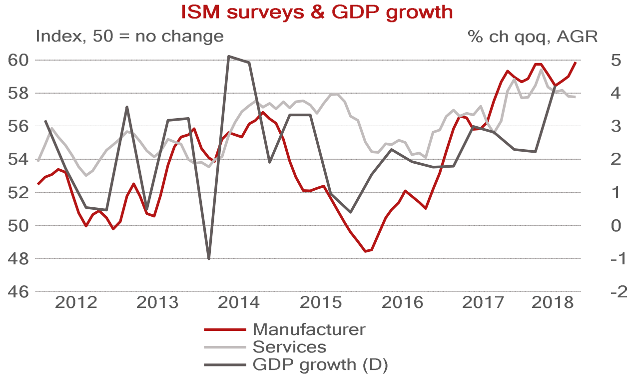
United-States

- **Buoyant employment and confidence should lift GDP growth to 3% in 2018 and 2.5% in 2019.**
- **The Fed is set to further tighten monetary policy but sees mounting risks to the outlook.**
- **A trade war scenario is the main risk to our baseline scenario.**

The large fiscal package – tax cuts and higher government spending - delivered by the Trump administration has fuelled robust GDP growth in 1H18. On the back of strong after-tax profits, the corporate sector is set to ramp up non-residential investment. Buoyant labour market and confidence should also prompt households to step up spending. As such, we expect real GDP growth to average 3% in 2018 before progressively slowing to 2.5% in 2019.

Firm employment growth has been a key driver of the current expansion cycle. However, as labour cost increases, financial conditions tighten, and revenues plateau, the corporate sector is set to experience reduced profitability. As such, we expect investment and employment to substantially slow in 2020, triggering an extended slowdown in economic activity. We expect GDP growth to average 1.5% in 2020 and 1% over the 2021-2022 period.

ISM surveys & GDP growth



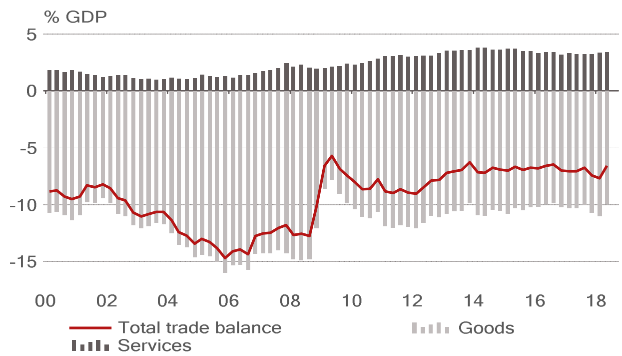
Source: Thomson Reuters Datastream

With demand outstripping potential supply and little slack remaining in the labour market, domestic inflationary pressures continue to build. We see both headline and core inflation to set above 2% in the next two years, averaging 2.4% in 2018 and 2019.

This context supports a gradual tightening in monetary policy. We expect the Fed to deliver four further rate hikes of 25bp by year-end 2019, setting the policy rate at 2.75-3%.

Rising protectionist rhetoric worldwide remains the main risk to our central scenario. Whilst the US administration is stepping up restrictive trade measures against China, breakthroughs on a revised NAFTA agreement and proposals with the EU to remove tariffs on imports of cars suggest the threat of a global trade war remains limited. Yet, should the US confirm and implement 25% duty rate on an additional USD 200bn of Chinese imports, GDP growth is set to slow as soon as 2019 as stronger inflation and market uncertainty would weigh on business investment and employment.

US trade balance



Source: Thomson Reuters Datastream

	2015	2016	2017	2018 (f)	2019 (f)
Real GDP, % ch	**2.9**	**1.6**	**2.2**	**3.0**	**2.5**
Household consumption	3.7	2.7	2.5	2.7	2.5
Public consumption	1.9	1.4	-0.1	1.9	3.4
Investment	3.4	2.4	3.0	3.5	2.9
Exports	0.6	-0.1	3.0	5.5	4.0
Imports	5.5	1.9	4.6	4.5	5.5
Purchasing power of disposable income, % ch	**3.0**	**1.1**	**2.7**	**3.0**	**2.1**
Unemployment rate, %	**5.3**	**4.9**	**4.4**	**3.9**	**3.7**
Households saving rate, % of disposable income	**7.6**	**6.7**	**6.7**	**6.7**	**6.1**
Inflation rate, %	**0.1**	**1.3**	**2.1**	**2.4**	**2.4**
Fiscal balance, % of GDP	**-4.7**	**-5.4**	**-4.9**	**-6.2**	**-6.6**
Current account balance, % of GDP	**-2.2**	**-2.3**	**-2.3**	**-2.7**	**-3.9**

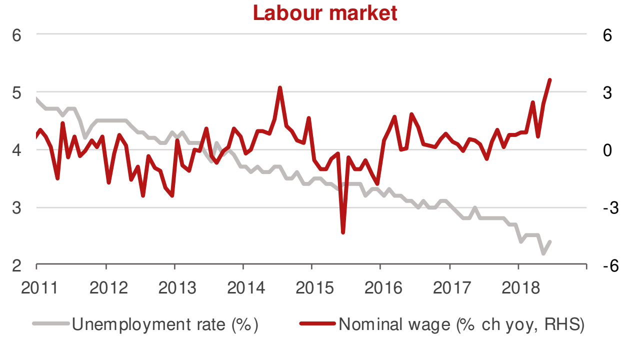
Japan

- **Still robust, growth will converge towards its potential in 2019**
- **The BoJ guarantees the continuity of monetary policy amid low inflation**
- **Growing trade protectionism and the slowdown in China are the major risks**

Growth in Q2 rebounded (+0.5% from Q1), thus picking up the momentum observed since 2016. Supported by household consumption and private investment, activity will remain robust in 2018. Growth will slow in 2019 but will remain above potential.

Household spending should continue to benefit from job market tightness. The job to applicant ratio has reached 1.6 recently. While the unemployment rate fell below 2.5% in 2018, wage compensation is on the rise.

Labour market

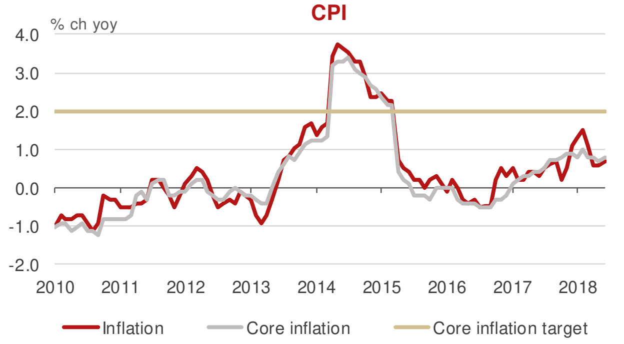


Source : CEIC, Société Générale

As for investment, in 2018 it should continue the strong growth initiated in 2017. According to official estimates, construction projects related to the 2020 Olympic Games will bring 0.6% of GDP in 2018 and 0.4% in 2019. The investment strength should gradually fade.

However, even though growth context is favourable, it seems that households have yet to form inflationary expectation. Inflation remains far from the target, despite the rise in wage and energy prices.

CPI



Source : Société Générale

The weakness of inflation and the expected economic slowdown make uncertain the impact of the consumption tax hike from 8% to 10% planned to be implemented in October 2019. By lowering its inflation forecasts, the BoJ is cautious and reassuring regarding the continuity of the current monetary policy. It is committed to keeping the long-term rate of Japanese government bonds (JGBs) at 0% even though it seems to allow more fluctuation. The BoJ will not take the next policy move until it can better assess the effects of the next consumption tax hike. In other words, beyond 2019.

The trade tension between China and the United States is a risk factor for Japan. A slowdown in intra-Asian trade may hit Japanese companies that have deployed the value chains in the region. Added to this is the risk of a slowdown in China, the largest market for Japanese exports.

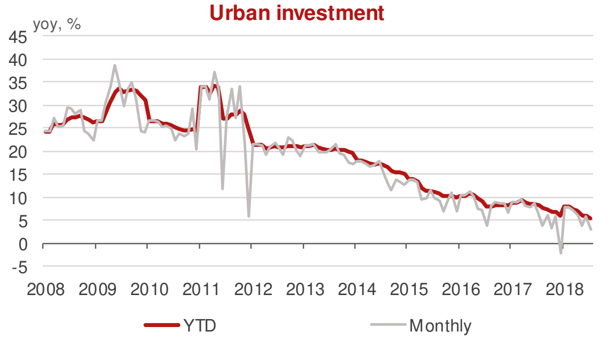
	2015	2016	2017	2018 (f)	2019 (f)
Real GDP, % ch	**1.4**	**1.0**	**1.7**	**1.0**	**0.9**
Household consumption	0.0	0.1	1.0	0.8	1.1
Investment	1.8	1.1	3.8	2.1	0.8
Exports	2.9	1.7	6.7	4.4	4.4
Imports	0.7	-1.6	3.4	4.2	4.5
Purch. power of net disposable income, % ch	**1.3**	**1.7**	**1.0**	**1.6**	**1.9**
Unemployment rate, %	**3.4**	**3.1**	**2.8**	**2.8**	**2.8**
Saving rate, % of net disposable income	**0.4**	**2.2**	**2.0**	**2.3**	**2.4**
Inflation rate, %	**0.8**	**-0.1**	**0.5**	**0.9**	**1.6**
Fiscal balance, % of GDP	**-3.6**	**-4.2**	**-4.1**	**-3.8**	**-3.0**
Current account balance, % of GDP	**3.1**	**3.8**	**4.0**	**3.7**	**3.0**

China

- **The GDP slowdown has started and is expected to continue, albeit gradually**
- **The deleveraging campaign has been softened as monetary policy has been eased**
- **Trade tensions with the U.S. remain a major risk**

Growth began to slow in 2Q18 as investment quickly decelerated, caused by deleveraging reforms. The economy is expected to slow further throughout 2019.

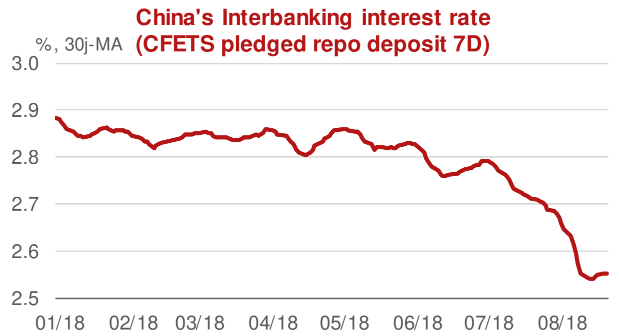
Facing increasing risk of defaults and a hard-landing, the Chinese authorities have been implementing measures to shore up economic growth. Nevertheless, the policy easing so far is clearly different from the stimulus seen in the past. Given the already limited room for manoeuvre due to the high debt level, the policy boost can only be modest. This would only serve to moderate the pace of deceleration, especially that of investment.



Source : NBS, Société Générale

In terms of monetary policy, since late Q2, the PBoC has first lowered interbank interest rates, then tried to improve credit access for small businesses and certain sectors (infrastructure for example), and softened the intensity of financial regulatory tightening. The Chinese central bank will continue with such a balanced approach without giving up the deleveraging process.

In terms of fiscal policy, in addition to corporate tax cuts, the authorities are supporting ongoing infrastructure projects with formal government funding while continuing to contain local governments' "shadow" debt.



Source : Bloomberg

As for macroeconomic rebalancing, consumption growth will remain healthy even though it will moderate after a very strong expansion in 2018. Imports are therefore expected to remain robust and would further narrow the trade surplus.

Trade tensions with the United States have intensified over the last few months. This will likely harm the export momentum, thus dragging down overall growth. It may also exert depreciation pressure on the RMB, which the PBoC may seek to contain. An overly sharp depreciation risks triggering destabilising capital outflows, like in 2015/16.

	2015	2016	2017	2018 (f)	2019 (f)
Real GDP, % ch	**6.9**	**6.7**	**6.9**	**6.6**	**6.2**
Household consumption	7.4	8.6	7.0	9.0	7.4
Public consumption	9.9	8.9	9.5	9.3	8.4
Investment	6.6	6.7	5.1	4.7	5.0
Exports	-1.7	0.6	7.7	2.9	3.0
Imports	-1.6	4.4	5.2	5.1	4.0
Inflation rate, %	**1.4**	**2.0**	**1.6**	**2.1**	**2.1**
General government balance, % of GDP	**-2.5**	**-3.1**	**-3.0**	**-2.6**	**-2.6**
General government debt, % of GDP	**36.9**	**36.8**	**36.3**	**36.5**	**36.8**
External debt , % of GDP	**12.6**	**12.7**	**13.9**	**14.0**	**14.0**
Current account balance, % of GDP	**2.8**	**1.8**	**1.3**	**0.6**	**0.0**

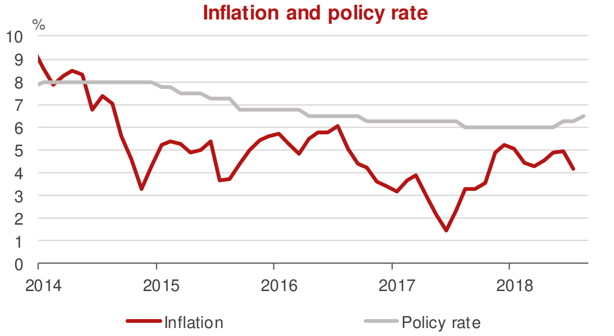
India

- **Growth will return to normal when the favourable base effect fades**
- **Rising inflation risk calls for more monetary tightening**
- **The risks to be monitored relate to public finances and exchange rate volatility**

GDP surged by 8.2% in Q2 2018 compared to a year ago. Growth benefited from a favourable base effect. While the economy strongly recovered from the shock of demonetisation and GST reform, the quarters ahead should be marked by a return to normality.

This dynamic is mainly based on domestic demand. The incomes of rural households will be supported by the rise in the minimum price of a dozen products (rice + 12.9%, cotton + 27.1%...). Public spending on the eve of the election of the Lok Sabha – the lower house of parliament (April-May 2019) will also add to domestic demand.

Inflation and policy rate



Sources : CEIC, RBI, Société Générale

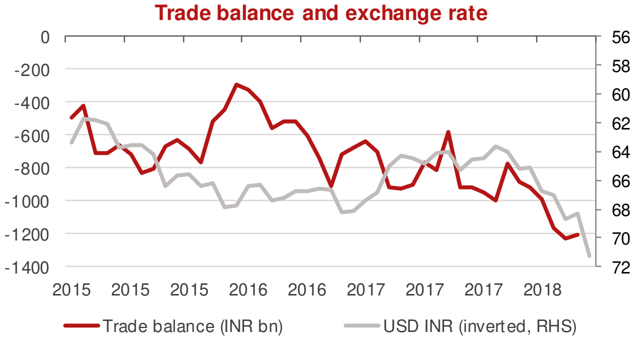
Inflation is likely to rise again despite the decline in July. The recent weakening of the Indian rupee is making the oil even more expansive while the international price gained 50% compared to a year ago. Moreover, credit to private sector picked up significantly with an increase of 12.8% yoy in June against 6.2% a year earlier. While inflation is still within the target range of the RBI (2% - 6%), it may not be limited to two rate hikes (June and August) to stabilize inflation expectations.

The public banks could see their ratio of non-performing loans (11.7%) rise, following the discovery of some fraud since January 2018. Although the government has already announced a recapitalization plan of USD 32.4bn in October 2017, public banks could in turn weigh down public finance as fiscal consolidation efforts have been put on hold during the pre-election period.

Faced with tighter external financing conditions and higher risk aversion, the economy is expected to remain resilient. But the resulting depreciation of the rupee may widen the current account deficit and raise the risk of inflation.

At the end of the general election, the NDA (National Democratic Alliance) dominated by the BJP (Bharatiya Janata Party) should maintain a strong position in parliament.

Trade balance and exchange rate



Source : Ministry of Commerce and Industry, Reuters, Société Générale

	2015	2016	2017	2018 (f)	2019 (f)
Real GDP, % ch (fiscal year)	**8.2**	**7.1**	**6.7**	**7.2**	**7.1**
Household consumption	7.4	7.3	6.6	7.3	7.2
Investment	5.2	10.1	7.6	7.8	7.2
Exports	-5.6	5.0	5.6	6.0	4.1
Imports	-5.9	4.0	12.4	7.9	4.9
Inflation rate, %	**6.0**	**4.5**	**4.6**	**4.9**	**4.8**
General government balance, % of GDP	**-7.1**	**-6.6**	**-6.4**	**-6.2**	**-5.9**
General government debt, % of GDP	**69.5**	**69.6**	**68.7**	**67.1**	**65.2**
External debt , % of GDP	**22.7**	**21.4**	**19.3**	**19.8**	**19.5**
Current account balance, % of GDP	**-1.1**	**-0.7**	**-1.4**	**-1.5**	**-1.6**

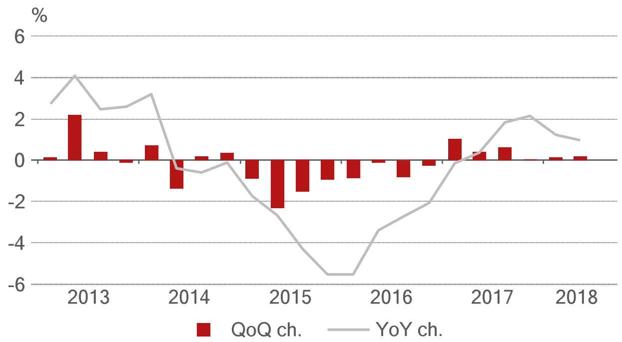
Brazil

- **Economic activity remains sluggish in a context of increasing political uncertainties.**
- **The BCB is likely to keep its policy rate at low levels as inflation pressures remain contained.**
- **The main risk for the outlook remains the October general election and the fiscal trend.**

The growth outlook for 2018 has darkened. Real GDP stagnated in 2Q18 (0.2% qoq, 1% yoy) following a prolonged truck drivers' strike and increasing political uncertainties. The outcome of the presidential elections (October 2018) is still uncertain given that the electoral campaign is agitated: former President Lula is legally barred and Mr Balsonaro, a populist candidate leading the polls has been has been stabbed at a campaign rally.

We expect the economy to grow by just 1.2% in 2018 and to progressively accelerate in 2019. Easier financial conditions, strong external demand for primary goods and a competitive exchange rate should support the activity. A stronger recovery will still be constrained by the soft recovery of the labour market, the deleveraging process of the corporate sector and the recession of Argentina, a big client for Brazil's manufacturing exports.

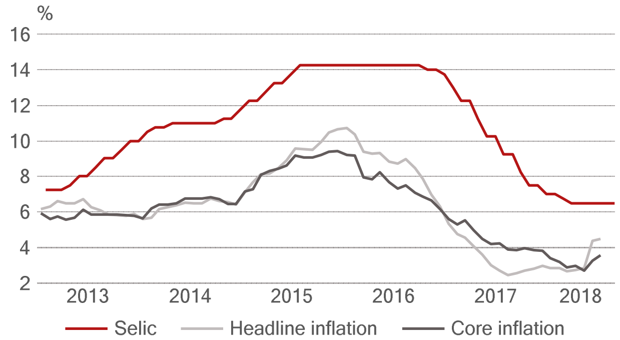
GDP growth



Source: Thomson Reuters Datastream

The inflation outlook remains favourable. The strike had a modest effect on the services and the adverse impact on food and other tradable goods is fading. The soft recovery of the labour market is containing the increase of real wages, and demand pressures on prices are unlikely. Overall Inflation is expected to progressively converge toward the 4.5% target of the BCB led by increasing energy prices and the recent depreciation of the BRL. Given the weak growth and low inflation prospects, the monetary authorities are still expected to keep their policy rate at 6.5%. In case of continuing pressures on the currency, the BCB will likely increase their FX swaps program, currently at USD 66bn, instead of increasing rates.

Monetary policy rate & inflation rate



Source: Thomson Reuters Datastream

The main risks to the outlook are related to the fiscal trends and the upcoming October general elections. The result of the elections would determine whether the elected government has the ability or the willingness to pursue the reform of fiscal expenditures. The primary fiscal deficit is currently adjusting slowly but mainly on the back of one-off revenues. A sustainable consolidation would need a reform of mandatory expenditures, which require a two-third majority in Congress.

	2015	2016	2017	2018 (f)	2019 (f)
Real GDP, % ch	**-3.5**	**-3.5**	**1.0**	**1.2**	**2.0**
Household consumption	-3.2	-4.3	1.0	1.2	2.0
Public consumption	-1.4	-0.1	-0.6	-0.3	0.0
Investment	-13.9	-10.3	-1.8	3.5	5.0
Exports	6.8	1.9	5.2	3.2	3.8
Imports	-14.2	-10.2	5.0	4.0	5.0
Inflation rate, %	**9.5**	**8.0**	**3.7**	**4.0**	**4.5**
General government balance, % of GDP	**-10.3**	**-9.2**	**-7.9**	**-7.0**	**-6.0**
General government debt, % of GDP	**65.5**	**70.0**	**74.0**	**75.0**	**77.0**
External debt , % of GDP	**25.6**	**29.0**	**27.0**	**26.5**	**26.0**
Current account balance, % of GDP	**-3.3**	**-1.3**	**-0.5**	**-1.0**	**-1.5**

Russia

- **GDP growth should remain sluggish with investment lagging behind**
- **Inflation has started to increase amid RUB depreciation and higher oil prices**
- **Sanctions risks has again escalated in August and could lead to increased financial volatility**

Growth in Russia is expected to remain below 2% in 2018-2019 amid low investment, structural bottlenecks, lagging productivity and higher uncertainties regarding US sanctions.

GDP growth edged up from 1.3% yoy in 1Q18 to 1.8% in 2Q18 supported by higher oil prices and dynamic consumption. The latter benefitted from the World Cup effect and from strong retail loans' growth. However, the outlook for H2-18 and 2019 is looking cloudier. Despite the strong average monthly real wage per worker (+8.8% yoy in July 2018) combined with historically low unemployment (4.7%), private consumption will be affected by the planned increase in VAT from 18% to 20% from 2019 onwards approved by the Russian Parliament and the pension reform (increase in retirement age from 60 to 65 for men and from 55 to 60 for women).

Besides, investment is expected to remain weak in a context of lower corporate margins, limited access to foreign financing and heightened uncertainties regarding international sanctions.

Russia has been targeted by the US since 2014. But pressure intensifies in 2018. The US Treasury Department had enlarged the scope of existing sanctions in April 2018 first, and implemented new sanctions on August 22nd for the alleged use of nerve-agent in the Skripal poisoning case in the UK. These sanctions could be increased if Russia does not allow UN officials or other observers to conduct checks on its chemical industries within three months. A bill entitled "Defending American Security from Kremlin Aggression Act of 2018" (S. 3336) was also presented to the US Congress and includes a large list of harsh sanctions.

Since sanctions intensified in April, difficulties to access foreign financing have increased. The amount of foreign financing between May and August 2018 (USD 1.8bn) has been far below the amount received in the same period of 2017 (USD 19.4bn).

By contrast, exports are likely to continue to benefit from the strength of the EU economy (40% of Russian exports) and Asia (30% of Russian exports). The current account surplus reached USD 66bn over twelve months as of 2Q18, and should increase further in 2019.

Inflation ran below the CBR's target until July 2018 (around 2.3%) but increased in August (3.1% yoy) amid RUB depreciation (lost around 7% versus USD since the beginning of August) and higher oil prices. It could increase further in 2019 with the VAT hike in January.

RUB to USD and inflation

Source: Thomson Reuters Datastream

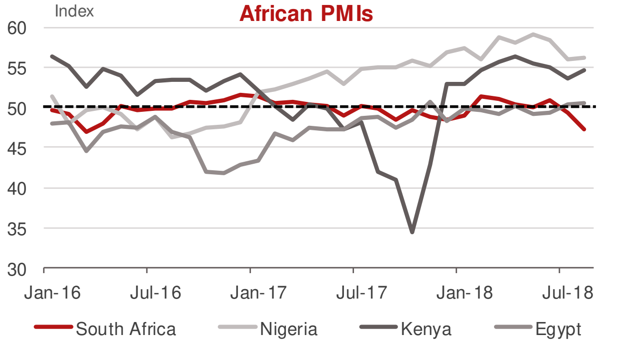
The Central Bank of Russia raised its key rate by 25bp to 7.50% in September (the first hike since 2014) and extended its suspension of foreign-currency purchases under the Finance Ministry's Fiscal Rule until the end of December. In a context of slower GDP growth, we however do not expect further monetary policy tightening in the coming months.

	2015	2016	2017	2018 (f)	2019 (f)
Real GDP, % ch	**-2.6**	**-0.2**	**1.5**	**1.2**	**1.2**
Household consumption	-8.1	-1.5	3.9	2.5	2.5
Investment	-13.4	-0.8	4.0	2.0	2.0
Exports	3.7	3.2	5.0	3.0	3.5
Imports	-25.8	-3.8	16.7	9.0	9.0
Inflation rate, %	**15.5**	**7.0**	**3.7**	**2.5**	**4.0**
General government balance, % of GDP	**-3.4**	**-3.7**	**-1.5**	**0.0**	**0.1**
General government debt, % of GDP	**15.9**	**15.6**	**17.4**	**17.7**	**18.2**
External debt , % of GDP	**38.0**	**40.0**	**35.9**	**35.0**	**34.6**
Current account balance, % of GDP	**5.0**	**2.0**	**2.8**	**3.2**	**3.6**

Africa

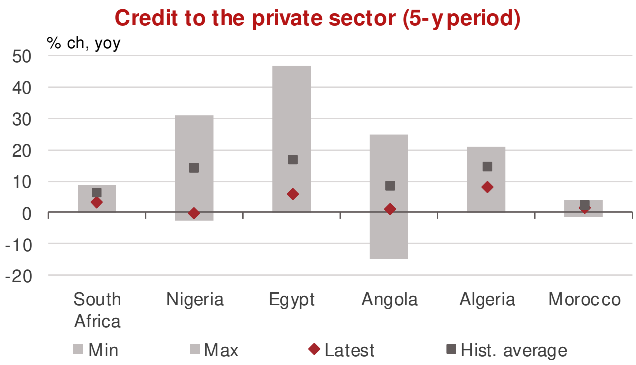
- **Regional activity appears to have concluded its acceleration phase**
- **This can be attributed to a slightly less buoyant international economic environment**
- **Despite some upheaval in 2Q18, the external financial situation is improving**

African growth for 2018 and 2019 is still expected at a level above that of 2017 (about 4%, vs. 3.5% last year). However, most of the PMIs available in the region have been declining since April or May. In South Africa, it even suggests a contraction in future activity.



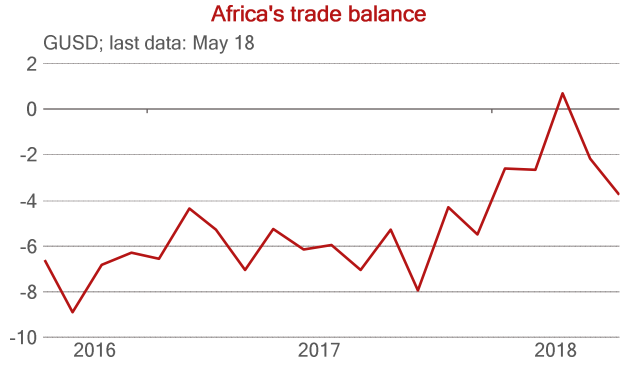
Sources: Bloomberg, Société Générale

This deceleration seems consistent with less dynamic external growth drivers. Indeed, since 2Q18: i) the price of most commodities has stabilized (oil, cotton) or has fallen slightly (metals, coffee) and ii) activity in Africa's main trading partners (Euro zone: more than 25% of total exports, China: around 15%) is slowing down. At the same time, domestic growth engines are restarting only slowly, with private sector credit growth remaining generally below its historical trend. Regional banking sectors continue to be weakened by high levels of non-performing loans.



Sources: IMF, Société Générale

Regional external financial accounts reflect the shift to a less favorable environment. First, after registering in March 2018 its first trade surplus since early 2014, Africa as a whole has since recorded a further deterioration in its trade balance. Secondly, because of the tightening of international monetary conditions, African countries have sharply reduced their use of international capital markets (around EUR 8bn issued between April and August, compared with EUR 13bn in 1Q18). Lastly, several currencies in the region also depreciated against the USD, due to internal factors (Zambia: fall in copper prices and public debt rising sharply; Tunisia: persistent pressures on the current account) or external factors (South Africa – and related currencies: Botswana, Namibia, Swaziland and Lesotho – mainly due to contagion effects related to the sharp depreciation of the Turkish currency).



Source: Thomson Reuters Datastream

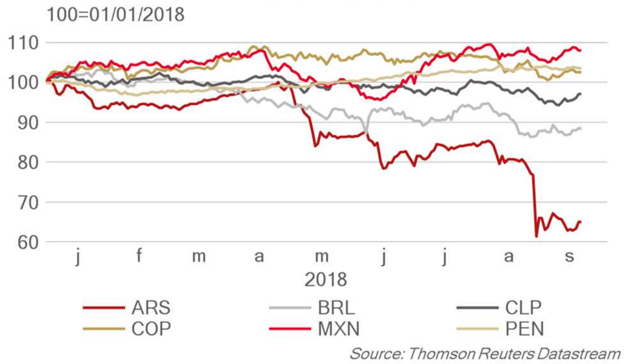
This "cyclical" deterioration recorded by some countries should not conceal the overall improvement in external financial positions in the region, illustrated by the moderate but steady reduction in Africa's average current account deficit (3.5% of GDP in 2018 and then 3% in 2019, vs. 6% in 2016 and 4% in 2017). In addition, international financial institutions continue to provide considerable support for the region (several IMF programs are currently being discussed with vulnerable countries such as Angola, Equatorial Guinea). Finally, foreign exchange reserves in most African countries continue to grow, for example in the CFA Franc zones, where pegging to the EUR is unlikely to be undermined in the short/medium term.

Latin America

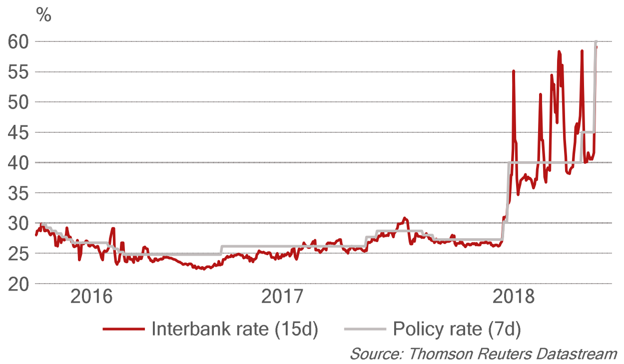
- **FX volatility has significantly increased in a context of EM risk repricing and rising political**
- **The sharp depreciation of the ARS is likely to plunge back the economy into recession**
- **The decline of the other currencies seems less problematic as inflation pressures are low**

Financial volatility has considerably increased in an environment of US monetary tightening, rising trade tensions and increasing domestic political risk. These pressures have mostly translated to the FX markets and have been most acute in Argentina and Brazil.

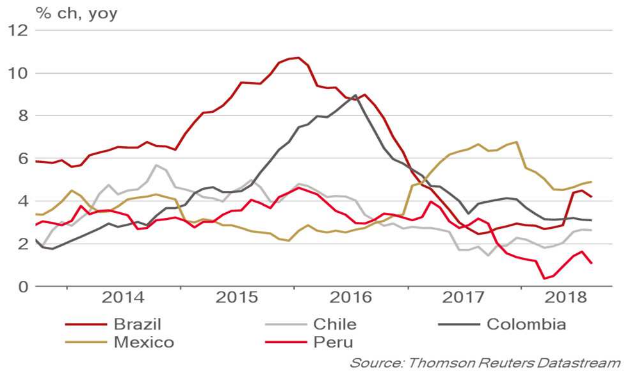
Real exchange rate



Argentina: Interest rates



Inflation rates



In Argentina, the continuing depreciation of the ARS, with the sharp sell-off of August 30th, is likely to produce a surge in an already high inflation rate (31% in July) and plunge back the economy into recession. The significant fall of the currency reflects increasing doubts on the country ability to meet its financing needs for 2019 in a context of EM risk repricing and fragile fundamentals. Despite the cuts in public expenditures, the fiscal deficit remains large and has widened on the back of a rising debt service. To contain the currency pressures, the central bank increased further its policy rate from 45% to 60% on 30 August and announced that it would keep real interest high and continued to sell FX reserves. The government also announced that it will seek to accelerate the disbursement of the IMF loans and to renegotiate the terms of the Stand-By agreement. All in all, activity is likely to severely contract as financial conditions will remain restrictive and the fiscal consolidation is likely to accelerate as an effort to re-anchor the expectations of the economy.

In Brazil, the currency has also adjusted downwards. This movement mainly reflects increasing uncertainties regarding October general elections and whether the elected president will be willing and able to implement the fiscal reform. Inflation remains contained, the current account deficit is small (-0.7% in July) and the country has large FX reserves Given the reduction of external vulnerabilities and weak growth prospects, the BCB has not increased interest rates.

Chile has also seen modest currency pressures as a result of falling copper prices and signs of Chinese activity slowdown. The Central bank has not intervened as inflation remains controlled and activity is still robust (5.3% yoy). The only currency that has appreciated against the USD is the MXN, supported by the favourable prospects of a new trade agreement with the US. However, it remains to be seen if this agreement will be finally implemented as they have up to September to vote it in the US and Mexico.

Emerging Asia

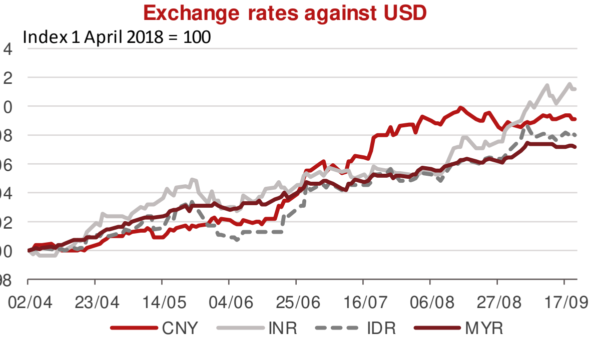
- **The growth remains robust, the region should be resilient to external uncertainties**
- **Trade tensions intensification is likely to penalize the activity**
- **The depreciation of currencies is challenging for macro-financial equilibrium of some**

Emerging Asia should continue to grow strongly - 6.1% in 2018 compared to 6.2% in 2017. Trade tensions have not yet manifested on the region's export dynamics. The economies of the region remain resilient. The activity is expected to slightly decelerate in 2019.

Several risk factors, however, are weighing on the economic outlook. Trade tensions between China and the United States are likely to intensify. Through the value chain, part of intra-Asian trade would be penalized. Taiwan would be hit the most, over 2% of its GDP is exposed to US final demand via their exports to China. Malaysia, South Korea and Singapore and Hong Kong, would be also concerned as more than 1% of GDP is exposed. In addition, if trade tensions significantly drag down the momentum of Chinese economy, Vietnam would be added to the previous list because China is a significant export market.

On the financial plan, risk is found in financing conditions tightening since 2Q18, because of the dollar appreciation combined with a more restrictive monetary policy of the Fed. Asian currencies were also penalized by the contagion of the Turkish lira crisis. Chinese RMB, Indian rupee, Indonesian rupiah and Malaysian ringgit have depreciated by between 5% and 10% since 2Q18.

Exchange rates against USD



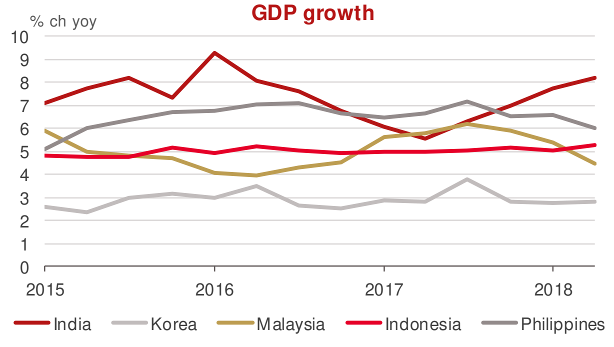
Source : Datastream, Société Générale

In terms of external liquidity, emerging Asian countries are endowed with an external cushion - a considerable amount of foreign exchange reserves - which should help prevent external shocks, even lasting ones. However, a strong exchange rate shock, even temporary, may cause imbalances. In India, for example, the risk of inflation could rise.

In the region, Indonesia is the most sensitive economy to rising risk aversion and dollar appreciation because of its need for external financing (around 2% of GDP). Although the level of external debt as percentage of GDP remains low compared to other countries in the region, its financial system is partially dollarized. Debts denominated in foreign currencies (mainly in dollars) contribute to 45% of corporate debt and 30% of that of the government. Despite low inflation, the Indonesian central bank has had to raise the key rate by 125 basis points since May. This tightening will deteriorate growth outlook as investment has already begun to decelerate in Q2 2018, from 8% to 5.9% YoY.

In Malaysia, external debt is one of the highest in the region (60% of GDP, 40% of which is short-term). While the government borrows mainly in local currency, the foreign currency debts of corporates and banks are rather substantial (respectively 18% and 19% of GDP). Foreign exchange reserves in Malaysia fell by $ 5 billion between April and July, albeit the still positive current balance. If the external shock persists, companies risk seeing their funding conditions deteriorate. The growth prospects are likely to be undermined, especially since investment is already slowing in the first two quarters of 2018 (1.1% yoy against 6.2% in 2017).

GDP growth



Source : Datastream, Société Générale

Gulf States

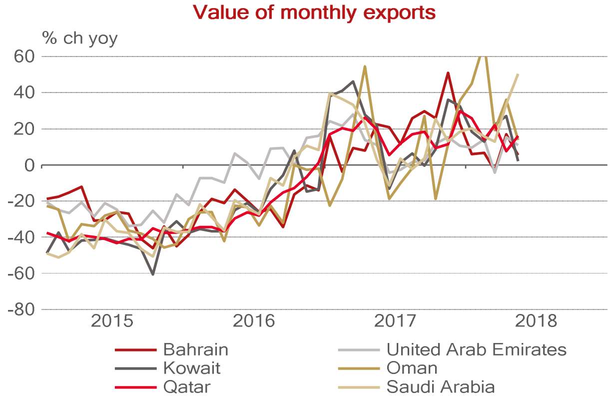
- **The increase in oil prices has reduced the immediate need for budget adjustments.**
- **Without any diversification of sources of income, rising debt constitutes a risk.**
- **The embargo on Qatar is not destabilising the economy but is keeping political risk high.**

The outlook for the Gulf states has improved in 2018 thanks to the recovery in oil prices. The rebound in revenues from exports makes the need for budget adjustments less urgent than when oil prices collapsed in 2015-2016. Domestic demand is benefiting from the relaxation of fiscal consolidation and driving the growth of non-oil sectors. Non-oil growth has picked up in 2018 (3.2% vs. 2.6% in 2017), however, it remains well below the average of 7.5% seen between 2003 and 2014.

Thanks to the increase in revenues, the budget deficit of Gulf states looks set to gradually reduce from 9% of GDP on average in 2017 to 5% of GDP between now and 2020. However, sovereign bond issuance in the international markets remains very high: USD 37bn in 2016, USD 37 billion in 2017 and USD 30.5bn between January and August 2018.

International investors are looking kindly on Gulf state debt issues. These monarchies have plenty of resources (savings in sovereign funds, oil wealth) which is reassuring. Even non-investment grade issuers with fragile macroeconomic fundamentals, such as Bahrain, were successful with their sovereign eurobond placements in early 2018.

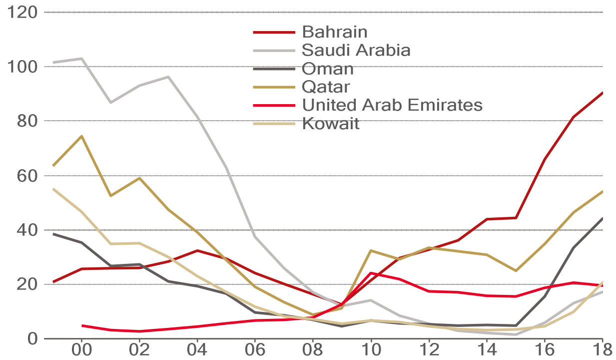
Value of monthly exports



Source: Thomson Reuters Datastream

One risk is that ultimately Gulf-state debt has to be refinanced at less favourable international market conditions. However, the main weak link is the lack of diversification, with revenues heavily skewed towards the oil and gas sectors. In the face of a downward adjustment to international oil prices, the Gulf states would have very limited leeway to react to the economic backdrop.

Debt-to-GDP ratio



Source: Thomson Reuters Datastream

Over the last three years, governments in the region have presented national development plans with 20- to 25-year “visions” to develop sectors such as tourism, commercial and financial services, and logistics. They have also reduced energy subsidies and announced the introduction of a 5% VAT in 2018. For now, only Saudi Arabia and the United Arab Emirates have introduced the tax, while Bahrain, Kuwait and Oman postponed the introduction until 2019. The rebound in oil prices reduces the incentive to step up economic diversification and makes the recovery all the more fragile.

The diplomatic spat that has pitted Qatar against Saudi Arabia and the United Arab Emirates does not seem to be calming down. Qatar’s support of the Muslim Brotherhood has long been a source of conflict between the region’s monarchies. In addition, there is a long-standing rivalry between Doha on one side, and Abu Dhabi and Dubai on the other, with competing projects to cement their status as regional hubs. Finally, Qatar and Iran’s good relationship, which is viewed very negatively by Saudi Arabia, and diverging positions in regional conflicts (Yemen, Libya) are also behind the various rivalries.

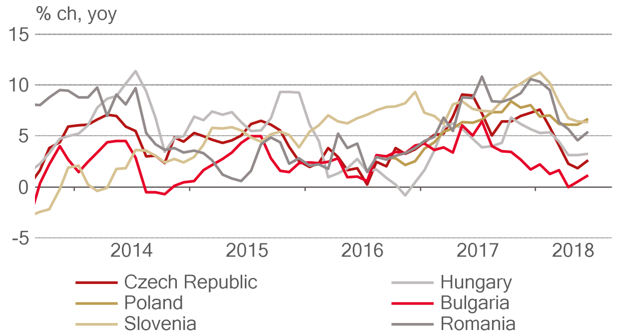
Qatar continues to resist the blockade by other States in the region with the aid of new trade routes and new partners. Although the military option is not on the table yet, these tensions remain a source of uncertainty.

Central and Eastern Europe

- **Following rapid growth in 2017, the first signs of deceleration have emerged in the region**
- **Inflationary pressures should increase in the short term and lead to monetary policy tightening**
- **The freefall in the Turkish lira is likely to trigger a slowdown in growth and a jump in inflation**

After peaking in late 2017 when the regional GDP expanded at 5.1% (including Turkey), first signs of activity deceleration have emerged overall in the region. Both retail sales and exports have slowed down since the beginning of 2018. Industrial production has consequently also decelerated. Looking at the individual economies, Czech Republic and Bulgaria posted the more notable deceleration, while Poland has forged ahead at a sound pace.

Industrial production



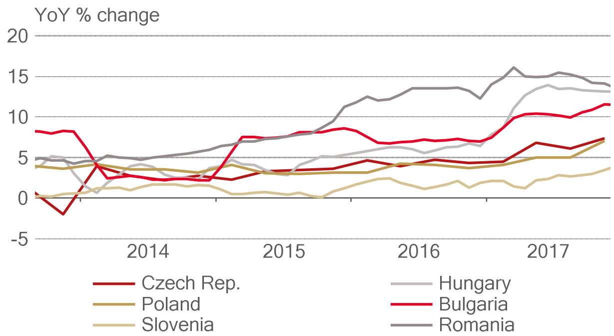
Source: Thomson Reuters Datastream

Activity in the region should further moderate in 2H18 and 2019 against the backdrop of a less supportive external environment (slower growth in CEE's key trading partner, the Euro area) and more restrictive domestic monetary policies.

Regional growth will however remain above the potential. Private consumption will be backed by employment gains and wage increases. In addition, the impact of more restrictive domestic monetary policies on investment should be at least partially offset by the absorption of EU structural funds. Poland, Hungary, Romania and Slovenia are expected to be the region's top performers this year, each expanding around 4%.

Inflation is likely to increase in the short term from low levels (excluding in Romania) and lead to monetary policy tightening in the region. Wages have surged in the region since 2016, outpacing productivity gains, especially in Romania, Hungary and Bulgaria increasing the inflationary risk. Additional price pressures could come from recent depreciation of CEE currencies (HUF, RON, PLN).

Nominal wages



Source: Thomson Reuters Datastream

So far, the only Czech National Bank and the Romanian National Bank have increased policy rates but other central banks would also follow.

Looking forward, several risks must be monitored in the region.

In Romania, the rise in inflation and the widening of budgetary and current account deficits increases the risks of currency volatility.

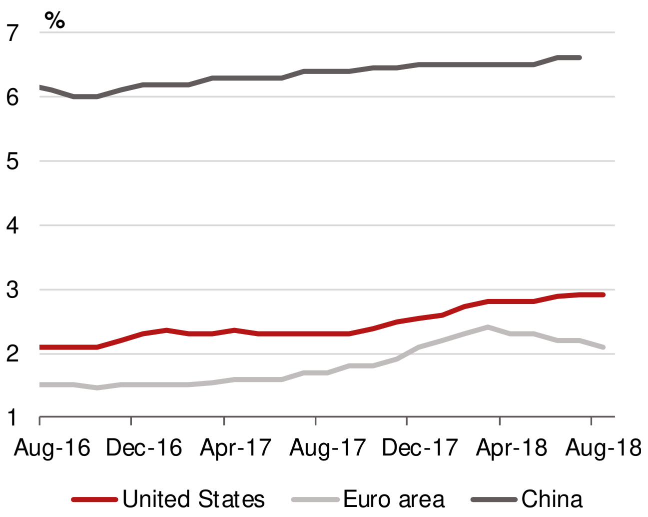
In Turkey, the lira's slide is expected to lift both inflation and NPLs from the highly indebted corporate sector. The economy is set to contract in the coming quarters, which will allow a quick reduction of the current account deficit. However, further FX instability cannot be ruled out; due either to poor economic data (inflation, FX reserves, public accounts…) or lack of progress on political relations with Western allies.

On the longer term, a major risk for CEE would result from a cut in European Structural Funds. The EU draft budget for 2021-2027 published in May provides for a reduction in European Structural Funds by 7% and for a change in the allocation criteria. The EU will also have the prerogative to suspend or reduce access to the Structural Funds if a member country does not respect the rule of law.

The EU 2021-2027 budget requires the approval of a qualified majority of the Member States, *i.e.* 55% of them representing 65% of the EU population and will be much debated until 2020. Given the reliance of CEE on these funds, a cut would reduce investment in the region and hamper long term growth potential.

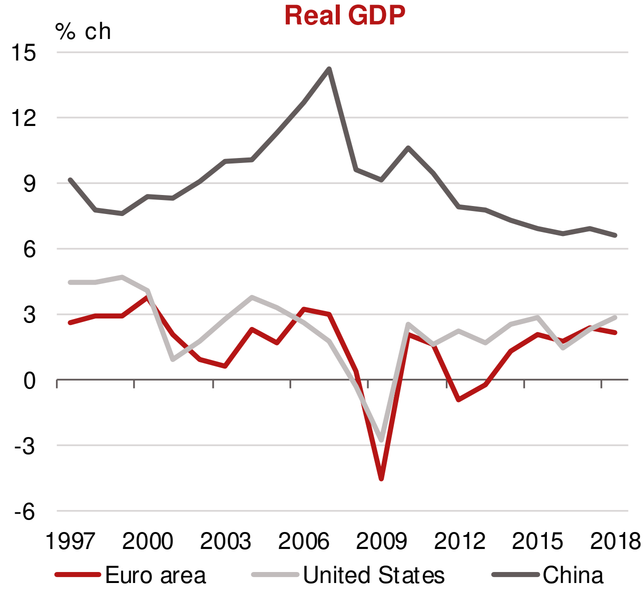
Economic Data

Bloomberg consensus: 2018 GDP growth



Source : Bloomberg

Real GDP



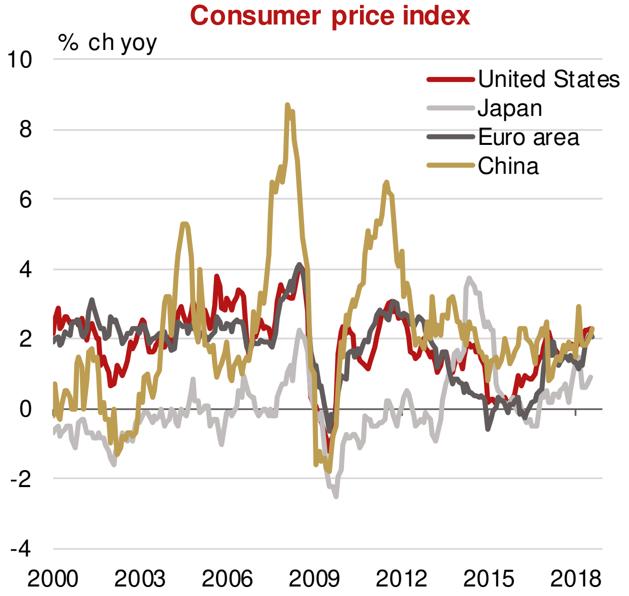
Sources: national statistics, SG

	2012	2013	2014	2015	2016	2017	2018(f)	2019(f)	2020 (f)	2021(f)	2022(f)
Real GDP, % ch											
World	**2.5**	**2.7**	**2.9**	**2.9**	**2.6**	**3.3**	**3.3**	**3.0**	**2.8**	**2.5**	**2.5**
United States	2.2	1.8	2.5	2.9	1.6	2.2	3.0	2.5	1.5	1.0	1.0
Japan	1.5	2.0	0.3	1.4	1.0	1.7	1.0	0.9	0.5	0.4	0.4
United Kingdom	1.4	2.0	2.9	2.3	1.8	1.7	1.5	1.3	1.3	0.9	0.9
Euro area	-0.8	-0.2	1.4	1.9	1.8	2.5	2.1	1.7	1.4	0.9	0.8
Germany	0.7	0.6	2.2	1.5	2.2	2.5	2.0	1.9	1.4	0.8	0.8
France	0.4	0.6	1.0	1.0	1.1	2.3	1.6	1.7	1.5	1.0	1.0
Italy	-2.9	-1.7	0.2	0.8	1.0	1.6	1.2	1.1	0.9	0.7	0.7
Spain	-2.9	-1.7	1.4	3.4	3.3	3.1	2.6	2.1	1.7	1.3	1.1
China	7.9	7.8	7.3	6.9	6.7	6.9	6.6	6.2	5.8	5.4	5.2
India	5.5	6.4	7.4	8.2	7.1	6.7	7.2	7.1	7.0	7.0	6.8
Brazil	1.9	3.0	0.5	-3.5	-3.5	1.0	1.2	2.0	2.5	2.2	2.1
Russia	3.7	1.8	0.7	-2.6	-0.2	1.5	1.2	1.2	1.5	1.5	1.5
Real investment, % ch											
World*	**2.2**	**2.3**	**3.3**	**3.4**	**3.3**	**3.7**	**3.8**	**3.4**	**2.5**	**2.2**	**2.1**
United States	2.7	1.9	3.6	3.4	2.4	3.0	3.5	2.9	1.6	1.0	1.0
Japan	3.5	5.0	2.9	1.8	1.1	3.8	2.1	0.8	-0.8	-0.2	0.4
United Kingdom	2.1	3.4	7.2	3.4	2.3	3.4	0.6	0.3	2.1	2.3	1.2
Euro area	-3.3	-2.3	1.6	4.6	3.7	2.9	3.2	2.5	1.9	1.3	1.0
Germany	-0.1	-1.2	3.9	1.0	3.4	3.6	2.9	2.0	1.8	1.4	1.2
France	0.4	-0.7	0.0	0.9	2.7	4.7	2.9	2.3	1.7	0.9	0.6
Italy	-9.4	-6.6	-2.2	1.9	3.3	3.9	4.3	2.5	1.8	1.3	1.0
Spain	-8.6	-3.4	4.7	6.5	3.3	5.0	5.1	3.8	2.2	1.8	1.7
China	7.2	6.2	6.4	6.6	6.7	5.1	4.7	5.0	4.3	4.0	3.9
India	2.4	2.5	1.9	5.2	7.1	6.7	7.2	7.1	7.0	7.0	6.8
Brazil	0.8	5.8	-4.2	-13.9	-10.3	-1.8	3.5	5.0	3.5	3.8	3.8
Russia	5.9	1.3	-2.7	-13.4	-0.8	4.0	2.0	2.0	2.5	2.5	2.5

Sources: IMF, OECD, National statistics, SG computations and forecasts
** Weighted average of the 11 countries shown here*

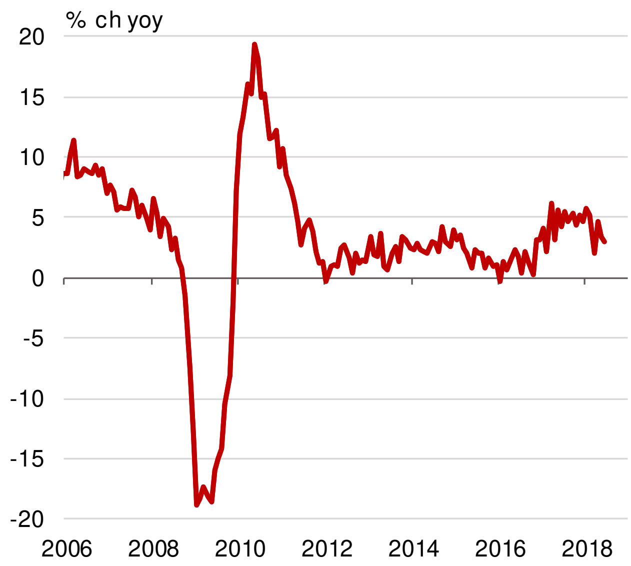
Economic Data

Consumer price index



Sources : national statistics, SG

World trade volume



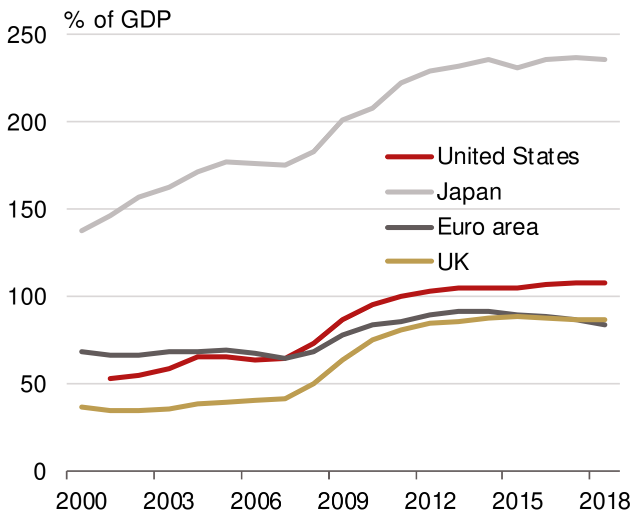
Sources: CPB, SG

	2012	2013	2014	2015	2016	2017	2018(f)	2019(f)	2020 (f)	2021(f)	2022(f)
Inflation, %											
World*	**1.3**	**1.2**	**1.2**	**0.8**	**0.8**	**0.9**	**1.0**	**1.1**	**1.0**	**0.8**	**0.8**
United States	2.1	1.5	1.6	0.1	1.3	2.1	2.4	2.4	2.0	1.3	1.2
Japan	-0.1	0.3	2.8	0.8	-0.1	0.5	0.9	1.6	2.1	0.5	0.5
United Kingdom	2.8	2.6	1.5	0.0	0.7	2.6	2.4	2.3	1.8	1.5	1.0
Euro area	2.5	1.4	0.4	0.0	0.2	1.5	1.6	1.5	1.7	1.7	1.7
Germany	2.0	1.5	0.9	0.2	0.5	1.7	1.8	1.8	1.9	2.0	1.7
France	2.0	0.9	0.5	0.0	0.2	1.0	1.9	1.6	1.7	1.8	1.7
Italy	3.3	1.2	0.2	0.1	-0.1	1.3	1.2	0.9	1.3	1.4	1.4
Spain	2.5	0.4	-0.5	-0.6	1.4	1.5	1.6	1.3	1.8	1.7	1.7
China	2.6	2.6	2.0	1.4	2.0	1.6	2.1	2.1	2.0	2.0	2.0
India	10.0	9.4	5.8	4.9	4.5	3.8	4.9	4.8	4.9	5.0	5.0
Brazil	5.4	6.2	6.3	9.5	8.0	3.7	4.0	4.5	4.5	4.5	4.5
Russia	5.1	6.8	7.8	15.5	7.0	3.7	2.5	4.0	4.0	4.0	4.0
Current account balance, % of GDP											
United States	-2.6	-2.1	-2.1	-2.2	-2.3	-2.3	-2.7	-3.9	-4.4	-3.6	-3.3
Japan	1.0	0.9	0.8	3.1	3.8	4.0	3.7	3.0	2.9	2.9	2.8
United Kingdom	-3.8	-5.2	-5.0	-5.0	-5.3	-3.9	-3.8	-3.6	-3.9	-3.9	-3.0
Euro area	1.4	2.2	2.5	3.2	3.6	3.5	3.0	2.7	2.7	2.5	2.3
Germany	7.1	6.8	7.5	8.9	8.4	7.9	7.9	7.7	7.6	7.1	6.7
France	-1.0	-0.5	-1.0	-0.4	-0.8	-0.6	-1.0	-0.9	-1.0	-1.2	-1.3
Italy	-0.3	1.0	1.9	1.5	2.6	2.8	2.3	2.1	1.9	1.7	1.6
Spain	-0.2	1.5	1.1	1.1	1.9	1.9	1.2	1.4	1.4	1.3	1.1
China	2.5	1.5	2.2	-2.5	-3.1	-3.0	-2.6	-2.6	-3.0	-3.1	-2.8
India	-4.8	-1.7	-1.3	-1.1	-0.7	-1.4	-1.5	-1.6	-1.8	-2.0	-2.4
Brazil	-3.0	-3.0	-4.2	-3.3	-1.3	-0.5	-1.0	-1.5	-2.0	-2.0	-2.0
Russia	3.2	1.5	2.8	5.0	2.0	2.8	3.2	3.6	3.8	3.9	4.0

Sources: IMF, National statistics, SG computations and forecasts
** Weighted average of the 11 countries shown here*

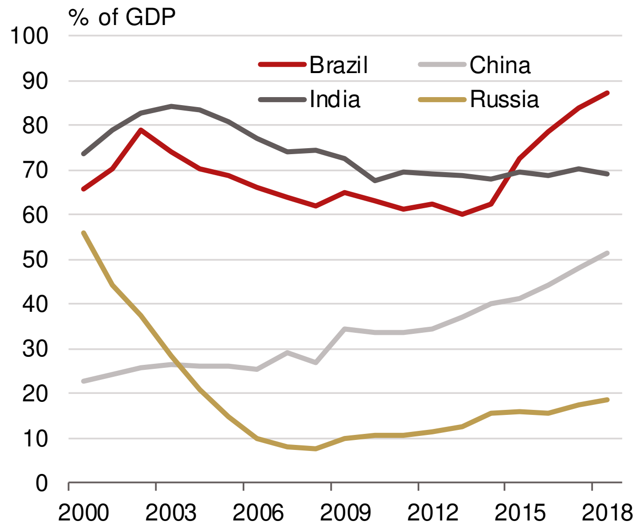
Economic Data

Public debt - Developed markets



Source: IMF

Public debt - Emerging markets



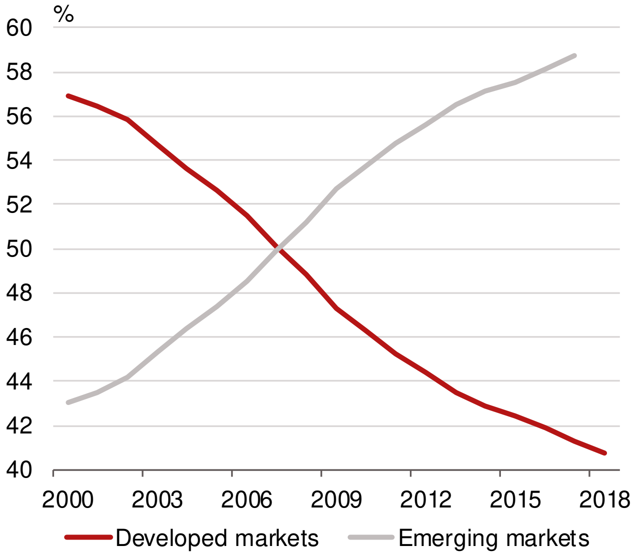
Source: IMF

	2012	2013	2014	2015	2016	2017	2018(f)	2019(f)	2020 (f)	2021(f)	2022(f)
Fiscal balance, % GDP											
United States	-9.3	-5.9	-5.2	-4.7	-5.4	-4.9	-6.2	-6.6	-6.9	-6.8	-6.1
Japan	-8.3	-7.6	-5.4	-3.6	-4.2	-4.1	-3.8	-3.0	-2.8	-2.8	-2.8
United Kingdom	-8.2	-5.4	-5.4	-4.3	-3.0	-1.8	-1.6	-2.0	-2.3	-3.3	-4.2
Euro area	-3.7	-3.0	-2.5	-2.0	-1.5	-0.9	-1.0	-1.1	-1.0	-1.1	-1.2
Germany	0.0	-0.2	0.3	0.7	0.8	0.9	1.0	1.0	0.8	0.5	0.4
France	-5.0	-4.1	-3.9	-3.6	-3.5	-2.7	-2.6	-2.9	-2.0	-2.5	-2.8
Italy	-2.9	-2.9	-3.0	-2.6	-2.5	-2.3	-2.0	-3.0	-3.1	-3.1	-3.1
Spain	-10.5	-7.0	-6.0	-5.3	-4.5	-3.1	-2.8	-2.4	-2.1	-2.1	-2.1
China	-0.3	-0.8	-0.9	-2.5	-3.1	-3.0	-2.6	-2.6	-3.0	-3.1	-2.8
India	-7.6	-7.0	-7.2	-7.1	-6.6	-6.4	-6.2	-5.9	-5.8	-5.6	-5.4
Brazil	-2.5	-3.0	-5.4	-10.3	-9.2	-7.9	-7.0	-6.0	-5.5	-5.0	-4.8
Russia	0.4	-1.2	-1.1	-3.4	-3.7	-1.5	0.0	0.1	0.3	0.5	0.5
Public debt, % GDP											
United States	99	101	102	101	105	103	104	105	108	113	116
Japan	210	213	218	217	222	224	226	225	225	225	226
United Kingdom	85	86	87	88	88	88	87	87	88	89	92
Euro area	90	92	92	90	89	87	85	83	82	81	80
Germany	80	78	75	71	68	65	61	58	56	54	52
France	91	93	95	96	97	97	97	97	96	96	97
Italy	123	129	132	132	132	132	131	131	131	131	131
Spain	86	96	100	99	99	98	98	97	96	95	95
China	34	37	40	37	37	36	37	37	37	37	38
India	69	69	68	70	70	69	67	65	63	61	60
Brazil	62	60	62	66	70	74	75	77	79	79	78
Russia	12	13	16	16	16	17	18	18	18	18	18

Sources : IMF, National statistics (Maastricht methodology for EU countries), SG computations and forecasts

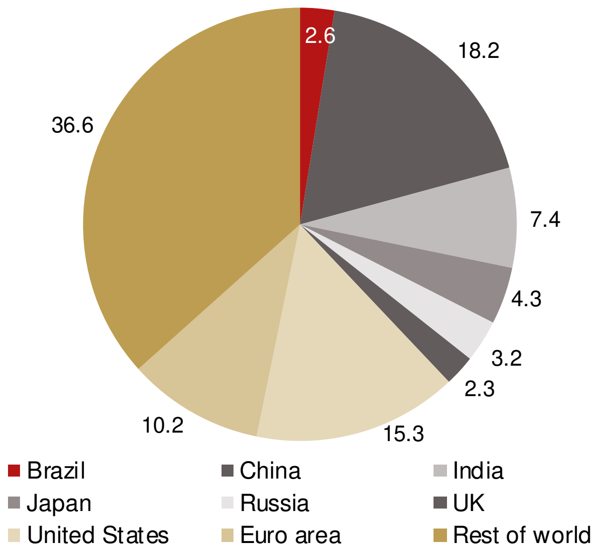
Structural Data

Share of world GDP based on PPP



Sources: IMF, SG

Share in world GDP based on PPP



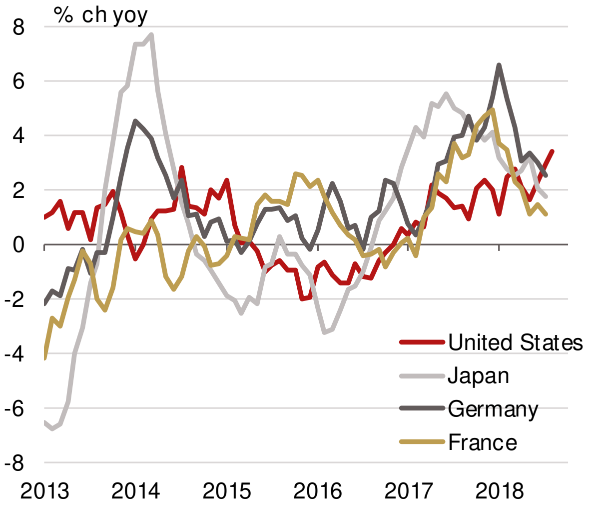
Source : IMF

As of 2017	GDP in $ (USDbn)	GDP p. capita ($, at PPP)	Population (Millions)	Credit (% GDP)*	International investment position, net** (% GDP)	Openness ratio***
United States	19 391	59 501	326	152	-40	20
Euro area	12 607	38 322	341	160	-2	70
Germany	3 685	50 425	83	107	63	71
France	2 584	43 761	65	192	-21	45
Italy	1 938	38 140	61	112	-7	50
Spain	1 314	38 286	46	158	-86	51
Netherlands	826	53 635	17	221	64	148
China	12 015	16 660	1 390	209	15	34
Japan	4 872	42 832	127	161	60	28
United Kingdom	2 625	44 118	66	171	-8	42
India	2 611	7 183	1 317	56	-16	29
Brazil	2 055	15 603	208	69	-33	18
Canada	1 652	48 265	37	214	21	52
South Korea	1 538	39 434	51	193	16	69
Russia	1 527	27 834	144	66	18	37
Australia	1 380	50 334	25	197	-56	35
Mexico	1 149	19 903	124	43	-48	73
Indonesia	1 015	12 377	262	39	-33	32
Turkey	849	26 893	81	85	-54	46
Switzerland	679	61 422	8	241	128	84
Saudi Arabia	684	54 777	32	60	82	51

Sources: World Bank, BIS, IMF
**Bank loans and debt securities of the non financial private sector*
*** Total external financial assets minus total external liabilities*
**** Sum of imports and exports, divided by GDP*

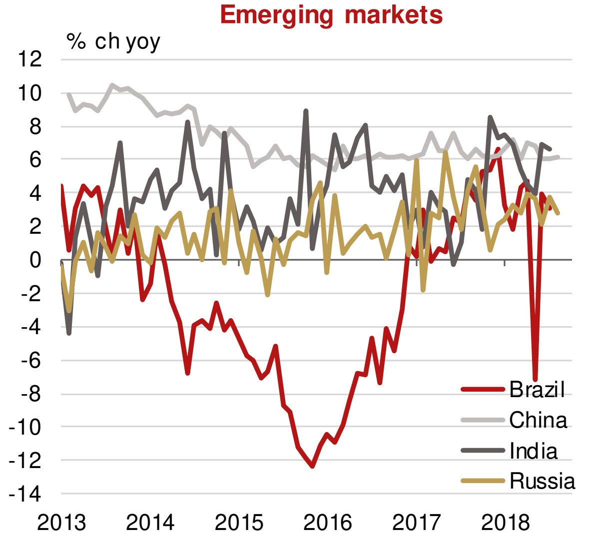
Cyclical Data

Industrial production Developed markets



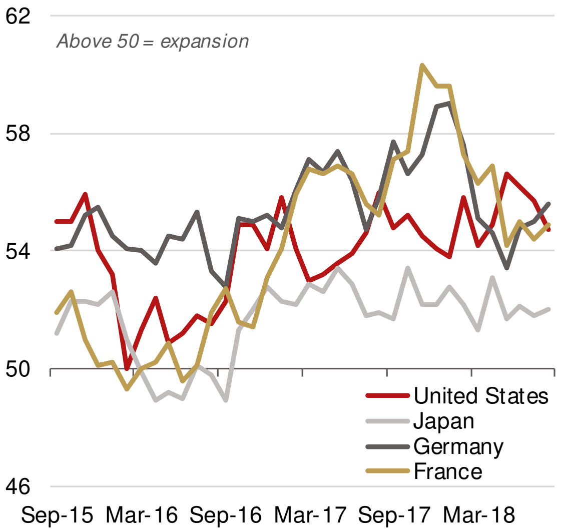
Sources: national statistics, SG

Industrial production Emerging markets



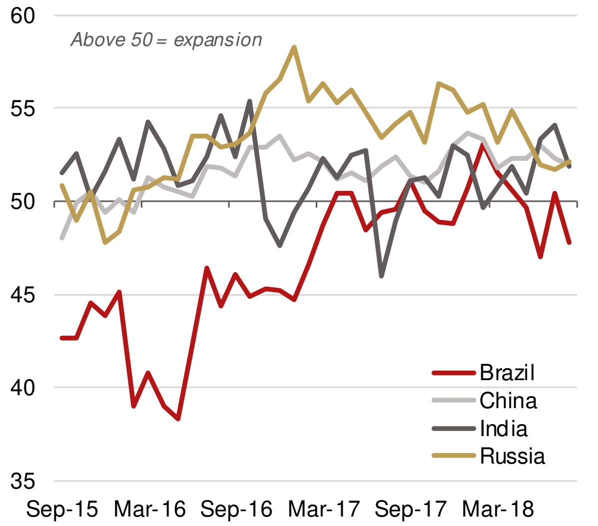
Sources: national statistics, SG

PMI composite - Developed markets



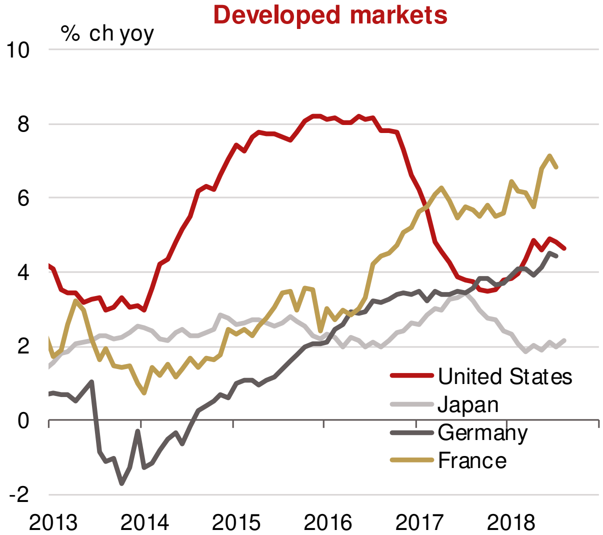
Source: Datastream

PMI composite - Emerging markets



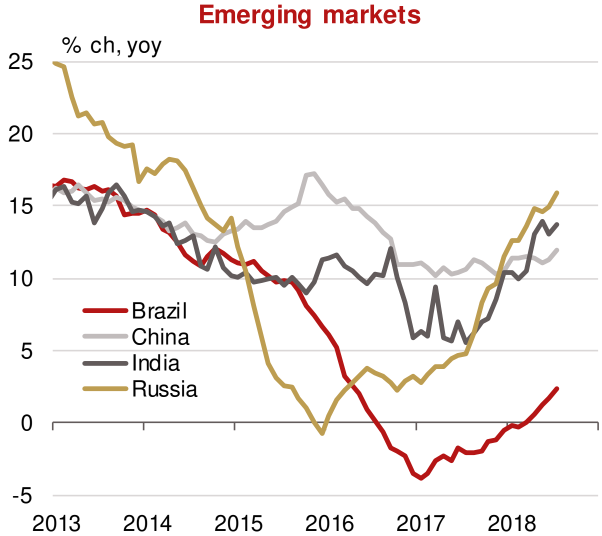
Source: Datastream

Credit to the private sector Developed markets



Sources: national statistics, SG

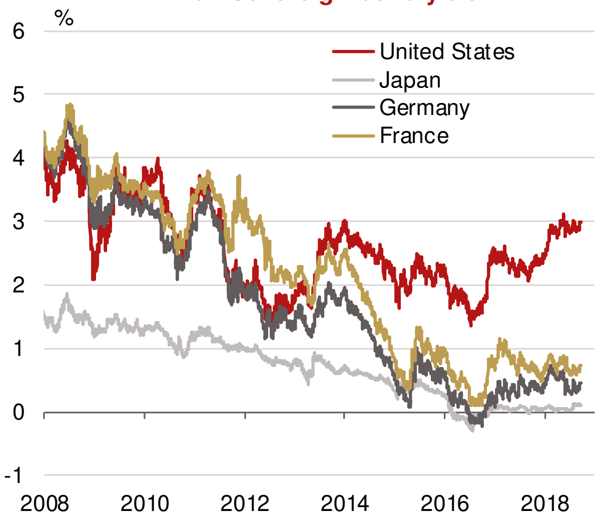
Credit to the private sector Emerging markets



Sources: national statistics, SG

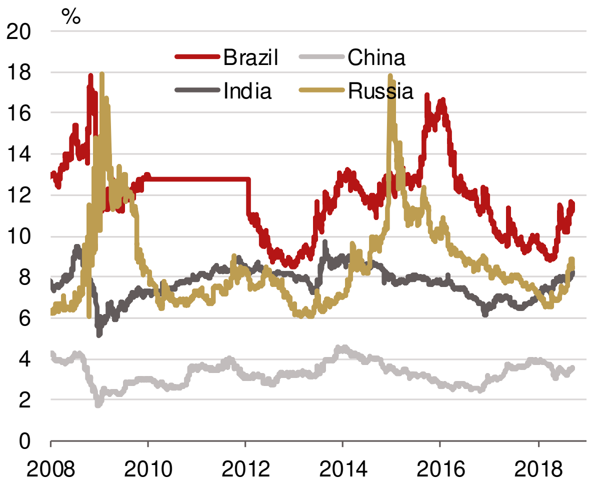
Financial Data

10Y sovereign bond yield



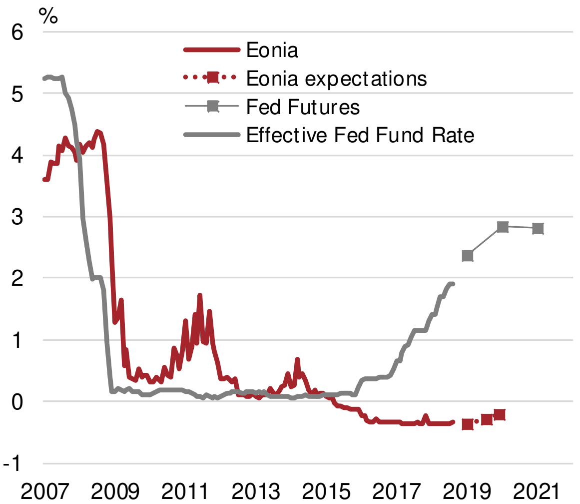
Source: Datastream

5Y sovereign bond yield in local currency



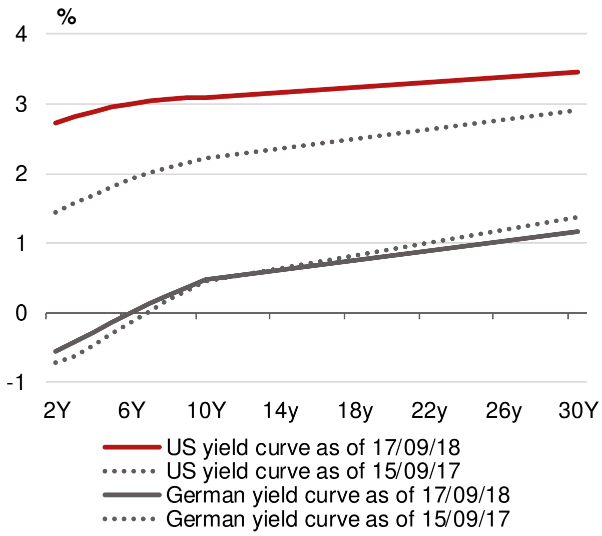
Source : Datastream

Overnight interest rates



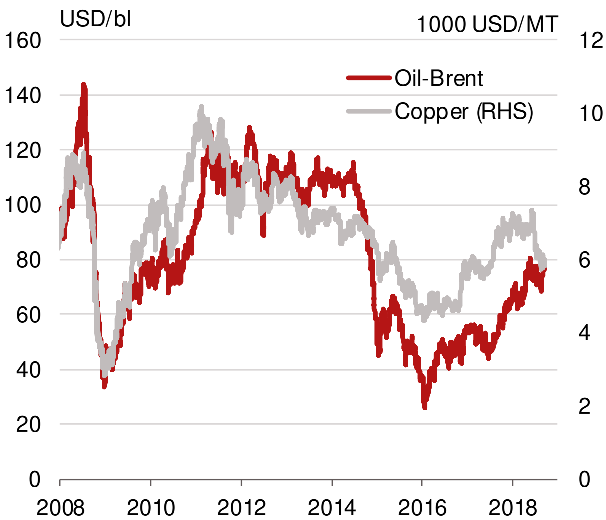
Source : Bloomberg

Yield curves



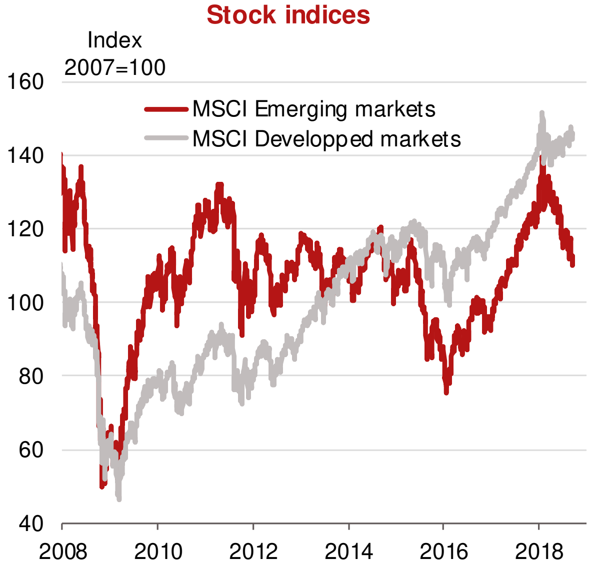
Source: Datastream

Commodity prices



Source: Datastream

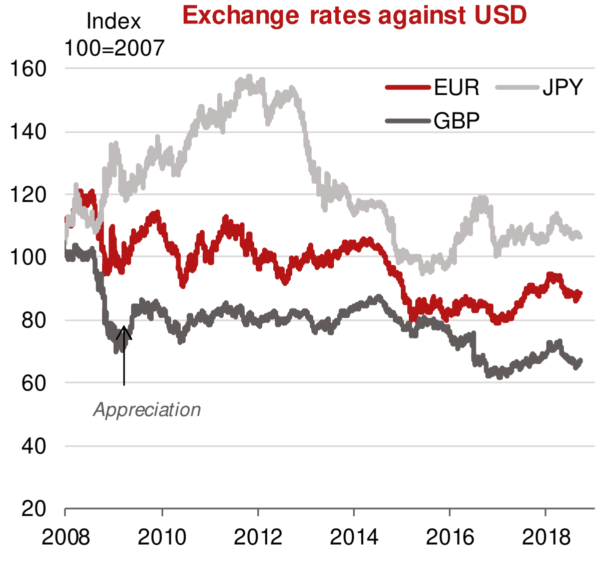
Stock indices



Source: Datastream

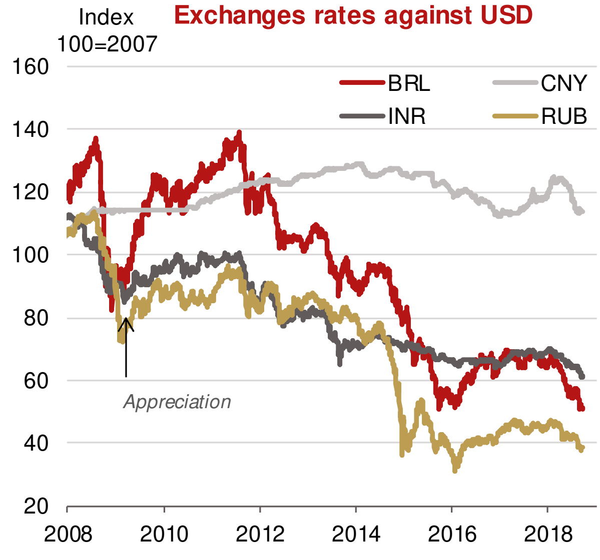
Financial Data

Exchange rates against USD



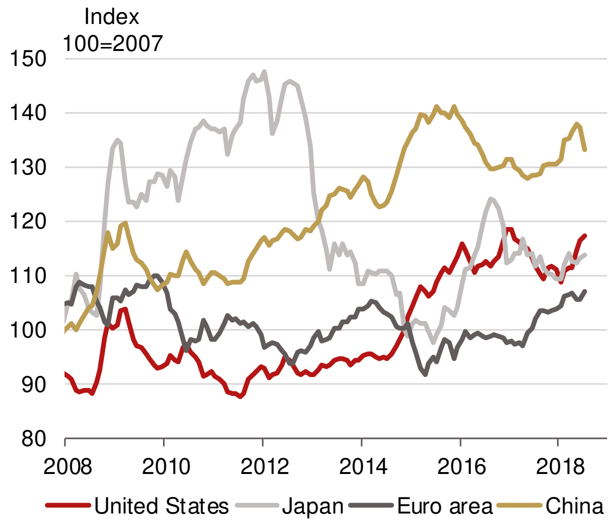
Source: Datastream

Exchanges rates against USD



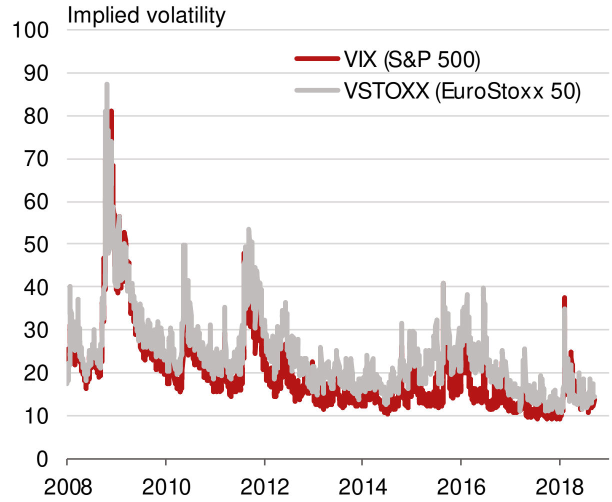
Source: Datastream

Nominal effective exchange rate



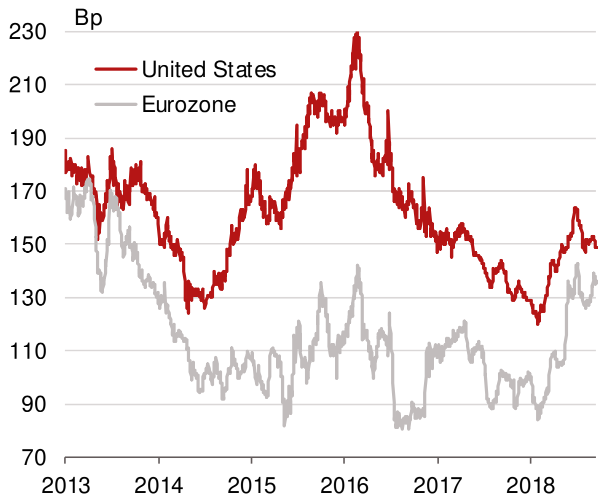
Sources: BIS, SG

Equity markets volatility



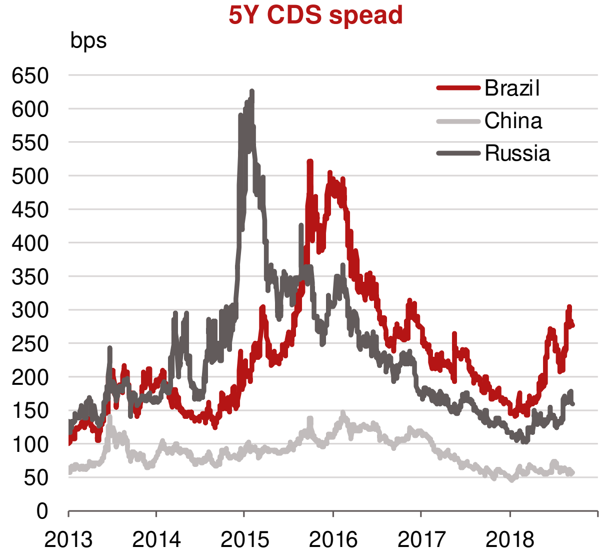
Source: Datastream

High yield corporate spread



Sources : Bloomberg, SG

5Y CDS spead



Sources: Datastream, SG

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