N° 38 | MARCH 2020

SCÉNARIOÉCO

SG Economic and Sector Studies

Testing policy capacity

- The fallout from the Covid-19 crisis is severely disrupting the global economy. The preventive lockdown measures being put in place worldwide are having a marked impact on consumer services, global supply chains and financial markets.
- Policy room will now be put to the test, as fast-track and significant size monetary, prudential and fiscal measures will be required to offset the negative shocks and prevent the crisis from morphing into a prolonged and deep global recession, as opposed to the short and shallow one discounted in our baseline economic scenario.
- Forecasting is more complex than usual at present and our outlook builds on the working assumption that the Covid-19 pandemic peaks in 2Q20 and fades thereafter and that sufficient policy measures are adopted to prevent the current liquidity squeeze in the non-financial sector from morphing into a cycle of widespread default.
- We have cut out global growth outlook and now forecast recession in the major advanced economies for 2020 and a significant downturn in China. Risks, however, remain biased to the downside.
- The current situation differs from 2008 in several key respects. First, the current shock began in the real economy and not the financial system, and banks are now less leveraged and better capitalized. High levels of corporate leverage, however, is a concern as is a less multilateral world and a still incomplete European architecture. Finally, climate change and digitisation pose their own structural policy challenges, particularly in terms of social inequality.

Document completed on 13/03/2020

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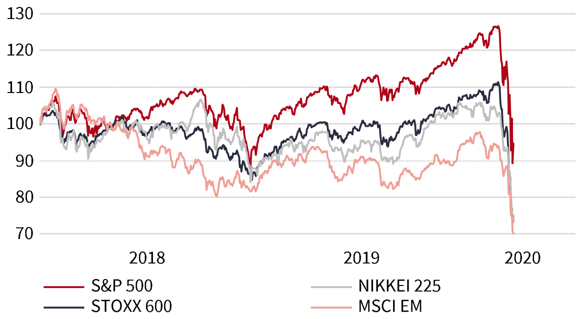
EXECUTIVE SUMMARY

World economy

The situation surrounding the Covid-19 pandemic remains highly uncertain as we head to press. The fallout from the crisis is severely disrupting global trade flows, consumer services and financial markets. The critical factor now is the duration of the various lockdown measures and securing enough policy action to prevent the currency liquidity crisis in the real economy from morphing into a spiral of defaults. Across the globe an array of policy measures have been put it place to stem the economic effects of the crisis; the fact that bond yields have climbed higher in recent weeks may be a warning, however, that policy room is not endless.

Stock markets

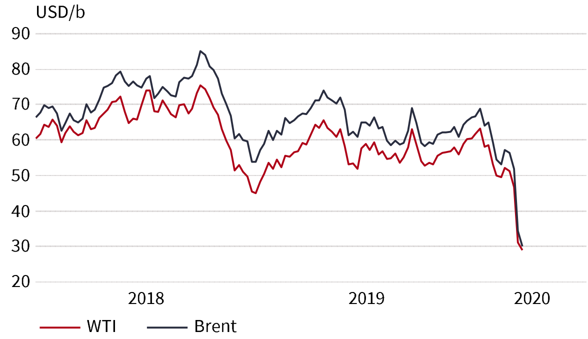
100 = Jan 2018



Source: Refinitiv, SG Economic and Sector Studies

Oil prices

USD/b



Source: Refinitiv, SG Economic and Sector Studies

Chinese policymakers quickly introduced measures to mitigate the impact of the health crisis by lowering interest rates, cutting reserve requirements, increasing public spending, making transfers to local governments and supporting businesses through a partial annulment of social contributions. Markets in China have regained some colour, not least because the Covid-19 peak seems to have passed and companies gradually resume activity.

Major central banks worldwide also sprang into action to respond to the crisis. The Fed delivered a 50bp emergency rate cut (3 March) and injected funds in short-term money markets. And in a Sunday evening announcement (15 March), the Fed took its key rate to zero. The ECB announced liquidity injections, easing access to TLTRO. Moreover, it further increased net asset purchases for 2020 by €120bn on 12 March and €750bn on 19 March. The BoE also made an intra-meeting 50p cut (11 March) and, as in the euro area, supervisors relaxed regulatory requirements for banks' minimum capital ratios.

On the budgetary front, US Congress passed an emergency spending bill to fight Covid-19, partly oriented to unlock low interest rate loans to SMEs. Euro area member states also announced public health measures to fight the spread of the Coronavirus and efforts to support business. In France, the State will pay compensation to employees forced to stay at home and defer, without formality, no-penalty on late payment of contributions and taxes due in March. More broadly, euro area countries are expected to ease fiscal policy to support the economy, but the result will be much higher budget deficits.

So far, fiscal and monetary announcements have not fully reassured the markets and financial market volatility remains high. In the US, we expect to see bipartisan agreement for emergency relief, but large-scale fiscal stimulus may have to wait until after the November presidential election. In the euro area, much will depend on political consensus to coordinate a decisive policy response.

Our scenario assumes that the pandemic peaks in 2Q20, easing thereafter. Most sectors are expected to recover fairly quickly, although tourism is set to lag and there will inevitable be some permanent losses. We include all the announced policy measures in our forecast and further assume additional support, both to help cash-strapped businesses and to support the recovery in demand. China has already taken aggressive stimulus, and the other major economies are also announcing a flurry of measures, be it monetary, prudential or fiscal easing.

We forecast a short-lived and fairly mild recession for the major advance economies and see a significant slowdown in China for 2020, followed by a moderate recovery in 2021. We expect Brent to average $45/b in 2020, due to the drop in demand, OPEC's failure to reach an agreement with Russia on reducing oil production and Saudi Arabia’s decision to increase production in response. Lower oil prices will support household disposable income and ease pressure on corporate margins outside the oil sector, but oil exporters will suffer, and not least those with large external deficits and high external debt (many African countries fall into this category). In the US, low crude prices will accentuate the weaknesses of the oil and gas shale sector.

A more intense and longer-lasting coronavirus pandemic is a threat that could plunge the global economy into a prolonged recession. Financial market risks also pose a downside risk to our scenario, but the current situation differs from 2008 in several key respects. First, the current shock began in the real economy and not the financial system, and banks are now less leveraged and better capitalized. High levels of corporate leverage, however, is a concern as is a less multilateral world and a still incomplete European architecture. Finally, climate change and digitisation pose their own structural policy challenges, particularly in terms of social inequality.

ADVANCED ECONOMIES

The US economy began to show signs of strain in late 2019, with rising production costs and slowing external demand weighing on corporate profits. Continued political uncertainties related to trade tensions, the Covid-19 crisis and the November elections are also expected to weigh on investment and we now forecast recession for 2020.

Turning to the euro area, the Covid-19 outbreak adds to several headwinds already present in the region, including the on-going transition of the auto sector and Brexit. The UK left the European Union on 31 January 2020 and is now in the transition period which is due to end on 31 December 2020. The risk of a no-deal end to the withdrawal period remains a serious risk. Euro area policy makers are taking action at the national level to stem the negative effects of various lockdown measures, but a determined response at the level of the Eurogroup remains absent. Euro area spreads have widened with the crisis, exposing the fragilities that remain due to the still incomplete European architecture, be it Banking Union, Capital Markets Union, Fiscal Union and a still missing single safe asset.

Japan's economy was already under pressure from the October sales tax hike, and this despite significant fiscal stimulus. The Covid-19 outbreak has been well managed to date, but the 2020 Olympics are at risk of postponement and Japan faces headwinds from the rest of the world. We forecast recession in 2020, before recovery in 2021.

EMERGING MARKETS

As illustrated by recent economic data from China, the draconian measures taken to stem the Covid-19 outbreak has come at a very significant economic cost. At the same time policymaker have taken significant action which should ensure recovery in 2H20. Overall, 2020 is set to prove one of the weakest on record.

Growth is expected to slump throughout Asia, given the strong interconnection with China and the global economy. Governments will try to mitigate the shock of the pandemic on the economy through fiscal and monetary stimulus. With limited policy space to support activity, India's GDP will continue to decelerate. Despite the slump, emerging Asia will continue to expand faster than other emerging markets.

The "decoupling" between growth in the CEE and the euro area has faded and activity is expected to suffer in 2020-21, in line with the euro area. This is due to a much less favourable external environment and increased capacity constraints. Indeed, job vacancies have reached historic highs, fuelling wage increases and lowering corporate margins. On the Russian side, growth will suffer from the fall in oil prices and will remain weak. Turkey remains a special case. After the crisis of 2018, growth resumed with a noticeable rebound in manufacturing activity at the end of 2019. Yet, the new economic programme for 2020-2022, which targets 5% growth, appears unrealistic. Firms have yet to adjust to the rising cost of servicing external debt in lira terms and investment will remain weak.

Latin America is expected to enter recession, with bleak growth prospects in Brazil and Mexico, not least given the global backdrop. In Argentina, the government is in talks to restructure its public debt and has no bullets to fight recession. A downward correction in commodity prices and reduced demand from China will be headwinds for the entire region. Africa will also struggle to ensure rapid growth in a context of slowing global growth and falling commodity prices.

Last but not least, the outlook for the Middle East is clouded by the oil price collapse and precarious growth prospects for key trading partners. Budget deficits look set to widen as oil revenues diminish. There are still some growth drivers, for example in Saudi Arabia, where societal reforms are allowing a rapid expansion of the leisure and entertainment sector, albeit threatened near-term by Covid-19.

Central banks

Given the significant increase in financial volatility and increasing uncertainties regarding the potential effect of the Corvid-19 outbreak on economic activity, the Fed decided in March to cut the fed funds target range to 0.00% to 0.25%. The Fed has also acted to address liquidity issues for Treasury markets, including new asset purchases. Looking ahead, we expect the Fed to stand ready with more balance sheet measures if required.

Against a backdrop of low inflation, the ECB stance will remain very accommodative with negative deposit rates all over our forecast horizon and quantitative measures (asset purchases and (T)LTROs) as long as necessary to ensure liquidity and supporting activity.

The BoE cut its main policy rate by 50bp, bringing it to its lowest level since the financial crisis, at 0.25%. The BoE is set to maintain an accommodative bias.

Faced with Covid-19, the BoJ has been responsive in providing liquidity to banks. The BoJ will extend its supportive monetary stance for an indefinite period, targeting 10-year rates at around 0%. The PBoC has already taken several easing measures and stands ready to take further steps as required.

Ordinarily, prudential policy is given less coverage in economic forecasts, but will play a key role is addressing the liquidity issues faced by many cash strapped non-financial companies, and not least those working in the area of consumer services. Already, several prudential easing measures have been adopted and supplemented by government support in the form our various credit guarantees and delayed payments of social charges and taxes. Our assumption is that these measures, of which we assume there are more to come, will be successful in stemming the crisis and preventing the current liquidity crisis in the non-financial cycle from morphing into a spiral of default.

ECONOMIC FORECASTS

Real GDP growth (annual, %)	2018	2019e	2020f	2021f	2022f
Developed Markets	***2.2***	***1.7***	***-0.2***	***1.3***	***1.4***
United States	2.9	2.3	-0.1	1.5	1.7
Japan	0.3	0.7	-1.1	0.8	0.7
United Kingdom	1.3	1.4	-0.3	1.1	1.3
Euro area	1.9	1.2	-0.4	0.8	1.1
Germany	1.5	0.6	-0.5	0.8	1.0
France	1.7	1.3	-0.4	0.8	1.1
Italy	0.7	0.3	-1.1	0.7	0.9
Spain	2.4	2.0	0.0	1.2	1.4
Emerging Markets	***4.4***	***3.7***	***2.5***	***4.4***	***4.2***
Asia	6.0	5.3	3.5	5.5	5.1
China	6.7	6.1	4.0	6.0	5.2
India	6.1	5.1	5.2	6.0	5.7
Central and Eastern Europe	3.1	1.9	0.9	2.2	2.3
Russian Federation	2.2	1.3	0.8	1.2	1.5
Turkey	2.8	0.2	1.0	4.0	3.5
Latin America	1.1	1.0	-0.6	2.5	2.6
Brazil	1.3	1.1	-0.5	2.1	2.0
Middle East & Central Asia	0.5	-0.5	1.0	2.7	2.3
Africa	3.4	3.2	2.0	3.8	4.1
World	***3.6***	***3.0***	***1.7***	***3.3***	***3.3***

All averages (regional, economic classification) are computed using GDP expressed at Purchasing Power Parity (PPP) exchange rate. PPP exchange rates are used to equalise the cost of a standardised basket of goods between different countries

Consumer prices index (annual growth rates, %)	2018	2019e	2020f	2021f	2022f
United States	2.5	1.9	1.1	2.2	2.1
Japan	1.0	0.5	0.5	0.5	0.5
United Kingdom	2.5	1.8	1.1	1.7	1.9
Euro area	1.8	1.2	0.7	1.6	1.3
Germany	1.9	1.4	0.9	1.5	1.3
France	2.1	1.3	1.3	1.4	1.2
Italy	1.2	0.6	0.0	1.0	1.0
Spain	1.7	0.8	0.2	2.0	1.5
China	2.1	2.9	3.1	1.6	2.4

end of period	18/03/2020	2020f	2021f	2022f
Interest rates, %				
United States				
Fed Funds target rate (high range)	0.25	0.25	0.25	0.25
10y government bonds	1.26	0.80	1.00	1.50
Euro area				
Refinancing rate	0.00	0.00	0.00	0.00
Deposit facility rate	-0.50	-0.60	-0.60	-0.60
10y government bonds				
Germany	-0.23	-0.60	-0.40	0.20
France	0.36	-0.20	-0.10	0.50
Italy	2.30	1.80	1.90	2.50
Spain	1.23	0.40	0.50	1.10
United Kingdom				
Bank rate	0.25	0.00	0.00	0.25
10y government rate	0.79	0.40	0.60	1.20
Japan				
Complementary Deposit Facility rate	-0.10	-0.10	-0.10	-0.10
10y government bonds	0.06	0.00	0.00	0.00
Exchange rates				
EUR / USD	1.08	1.10	1.10	1.15
EUR / GBP	0.92	0.90	0.90	0.90
GBP / USD	1.18	1.22	1.22	1.28
EUR / JPY	118	121	121	127
USD / JPY	108	110	110	110
USD / CNY	7.03	7.00	7.05	7.10
Yearly average				
Oil price (Brent), USD/barrel	**26**	**45**	**55**	**60**

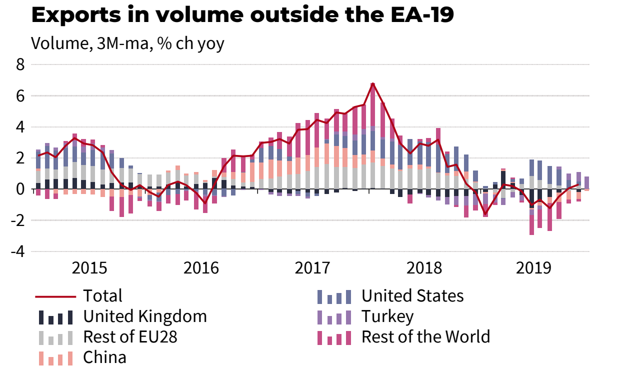
EURO AREA

- **Covid-19 will produce a negative shock to activity, triggering recession in 2020. Growth will pick up slightly in 2021-22**
- **The monetary policy stance will remain very accommodative and interest rates low over the forecast horizon**
- **Fiscal policy will be more expansionary in 2020 in response to the Covid-19 shock. The probability of a larger stimulus has increased**

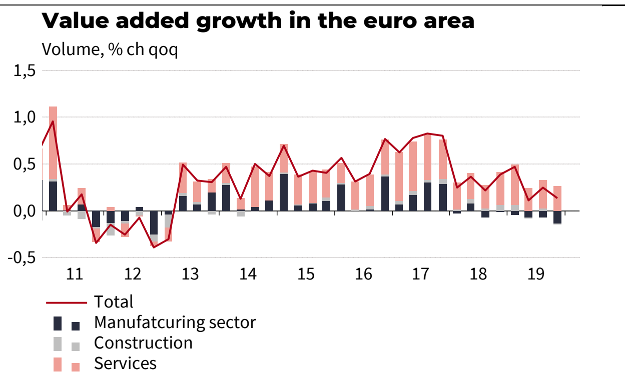
In 2020, Covid-19 will produce a net negative shock to growth, amplifying the already expected slowdown in activity this year. The catching-up effect from the 2H20, targeted fiscal measures and the drop in oil prices will only offset part of the initial shock, and we forecast recession in 2020. It would reaccelerate in 2021 and in 2022. The unemployment rate would start rising again in 2H20.

The impact of the pandemic on the world economy in 2020 will amplify the slowdown in exports in 2020-2021. The headwind in the United Kingdom in the wake of the Brexit, lower trend growth in China and the expected cyclical downturn in the United States in 2021 will remain the main factors underlying this downturn. Exports will pick up again in 2022 thanks to the dissipation of global uncertainty and the support of economic policies.

Covid-19 will amplify the combined erosion of external demand and manufacturing production that the euro area has experienced since 2018



Source: Refinitiv, SG Economic and Sector Studies



Source: Refinitiv, SG Economic and Sector Studies

So far resilient, domestic demand will now suffer in 2020-2021 from the Covid-19 lockdowns and the further deterioration in the global environment. Companies will be the main channel through which the slump will be transmitted to the rest of the economy. In the short-term, targeted measures by public authorities (national and European) should help ease the liquidity tensions linked to the impact of Covid-19. However, with the anticipated weakening in demand and continued uncertainty, companies will cut investment spending, moderate wages and focus on productivity gains to preserve margins.

The resulting rise in unemployment will weigh on consumption (already affected by the contingency measures in response to Covid-19) and residential investment in 2020-2021 (despite targeted measures like temporary moratoria on mortgage payments). Public demand will increase in 2020, reflecting measures to support the economy. Firms will pass on the moderation in unit labour costs to their prices. As a result, core inflation is set to slow over the forecast horizon.

Against this backdrop, the monetary policy stance will remain very accommodative. In response to the risk generated by Covid-19, the ECB has announced short-term liquidity measures for banks and the easing of conditions for TLTRO III. In addition, net asset purchases amounting up to €870bn until at least year-end will come on top of existing net purchases (€20bn per month). They will focus on private assets (corporate sector debt in particular). Looking ahead, the ECB is expected to cut the deposit facility rate this year to -0.60%. Asset purchases will continue for as long as necessary and their technical modalities should be adapted if needed. Meanwhile, the two-tier rate on reserves would also be adjusted to limit the undesirable effects of negative rates on the banking system.

A prolongation of the Codiv-19 pandemic would further undermine growth and financial stability. This risk adds to an already long list of downside risks surrounding our scenario: persistent uncertainty about future relation between the UK and the EU27, potential political instability in Italy, renewed trade tensions, etc. Conversely, a stronger fiscal stimulus would provide greater support to activity. The likelihood of such a scenario has increased with the eruption of health risks in Europe.

Euro Area	2018	2019e	2020f	2021f	2022f
Real GDP, % ch	1.9	1.2	-0.4	0.8	1.1
Household consumption	1.4	1.3	-0.2	1.0	0.9
Public consumption	1.1	1.6	2.5	1.8	1.1
Investment	2.4	4.2	-2.5	-0.2	1.3
Exports of goods & services	3.3	2.5	-1.4	1.6	2.2
Imports of goods & services	2.7	3.4	-1.7	1.9	2.0
Inflation, %	1.8	1.2	0.7	1.6	1.3
Core inflation	1.0	1.0	1.1	0.7	0.8
Real gross disposable income (GDI), % change	1.7	2.1	1.9	0.7	1.1
Households saving rate, % of GDI	12.2	13.2	14.9	14.7	14.7
Unemployment, % of labour force	8.2	7.6	7.7	8.6	8.8
Fiscal balance, % of GDP	-0.7	-1.1	-2.3	-1.8	-1.7
Public debt, % of GDP	90	89	91	91	91
Current account balance, % of GDP	3.1	3.0	3.4	3.3	3.2

GERMANY

- **The economy will enter recession in 2020 with the Covid-19 crisis. Activity is set to rebound slightly in 2021-22**
- **With the slump in aggregate demand, core inflation will decelerate over the forecast horizon**
- **The likelihood of a bigger fiscal stimulus has increased with the onset of health risk**

The economy will enter recession in 2020, with the Covid-19 producing a major negative short-term shock on activity. The catch-up effect expected in 2H20, targeted budget measures and the sharp fall of oil prices will only partially offset the drop in activity caused by the pandemic. Growth will rebound slightly in 2021-2022. The unemployment rate will start to rise again in 2020.

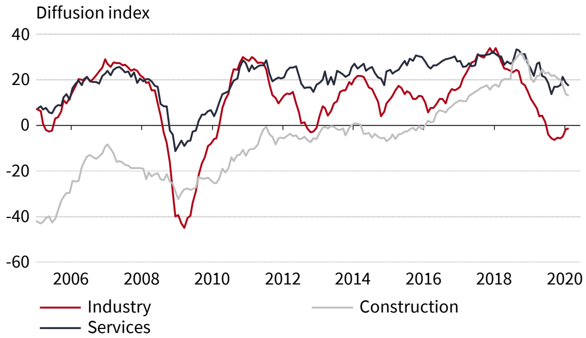
Exports will contract in 2020 as a result of the stronger-than-expected decline in final demand from China and the US, and disruptions in supply chains. In 2021, the expected cyclical reversal in the US will prevent any significant rebound in world trade. Exports will rebound in 2022 with the dissipation of global uncertainties and support for economic policies.

Covid-19 will end the fragile stabilization of industry and exports observed at the turn of 2019-20

Exports and value added in the industry

Source: Refinitiv, SG Economic & Sector Studies

IFO business index



Source: Refinitiv, SG Economic & Sector Studies

Domestic demand will slow in 2020-21 and Covid-19 contingency measures will result in a contraction of consumption at the start of 2020. The expected catch-up in 2H20 will not absorb the purchasing power gains recorded thanks to the fall in oil prices, which will in our opinion translate into a higher household saving rate. Longer-term, rising unemployment and inflation will weigh on purchasing power growth, dampening the rebound in consumption over the forecast horizon.

Government measures (moratoriums on the payment of certain taxes and contributions, increased funding for short-time working and temporary layoffs, etc.) will temporarily relieve corporate cash flows and household income. Private investment will nonetheless contract in 2020, only to increase again in 2022. On the corporate side, the decline in profitability and overall demand, in a context of global uncertainties that will remain strong until 2021, will drive companies to postpone investment plans. For households, the adjustment on the labour market will temper residential investment, despite financing conditions that are set to remain favourable. Reflecting a more expansionary fiscal stance, public investment will gain momentum in 2020. However, it will only partially offset the decline in private investment.

Given the global slowdown and the moderation in unit labour costs, core inflation will slow over our forecast horizon.

In the short term, the main downside risk to our scenario is a prolongation of the Covid-19 pandemic. However, other risks surrounding our scenario remain numerous. Among them, one is the failure of negotiations between the United Kingdom and the European Union regarding their future relationship. Similarly, a resumption of trade tensions, for instance through a new increase in US tariffs on vehicle imports which would heavily weigh on the German automobile industry (already in difficulty since 2018). Conversely, a greater fiscal stimulus would constitute an upside risk to our scenario. The probability of its occurrence increased with the onset of health risk.

Germany	2018	2019e	2020f	2021f	2022f
Real GDP, % ch	1.5	0.6	-0.5	0.8	1.0
Household consumption	1.2	1.6	-0.1	0.8	0.6
Public consumption	1.4	2.6	3.8	2.5	1.2
Investment	3.5	2.7	-2.1	-1.7	1.1
Exports of goods & services	2.3	0.9	-2.3	2.5	1.9
Imports of goods & services	3.7	1.9	-2.4	2.9	1.7
Inflation, %	1.9	1.4	0.9	1.5	1.3
Core inflation	1.3	1.3	1.2	0.8	0.9
Real gross disposable income (GDI), % change	1.9	1.5	1.1	0.1	0.4
Households saving rate, % of GDI	11.0	10.9	11.9	11.3	11.1
Unemployment, % of labour force	5.2	5.0	5.4	6.1	6.5
Fiscal balance, % of GDP	1.9	0.4	-0.9	-0.4	-0.3
Public debt, % of GDP	62	60	60	59	59
Current account balance, % of GDP	7.6	7.4	6.5	6.1	5.8

FRANCE

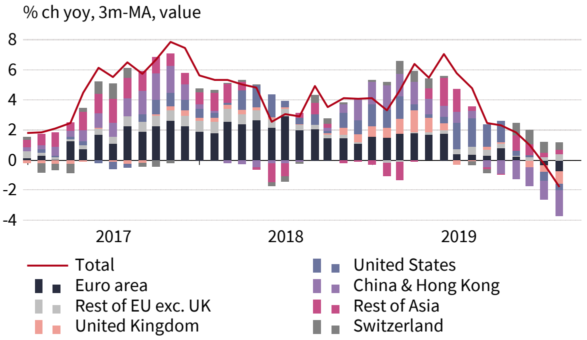
- **Growth will enter recession in 2020 on the back of the Covid-19 shock and see a moderate recovery in 2021-22**
- **Core inflation will decline over the forecast horizon, reflecting the deceleration in unit labour costs**
- **The main downside risk is the intensification of health crisis**

In 2020, the Covid-19 pandemic will push the economy into recession. The catch-up expected in the 2H20, the sharp drop in oil prices and an expansionary fiscal policy will only partially offset the initial shock caused by the outbreak. Growth will pick up slightly in 2021-2022, but only moderately.

The dynamics of foreign trade will deteriorate sharply in 2020-2021. Covid-19 will affect exports through disruptions in supply chains and a sharper than expected drop in external demand. In 2021, the cyclical downturn in the US and the lack of a significant rebound in growth in Europe will prevent a genuine rebound. At the same time, the cessation of production by French manufacturers of several car models will increase vehicle imports in 2020. It is only in 2022 that exports are set rebound, supported by economic policies and the dissipation of uncertainty.

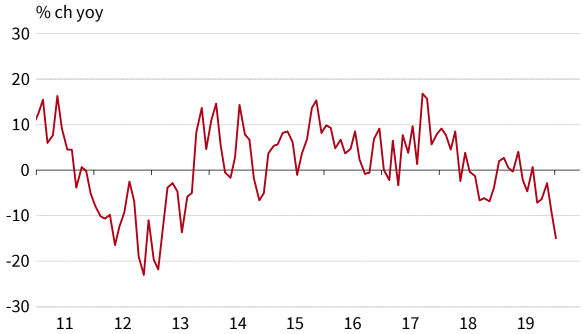
Dips in external demand and automotive production will drag down growth in 2020-2021

French exports by destination



Source: Refinitiv, INSEE, SG Economic and Sector Research

Production in the French car industry



Source: Refinitiv, INSEE, SG Economic and Sector Research

Falling external demand will have a knock-on effect on the domestic economy from 2020 onwards. In addition, the Covid-19 pandemic will amplify the downturn in domestic demand, albeit party offset by increased public demand and measures to support corporate cash management and household income. Investment is set to slow sharply from 2020 onwards, and particularly corporate investment. Housing investment will remain sluggish beyond the Covid-19 effect, especially if gradual unwinding of public support schemes (Pinel, interest-free loans, etc.) continues.

Household consumption will contract at the beginning of the year as a result of contingency measures linked to Covid-19. However, it is expect to recover in 2H20, driven in particular by the gains in purchasing power linked to the fall in oil prices and the fiscal measures adopted in the wake of the yellow vest movement. However, the deterioration in labour market conditions (unemployment will start to rise again) will limit the rebound in consumption in 2021-2022. Public demand will partly compensate for this sluggish growth, with the government taking advantage of still favourable financing conditions to support activity in 2020-2022.

As aggregate demand weakens, companies will pass on the deceleration in unit labour costs to sales prices. Core inflation is thus set to decline over the forecast horizon.

As a result of the expected fiscal stimulus in 2020-2022 and the deviation of GDP from its trend path, the government deficit is set to widen significantly and push the government debt ratio above the 100% threshold over the forecast horizon.

Beyond the risk associated with an intensification of the Covid-19 crisis, other risks in our scenario are also mostly negative. In particular, domestic demand could again suffer from renewed social tensions, albeit worth note that the government's reform programme is for now on hold. In addition, the automotive sector would suffer from any US protectionist measures against the sector. Conversely, consumption could surprise on the upside, as households have so far saved part of the income freed up by the government's fiscal measures.

France	2018	2019e	2020f	2021f	2022f
Real GDP, % ch	1.7	1.3	-0.4	0.8	1.1
Household consumption	0.9	1.2	0.1	0.8	1.0
Public consumption	0.8	1.3	1.5	1.8	1.6
Investment	2.8	3.6	-0.2	1.1	1.4
Exports of goods & services	3.5	1.9	-2.1	-0.5	2.7
Imports of goods & services	1.2	2.2	-1.2	0.4	2.8
Inflation, %	2.1	1.3	1.3	1.4	1.2
Core inflation	0.9	0.6	1.2	0.8	0.8
Real gross disposable income (GDI), % change	1.2	1.9	0.6	0.0	0.4
Households saving rate, % of GDI	14.2	14.7	15.2	14.5	14.0
Unemployment, % of labour force	8.7	8.2	8.9	9.4	9.8
Fiscal balance, % of GDP	-2.5	-3.1	-3.7	-3.4	-3.2
Public debt, % of GDP	98	99	101	102	104
Current account balance, % of GDP	-0.6	-0.8	-0.3	-0.2	-0.2

ITALY

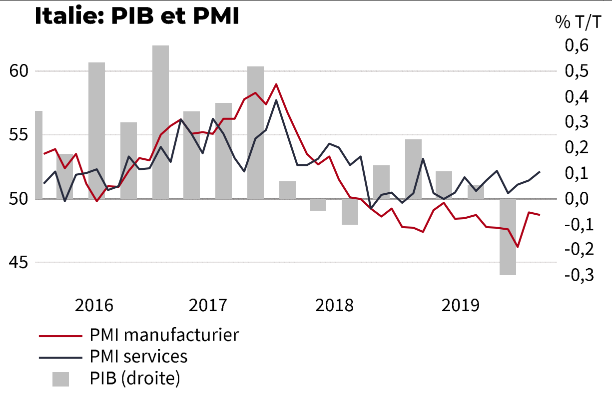
- **We see recession in 2020 with a moderate recovery in 2021, aided by a catch-up effect on consumption**
- **The large stimulus package (up to 25bn€) will increase the budget deficit in 2020 to over 3% of GDP**
- **The sovereign spread is now benefiting from ECB support but still could prove volatile**

The economy will enter recession in 2020, hard hit by the Covid-19 outbreak and starting from an already frail economic situation. The consumer catch-up effect expected in 2H20, a large stimulus package and the sharp fall of oil prices will only partially offset the drop in activity caused by the pandemic. Growth is set to rebound slightly in 2021-2022 but unemployment is set to head north.

Consumption will be severely hit in 1H20, due to the nationwide lockdown to counter the spread of the virus. Consumption of leisure goods and services account for around 20% of personal consumption and the catch up in 2H20 will only be partial.

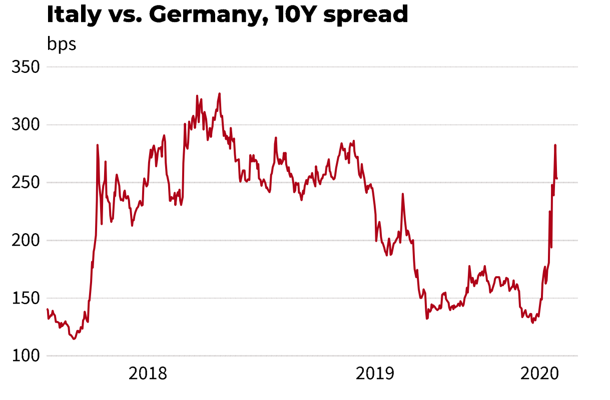
Public consumption will support growth with the €25bn stimulus package announced by the government. Measures include support for workers hit by temporary layoffs, additional funds for small and medium-sized companies affected by the closures and a moratorium for business and personal mortgage repayments.

GDP already contracting in Q4



Source: Istat, Refinitiv, SG Economic and Sector Research

New tensions on Sovereign spread



Source: Istat, Refinitiv, SG Economic and Sector Research

Companies will be hard hit by the fall of consumption and likely disruptions in global supply chains. Profit margins are expected to shrink and productive investment contract. The longer the crisis lasts, the more difficult it will become for firms to avoid bankruptcies, and non-performing loans are set to increase, albeit moderately in our baseline scenario.

External demand will remain sluggish this year due to the global economic impact of Covid-19. Imports are set to contract more than exports, with the domestic economy harder hit than its main trading partner. External contribution to growth would thus be expected to be positive in 2020.

Italy is set to experience a mild rebound in 2021-22, on the back of the global recovery, accommodative monetary policy and still low oil prices. Domestic demand is likely to remain sluggish over the next two years. Private investment is not expected to rise again before 2022. Activity in the construction industry is expected to remain sluggish. Household consumption is set to recover slightly but will only offer a modest support for growth.

With the €25bn stimulus package and a contraction of GDP, the budget deficit is likely to increase to over 3% in 2020 and public debt is set to increase further. European fiscal rules will be eased due to exceptional circumstances and the risk of an excessive deficit procedure launched against Italy remains small. However, we expect market reaction to be very sensitive to economic news and monetary policy actions, and the 10-year sovereign spread could still prove volatile.

Italy	2018	2019e	2020f	2021f	2022f
Real GDP, % ch	0.7	0.3	-1.1	0.7	0.9
Household consumption	0.9	0.4	-1.2	1.0	0.8
Public consumption	0.1	-0.4	1.9	0.6	0.1
Investment	2.9	1.4	-1.6	0.4	1.3
Exports of goods & services	1.7	1.4	-1.0	1.7	2.0
Imports of goods & services	2.8	-0.2	-1.4	2.0	1.8
Inflation, %	1.2	0.6	0.0	1.0	1.0
Real gross disposable income (GDI), % change	0.9	1.3	0.0	0.6	0.7
Households saving rate, % of GDI	10.0	10.8	11.9	11.6	11.5
Unemployment, % of labour force	10.6	9.9	10.4	11.3	11.3
Fiscal balance, % of GDP	-2.2	-1.6	-3.4	-2.8	-2.6
Public debt, % of GDP	135	135	140	141	141
Current account balance, % of GDP	2.6	3.1	3.4	3.3	3.4

SPAIN

- **Growth is expected to slump in 2020 on the back of Covid-19**
- **Uncertainty remains high as Spain entered lockdown on 14 March, and the size of state aid is still unclear**
- **The fragmentation of the political landscape with a minority government does not help quick and effective action**

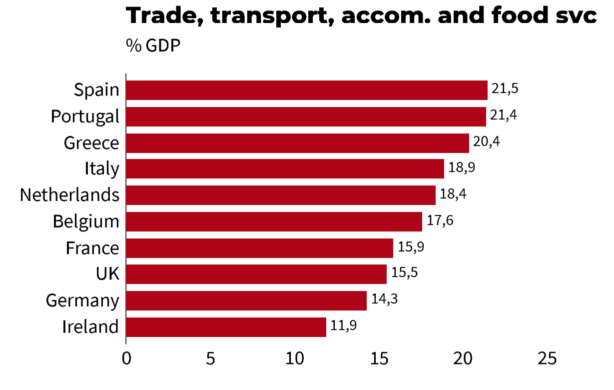
The Covid-19 pandemic is set to trigger a slump in 2020. A state aid package of €18bn had been announced but the total amount is expected to be revised upward soon.

Exports are expected to be severely hit as tourism receipts from non-resident account for nearly 6% of the economy. Mitigating effects from low oil prices, accommodative monetary policy and government measures to support firms and households should support recovery in 2H20.

Household consumption would be hard hit in 1H20 and recover only partially in the second half of the year. Inflation would be close to zero in 2020 boosting households purchasing power which benefited from a new rise of the minimum wage in January. This will result in a sharp increase in the saving rate after years of steady decrease.

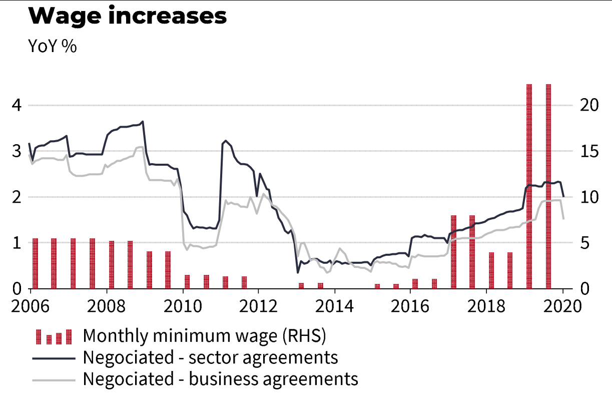
The unemployment rate is set to stabilise in 2020 as firms would be encouraged to avoid lay-offs. It will increase in 2021 with economic growth below potential. It is forecast to surpass 15% in 2022.

A high share of GDP for most hit sectors



Source: Refinitiv, SG Economic and Sector Research

Wage increases set to continue



Source: Refinitiv, SG Economic and Sector Research

Investment is expected to contract in 2020 after six years of strong growth, due to heightened uncertainty regarding the length and depth of the health crisis. The increase in wages around the minimum wage will continue to erode companies' margins and weigh on their capacity for self-funding. Activity in the construction sector should also contract after two years of strong investment growth. Investment is set to be flat in 2021 and would resume in 2022 with the global economic recovery.

Schools are shut across Spain and a first package of economic steps was announced on Thursday 12 March (€18bn). The government is expected to announce further measures to mitigate the economic and social impacts of the crisis, with aid for companies and workers. Employers must let staff work remotely and the government said people should chose that option whenever possible. Most judicial proceedings are suspended. The green light to stay open applies essentially to supermarkets, pharmacies and petrol stations.

After reaching a 10- year low of 2% in 2019, the public deficit is set to increase again in 2020 due to slowing of the economy and government measures to support growth and mitigate the negative effects of the health crisis.

Spain	2018	2019e	2020f	2021f	2022f
Real GDP, % ch	2.4	2.0	0.0	1.2	1.4
Household consumption	1.8	1.1	-0.4	1.5	1.2
Public consumption	1.9	2.2	2.5	1.4	1.2
Investment	5.3	1.9	-1.7	0.8	1.4
Exports of goods & services	2.2	2.3	-0.3	0.8	2.0
Imports of goods & services	3.3	1.2	-0.3	1.1	1.6
Inflation, %	1.7	0.8	0.2	2.0	1.5
Real gross disposable income (GDI), % change	1.9	2.5	2.1	0.0	1.6
Households saving rate, % of GDI	6.3	7.6	9.8	8.5	8.9
Unemployment, % of labour force	15.3	14.1	14.7	16.2	15.5
Fiscal balance, % of GDP	-2.5	-2.0	-2.7	-2.5	-2.3
Public debt, % of GDP	98	97	99	99	98
Current account balance, % of GDP	1.9	2.0	2.4	2.3	2.4

UNITED KINGDOM

- **The EU and the UK are negotiating their future relationship. With time running against them and divergent initial positions, the agreement is likely to be patchy**
- **The coronavirus will have a significant adverse effect on the economy and public finances in coming quarters**
- **Against this backdrop, despite bold fiscal and monetary policy actions, we expect the economy to stagnate in 2020**

On February 1 2020, the UK withdrew from the European Union. The Withdrawal Agreement entered into force and provides for a transition period during which EU law applies to and in the UK. The UK government has in January inserted into law that it will not seek to extend the transition period beyond 31 December.

Formal negotiations began in March. Both the EU and the UK officially wish to establish an ambitious, wide-ranging and balanced economic partnership that ensures that zero tariffs and quotas apply to trade in goods. On the one hand, the EU mandate stresses that the future partnership should be underpinned by robust commitments to ensure a level playing field for open and fair competition, given the EU and the UK's geographic proximity and economic interdependence.

On the other hand, the UK seeks a deal similar to existing free trade agreements between the EU and other nations – a "Canada-style free trade agreement" – in the hope that this would not require rules that are closely aligned to those set by Brussels. We expect the negotiation process to be difficult and tense and to affect business confidence by fuelling short term uncertainty. Because both parties gain from reaching agreement, we retain the working assumption that a basic UK-EU deal in goods, which covers some aspects of services, will be signed by year-end. On financial services, we assume that the EU will grant access based on "unilateral equivalence frameworks" which means that the EU will be able to revoke those access rights to financial services at short notice.

Over the short term the UK economy will be severely affected by the Covid-19 outbreak, be it directly as the number of British cases rises and lockdown measures are taken or indirectly through its trade relationships and financial channels. Note, the EU27 accounts for 10.3% of the final demand addressed to the UK and 9.7% of UK intermediate inputs are imported.

Against this backdrop, public authorities have announced a package of measures. The Bank of England cut rates by 50 bp back to the post-crisis low of 0.25%. It also introduced a new facility to give banks access to cheap liquidity to sustain lending for small- and medium-sized businesses and it cut capital requirements by setting the counter-cyclical capital buffer to 0%. On the fiscal side, Chancellor Sunak set out significant fiscal easing. Relative to the pre-measures baseline forecast of the Office for Budget Responsibility, the Government's policy decisions increase the budget deficit by 0.9% of GDP on average over the next five years and added GBP 125bn (4.6% of GDP) to public sector net debt by 2024-25. The Chancellor also outlined a strategy to cushion the blow from the virus. Support for households will take the form of early entitlement to sick pay for those required to self-isolate and easier access to welfare payments for the self-employed. The support for businesses, especially smaller ones, aims at easing potential cashflow problems.

Risks to the UK economy remain firmly biased to the downside, be it from Covid-19 or Brexit.

United Kingdom	2018	2019e	2020f	2021f	2022f
Real GDP, % ch	1.3	1.4	-0.3	1.1	1.3
Household consumption	1.6	1.4	-0.4	1.5	0.6
Public consumption	0.4	3.6	3.9	2.0	1.6
Investment	-0.2	0.4	-0.1	1.3	3.9
Exports of goods & services	1.2	3.7	1.0	0.4	2.0
Imports of goods & services	2.0	3.6	-2.7	2.0	2.0
Inflation, %	2.5	1.8	1.1	1.7	1.9
Core inflation	2.1	1.7	1.2	1.2	1.6
Real gross disposable income (GDI), % change	5.0	2.2	0.8	2.3	3.1
Households saving rate, % of GDI	5.8	5.5	5.9	5.0	5.4
Unemployment, % of labour force	4.0	3.9	5.2	4.7	4.4
Fiscal balance, % of GDP	-2.2	-2.0	-2.7	-3.0	-3.1
Public debt, % of GDP	86	85	85.4	85.7	85.7
Current account balance, % of GDP	-3.9	-3.8	-3.0	-3.5	-3.2

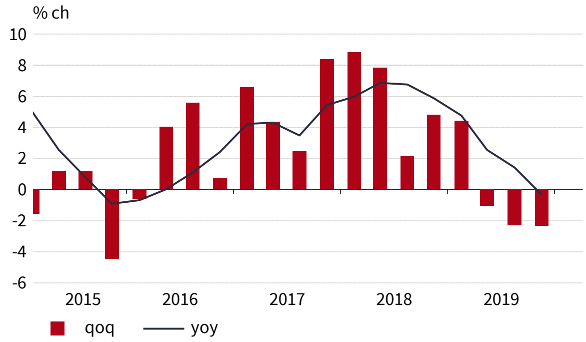
UNITED STATES

- **Economic growth is set to progressively moderate on the back of lower fiscal support and eroding corporate profits**
- **The Fed is set to expand its balance sheet further if necessary**
- **The main risk to the economy is the Covid-19 crisis**

Real GDP grew by 2% qoq annualised in 4Q19, still supported by a fiscal impulse. The headline was comparable to 3Q19, but corporate fixed investment and consumption decelerated. With Covid-19, the economy is now set to enter recession this year. Corporate profits are set to deteriorate further due to still high labour and inputs cost, hence further hindering private investment outlook. Persistent policies uncertainties linked to trade tensions, the Covid-19 crisis, and the November elections are also expected to weigh on investment prospects.

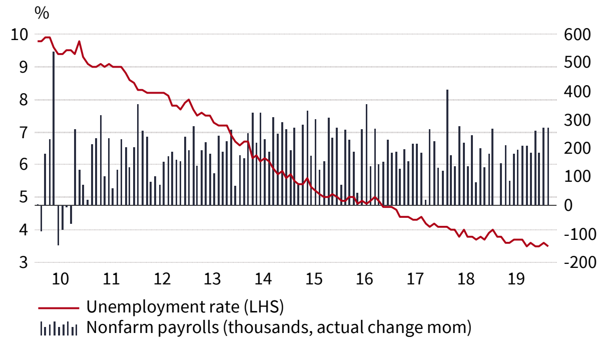
Given the significant increase in financial volatility and increasing uncertainties regarding the potential effect of the Corvid-19 outbreak on economic activity, the Fed decided, during two out of schedule meetings, to cut the target range of its policy rate to the present level of 0-0.25%. The FOMC noted that risk to the growth outlook "have changed materially" and that various lockdown measures taken in other countries and in the US will weigh on activity. Hence, considering that uncertainties will remain high in the coming months, the Fed will stand ready as need with further balance sheet expansion.

US: non residential investment growth



Source: Refinitiv, SG Economic & Sector Studies

US: labour market



Source: Refinitiv, SG Economic & Sector Studies

Fiscal policy is expected to be expansionary in the coming two years, as it is likely that the government takes some targeted measures to compensate for the Covid-19 consequences with an emergency package.

The main risks in the coming quarters relate to the Covid-19 crisis with the US following in the footsteps of Europe. The slump on financial markets presents an additional risk, and not least given the importance of the energy sector and highly leverage corporate balance sheets.

United States	2018	2019e	2020f	2021f	2022f
Real GDP, % ch	2.9	2.3	-0.1	1.5	1.7
Household consumption	3.0	2.6	0.3	1.5	1.6
Public consumption & investment	1.7	2.3	2.5	1.8	2.1
Private investment	4.6	1.3	-3.3	2.5	2.5
Exports of goods & services	3.0	0.0	-2.0	2.0	2.3
Imports of goods & services	4.4	1.0	-0.4	5.0	3.0
Inflation, %	2.5	1.9	1.1	2.2	2.1
Core inflation	2.2	2.3	1.3	1.6	2.1
Real gross disposable income (GDI), % change	3.6	2.4	1.5	-1.1	1.4
Households saving rate, % of GDI	8.9	9.1	10.4	8.5	8.5
Unemployment, % of labour force	3.8	3.5	5.8	5.3	4.5
Fiscal balance, % of GDP	-6.6	-7.3	-8.6	-8.5	-8.4
Federal debt, % of GDP	78	78	84	87	90
Current account balance, % of GDP	-2.4	-2.3	-3.6	-4.4	-4.6

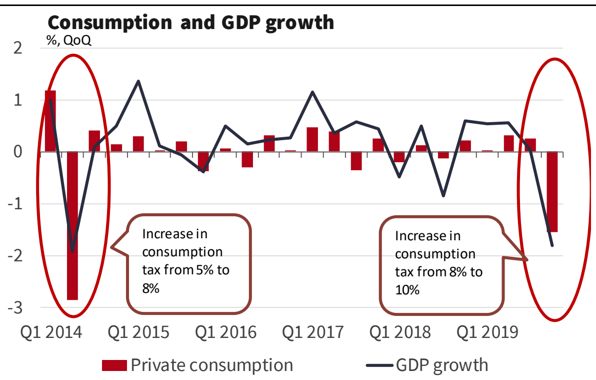
JAPAN

- **Growth in 2020 is expected to fall sharply below zero…**
- **…despite the stimulus package**
- **The risk of prolonged weak growth calls into question the effectiveness of the Abenomics policy**

The economy is expected to slow sharply in 2020 before accelerating slightly in 2021. It was hit first by the increase in consumption tax that took place in 4Q19 and then by the Covid-19 health crisis that began in January 2020. A recession now seems inevitable, and with the added risk that the Tokyo Olympics could be postponed.

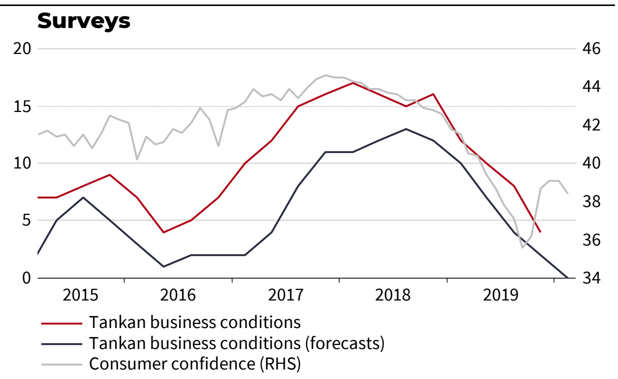
2020 is off to a very negative start following the sharp drop in household consumption and 4Q19 GDP growth of -6% annualised on the back of the increase in the consumption tax. Private demand is expected to remain weak. Even if household confidence has recovered slightly since the tax increase, its level is far from reflecting a recovery and now hit by Covid-19. Business conditions continue to deteriorate for companies in both the manufacturing and service sectors. Financial conditions are also weakening and the deterioration in profits according to the Tankan survey suggests a reduced ability of companies to finance investment.

Weak consumption drives growth down



Source: Cabinet Office, SG Economic & Sector Studies

Business conditions deteriorate



Source: Cabinet Office, SG Economic & Sector Studies

The fiscal stimulus announced by Prime Minister Abe in December 2019 should help partially offset the headwinds. The stimulus, which provides for JPY 9.4bn in fiscal spending (central and local, or 1.7% of GDP) from 1Q20 to 1Q21, carries a risk of execution that compromises the impact hereof on the real economy. An important cause is the lack of available labour supply. This is a phenomenon already observed in previous stimulus plans.

On the external demand side, the Covid-19 health crisis has generated a negative shock on China – 20% of the Japan's exports and other key trading partners. Japanese supply chains have, moreover, also been disrupted. In addition, Japan has seen the number of cases of contamination increase on its own territory, which risks yet a negative impact on household and business confidence.

Inflation shows almost constantly very modest dynamics given the weakness of demand and despite the increase in consumption tax.

In such a context, monetary policy remains expansionary as suggested by the BoJ's forward-guidance. The current monetary policy is extended for an indefinite period, namely targeting 10-year rates around 0% and keeping the policy rate (supplementary deposit facility) at -0.1%. Faced with Covid-19, the BoJ has been responsive in providing JPY 500bn of liquidity to banks and has increased its daily ETF buying capacity from JPY 70.2bn to JPY 100.2bn since March.

Japan had not overcome the consumption tax increase, before being hit by Covid-19. With the prolongation of weak growth, the effectiveness of the Abenomics policy is called into question.

Japan	2018	2019e	2020f	2021f	2022f
Real GDP, % ch	0.3	0.7	-1.1	0.8	0.7
Household consumption	0.0	0.2	-1.8	0.8	0.5
Public consumption	0.9	1.9	1.9	0.7	0.5
Investment	1.1	1.5	-1.4	0.8	0.7
Exports of goods & services	3.4	-1.8	-0.6	0.6	1.5
Imports of goods & services	3.3	-0.7	-1.0	0.4	0.4
Inflation, %	1.0	0.5	0.5	0.5	0.5
Core inflation	0.8	0.7	0.6	0.5	0.5
Real gross disposable income (GDI), % change	1.1	0.9	0.3	0.7	0.7
Households saving rate, % of GDI	3.9	4.6	6.7	6.7	7.0
Unemployment, % of labour force	2.4	2.3	2.4	2.3	2.3
Fiscal balance, % of GDP	-3.2	-3.0	-3.5	-3.0	-2.8
Public debt, % of GDP	237	238	240	241	241
Current account balance, % of GDP	3.5	3.6	3.4	3.5	3.5

CHINA

- **Economic activity is expected to recover gradually in 2Q and bounce back in 2H20**
- **Policy mix to be reactive to safeguard growth**
- **The debt ratio is set to rise, financial risk persists**

Growth is heavily affected by the Covid-19 pandemic, although the spread seems to have slowed since March. Activity is expected to bottom out in the 1Q20 and then gradually recover over the course of the year.

Household consumption has virtually come to a standstill due to containment, but workers have been gradually returning to factories since the end of February offering some light at the end of the tunnel. Manufacturing activity should gradually pick up again in 2Q, which will be an improvement on 1Q, but growth should remain below normal. During the second half of the year, a partial catch-up effect should be added to a return to normal economic activity, with GDP rebounding from the 3Q onwards.

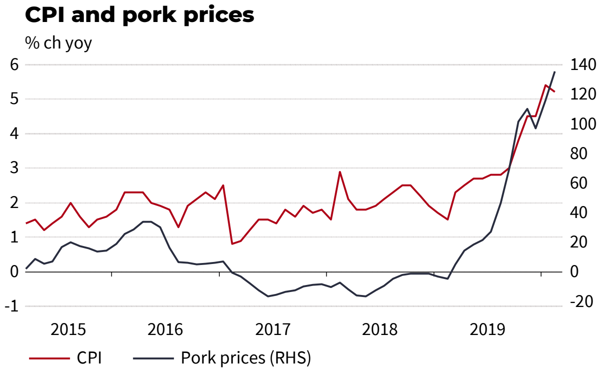
A reactive economic policy helps alleviate the negative impact of the health crisis and help a return to activity. The PBoC first lowered the cost of financing for banks (10bp repo and MLF rates) and the economy (10bp LPR) and then it announced a targeted cut of required reserves ratio (50bp or 150bp). In order to support small and medium-sized enterprises in the face of liquidity disruptions, a loan renewal programme is also in the pipeline (CNY 300bn, later increased to CNY500bn, i.e. 0.3% of outstanding business loans).

Turning to budgetary measures, these should play an even more direct supporting role in order to partly offset the fall in household demand and to protect employment and the industrial fabric through their support for SMEs. Local governments have been granted a net issuance of CNY 1,848bn in the first half of 2020, or 60% of the annual quota for 2019. The central government could also increase its indebtedness. With a transfer of revenue from the central government to local governments, of CNY 2,400bn, spending for the management of the health crisis has risen sharply. Apart from increases in general government spending, social security charges have been exempted, resulting in savings of CNY 600bn (0.6% of GDP) for businesses.

Finally, a broader stimulus plan seems to be under discussion. While the anticipation of such a plan seems fair, the amount will however be determined by the extent of the recovery in the coming quarters.

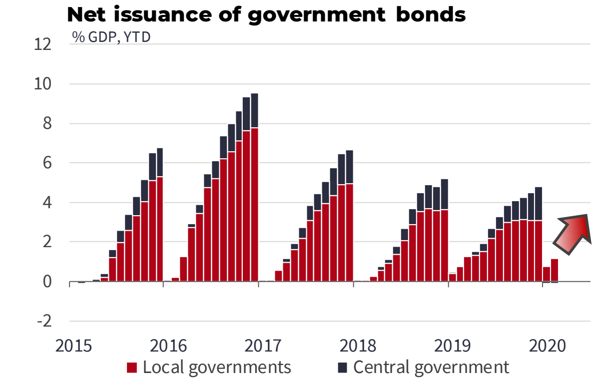
Despite a sudden cooling of the economy, inflation is set to remain high in 1H20, mainly due to the rise in pork prices in 2H19. Containment, limiting food supply, is expected to add upward pressure on prices. But these upward effects should fade in 2H20.

Rising inflation due to surge in pork price



Source: NBS, PBoC, SG Economic & Sector Studies

Public debt issuance is set to rise



Source: Ministry of Finance, SG Economic & Sector Studies

Although the Chinese authorities have the means to deal with a temporary Covid-19 shock, debt is again set to rise. The public debt ratio may not fully reflect such a development due to accounting specificities. Even if this real increase in debt does not cause an imminent public debt sustainability crisis (mainly because China has no need for external financing), new borrowing capacity is constrained, and it cannot be excluded that some local authorities in low-growth regions will encounter financial difficulties. This is a risk to be monitored.

China	2018	2019e	2020f	2021f	2022f
Real GDP, % ch	6.7	6.1	4.0	6.0	5.2
Household consumption	8.5	6.7	2.9	8.0	6.3
Public consumption	8.8	6.7	9.7	6.5	6.4
Investment	6.2	4.3	4.8	4.5	3.9
Exports of goods & services	3.8	1.7	-3.9	2.2	2.4
Imports of goods & services	7.9	-1.9	-2.1	1.8	1.4
Inflation, %	2.1	2.9	3.1	1.6	2.4
Fiscal balance, % of GDP	-2.8	-2.8	-3.5	-3.0	-3.0
Public debt, % of GDP	36	37	37	38	38
External debt, % of GDP	14	14	14	14	14
Current account balance, % of GDP	0.4	1.2	0.9	0.7	0.6

INDIA

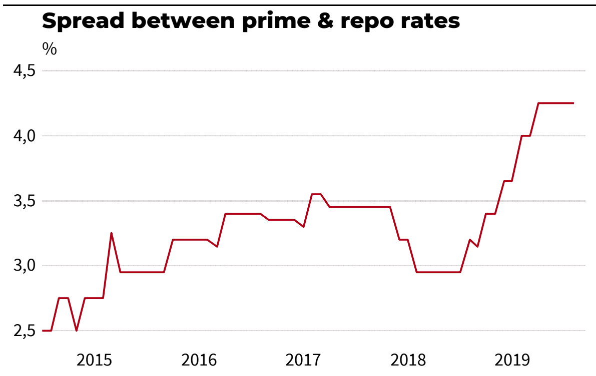
- **The economy is losing momentum and lacks the engines for a rapid recovery in the coming years**
- **Leeway for the policy mix is becoming limited**
- **To watch: inflationary risk, weakness of the financial system, and the health of public finances**

GDP growth is expected to recover from a marked trough in 4Q19, but only modestly. Economic policy has been responsive, but its effectiveness is still to be proven.

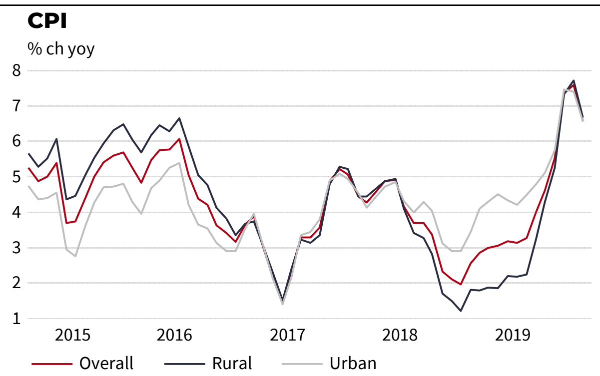
The RBI cut rates five times in 2019, a series marked by its scale and speed. The monetary policy rate has dropped from 6.5% to 5.15%. However, these rate cuts have not been entirely passed onto the cost of financing the economy, and the gap between the RBI rate and the commercial banks' rate to their best clients has widened since early 2019, when the monetary easing cycle began. Consequently, the growth of credit to the non-government sector has continually decelerated from 14% in early 2019 to only 7% (yoy terms) at the end of the year.

On the fiscal policy side, India is one of the least empowered countries in the region when it comes to launching stimulus. In fact, public debt makes up more than 65% of GDP, and the government's financing needs more than 6.5%. However, the finance minister has announced a stimulus plan that essentially involves removing certain taxes, halving government purchase of vehicles, smoothing infrastructure investment facilities and reducing the GST on some hotel and catering services. These stimulus measures are not without impact when it comes to balancing the budget. However, the budget for 2019/2020 provides for an increase in spending of more than 16%. In a context of weakened growth, this will further widen the deficit and the policy space would be further reduced in the future.

The recent rise in inflationary risk due to the increase in food prices is yet another constraint on any easing of the policy mix. Although non-food inflation remains relatively low at 3.7%, inflation has already exceeded the RBI's target (+/- 2% around 4%) since December 2019 (at over 7%). Recall that inflation has been within its target zone for five years since September 2014. Moreover, since food prices represent 40% of the consumer price basket, their increase would deteriorate household purchasing power and accentuate the distress of rural demand. Despite lower oil prices, consumer price dynamics are sensitive to harvests – an exogenous factor, which limits the downward margin of the interest rate.



Source: Refinitiv, SG Economic & Sector Studies



Source: Refinitiv, SG Economic & Sector Studies

The financial system is also vulnerable. State banks have a non-performing loan ratio at 11.6% in 2019. Even though this is a 3pp drop from 2018, the private banks' NPL ratio went up from 4.6% to 5.2%. In early March, the RBI took control of the country's fifth-largest private bank named. A deteriorated economic situation is affecting the health of private banks while state-owned banks continue to need recapitalisation. Similarly, the failure certain non-bank institutions illustrate the sector's lack of liquidity, given that their credit to the commercial sector fell by 20% in 2018/19. In addition, state-owned banks are encouraged to finance certain non-bank institutions. This interconnected vulnerability between the state banking system and non-banks partly undermines monetary easing efforts and will continue to weigh on the financing of the economy, and thus economic growth.

The Covid-19 outbreak poses additional downside risks to India, with the number of reported cases increasing as we head to press.

India	2018	2019e	2020f	2021f	2022f
Real GDP, % ch	6.1	5.1	5.2	6.0	5.7
Household consumption	7.2	6.0	5.4	5.4	6.3
Public consumption	10.1	13.7	10.9	9.5	9.6
Investment	9.8	-3.2	1.5	5.5	3.8
Exports of goods & services	12.3	-3.1	-1.6	3.0	5.8
Imports of goods & services	8.6	-7.5	-2.4	3.1	6.8
Inflation, %	3.4	3.4	4.1	4.1	4.0
Fiscal balance, % of GDP	-6.4	-7.5	-7.2	-7.0	-6.9
Public debt, % of GDP	68	69	68	68	67
External debt, % of GDP	20	20	20	18	18
Current account balance, % of GDP	-2.1	-2.0	-2.3	-2.3	-2.4

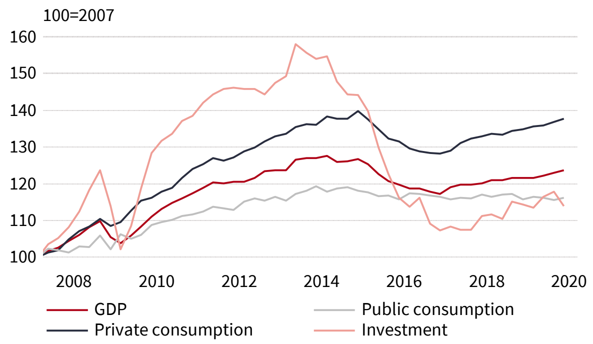
BRAZIL

- **Growth is set to suffer amidst the slow recovery of investment, Covid-9 and a deterioration of the external environment**
- **Low inflation is giving the BCB the opportunity to ease further**
- **The main risk to growth are Covid-19 and increasing political noise**

Economic activity remains on a weak trend; real GDP grew just by 1.1% yoy in 4Q19 driven by consumption while investment contracted, constrained by restrictive financial conditions for corporate. Covid-19 is now also hitting the Brazilian economy. The external environment has become less supportive, with Argentina still in recession and Chinese demand weakening.

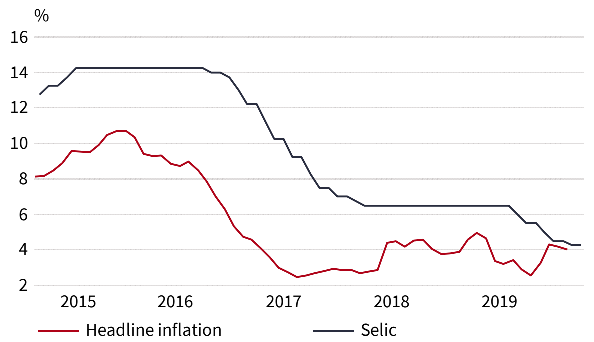
GDP is expected to contract in 2020, reflecting the subdued investment dynamics since the 2015-16 recession, ongoing fiscal adjustment and persistent political noise. The Covid-19 crisis is also set to weigh on investment and exports, not least as China is the main country's trading partner. Additionally, the Argentinean recession will also weigh on the manufacturing investment and exports. The underlying trend of consumption is recovering progressively as households benefit from easier financial conditions and the labour market is improving slowly (although some of the improvement is on the informal market).

Brazil: GDP & components



Source: Refinitiv, SG Economic & Sector Studies

Brazil: inflation & monetary policy rate



Source: Refinitiv, SG Economic & Sector Studies

The inflation outlook remains favourable and below the Central Bank's 2019 target of 4.25%. Indeed, inflation reached 4% in January pushed by higher food inflation. but price of services remains at 3%, signalling weak demand pressures. Inflation expectations for 2020 at 3.6%are also low. Given the weak growth and a low inflationary risk the BCB reduced its policy rate in January to 4.25%, its lowest historical level.

The main risks for the economy are a prolongment of the Covid-19 crisis and an increase of political noise. A slower return to normal activity in China or prolonged outbreak globally would weigh further on investment. A longer crisis is also likely to translate into prolonged financial volatility that could force the BCB to tighten again financial conditions. On the domestic side, despite the approval of the pension system reform and other economic reforms, consumer and business confidence indices remain at low levels. This mostly reflect that political noise in the country is high, with increasing clashes between the executive and the legislative branches. An extension of these confrontations will also prevent a faster recovery of investment.

Brazil	2018	2019e	2020f	2021f	2022f
Real GDP, % ch	1.3	1.1	-0.5	2.1	2.0
Household consumption	2.1	1.8	-0.5	2.7	2.5
Public consumption	0.4	-0.4	0.0	0.1	0.1
Investment	3.9	2.2	-3.3	3.8	3.8
Exports of goods & services	4.0	-2.5	1.0	2.5	2.5
Imports of goods & services	8.3	1.1	-1.0	3.8	3.8
Inflation, %	3.7	3.6	3.7	3.8	3.5
Fiscal balance, % of GDP	-7.2	-6.7	-8.0	-7.0	-6.0
Public debt, % of GDP	76	79	84	86	87
External debt, % of GDP	23	24	25	25	25
Current account balance, % of GDP	-2.2	-2.6	-3.0	-3.2	-3.2

RUSSIA

- **Lower oil prices following the breakdown of talks between OPEC+ countries will weigh on Russian GDP growth in 2020-2021**
- **Inflation is set to increase as USD/RUB depreciation pass through on domestic prices**
- **Covid-19, uncertainties over the oil price outlook and Western sanctions weigh on investment and potential growth**

GDP growth slowed in 2019 to 1.3% (vs. slightly over 2% in 2017 and 2018) amid sluggish domestic demand, a less supportive external environment and lagging productivity gains. Investment remained low due to structural bottlenecks while households' consumption was burdened with the January 2019 VAT hike (from 18% to 20%) and the negative impact of the pension reform.

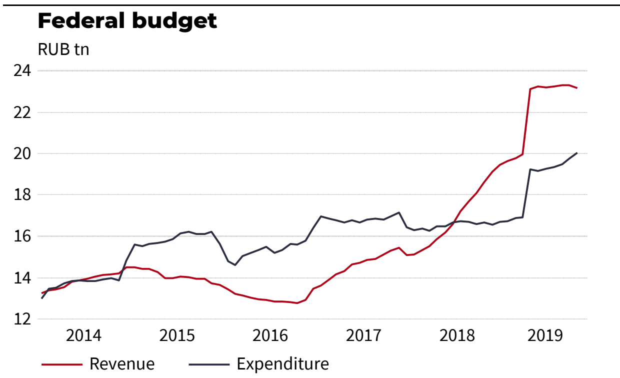
For 2020, GDP growth is set to decelerate further amid much lower oil prices (43 USD/barrel expected in 2020) following the breakdown of talks between OPEC+ countries in March 2020, with Russia refusing to agree on additional production cuts. On the supply side, the growth pillars will evolve. Oil extraction is likely to deliver strong output growth, reinforcing Russia's structural dependency on oil while agriculture could benefit from the weak rouble. However, overall manufacturing sector should suffer from lower activity worldwide due to the Covid-19 outbreak.

On the demand side, investment should remain weak amid low corporate margins, limited access to foreign financing, lingering uncertainties around oil prices and Western sanctions. External demand is expected to be sluggish amid a cyclical slowdown due to the Covid-19 outbreak and lower oil. By contrast, private consumption should be supported by slightly expansionary fiscal policy. New PM Mishustin has announced recently an extension of child benefits, an increase in maternity capital and in teachers' wages.

Inflation peaked in April 2019 at 5.2% and reached 2.4% yoy in January 2020 due to weak non-food prices. In this context, the CBR has started to ease monetary policy since mid-2019 and lowered again the key rate to 6% in Feb. 2020. However, with the USD/RUB depreciation, we expect inflation to increase in the months to come.

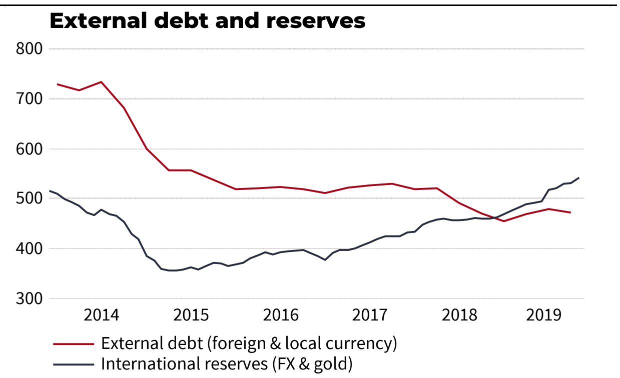
In comparison to the 2014 crisis when oil price also collapsed, Russia seems in a stronger position even considering the impact the Covid-19 outbreak. The country has succeeded in building-up large external buffers over the past few years, improving its fiscal position since 2016 and therefore lowering its fiscal breakeven price (around $42/b in 2019). Public finances have posted better performances with the federal budget in surplus in 2019, the first time since 2014. The flexible exchange rate provides an important cushion for the economy against volatile commodity markets. External debt has sharply decreased from USD 732bn in 2014 to USD 481bn in December 2019 (around 30% of GDP). Meanwhile, FX reserves have increased to reach USD 562bn in January 2020, the highest level since 2014. The National Wealth Fund reached USD 125bn. Banks also have managed to decrease their external leverage and remain net external creditors.

Public finances have improved and posted a federal budget surplus in 2019



Source: Refinitiv, SG Economic & Sector Studies

External debt decreased whereas FX reserves have reached their highest point since 2008



Source: Refinitiv, SG Economic & Sector Studies

Risks are however clearly growing, given the fast-evolving global Covid-19 situation and the potential for a prolonged oil price slump. Even though Russia is one of the least vulnerable oil producers in the world with Saudi Arabia and the United Arab Emirates, a long-lasting oil price collapse could however challenge the fiscal consolidation implemented between 2016 and 2019.

Besides, international sanctions remain a persistent risk factor. Several bills have been pushed in the US Congress and could come on the forefront targeting for example domestic Russian sovereign debt (OFZ). While the short-term impact of sanctions seems rather marginal, they may leave a negative footprint over long-term potential growth through confidence channels and by reducing access to foreign financing.

Russia	2018	2019e	2020f	2021f	2022f
Real GDP, % ch	2.2	1.3	0.8	1.2	1.5
Household consumption	2.3	1.0	0.7	1.0	1.5
Public consumption	0.3	0.4	0.6	0.6	0.3
Investment	2.5	0.8	0.4	0.6	1.2
Exports of goods & services	6.0	1.0	1.2	3.0	3.5
Imports of goods & services	4.0	-0.3	0.4	2.5	3.5
Inflation, %	2.9	5.0	4.5	4.0	4.0
Fiscal balance, % of GDP	2.9	1.0	-1.0	-0.5	-0.6
Public debt, % of GDP	15	16	18	18	19
External debt, % of GDP	27	27	27	27	27
Current account balance, % of GDP	6.8	5.7	3.9	3.4	3.3

AFRICA

- **Regional growth in 2020 is expected at 2%**
- **A slowdown in Chinese growth and difficult political and security environments will weigh on activity of several "large" economies**
- **These weaknesses are not currently reflected on financial markets, where the appetite for "African risk" remains strong**

Most observers were still forecasting early march a rebound in regional growth for 2020 (after two years of slowdown), slightly below 4%. This recovery was mainly based on an expected recovery in several “large” economies and oil & gas / mining countries; these two groups (not exclusive) having recorded disappointing economic performances over the past few years. Such a rebound in activity now seems unlikely, and growth should remain lacklustre.

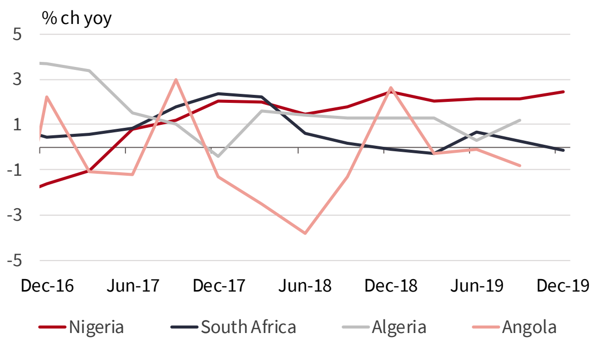
Country	Main exports (% of total of goods and services)	Weight of China / Asia in exports of G&S
Angola	Oil ~ 90 %	57 % / 79 %
Rep. Of Congo	Oil ~65 % Industrial metals (copper) ~ 25 %	57 % / 77 %
Zambia	Industrial metals (copper) ~75 %	44 % / 76 %
Equatorial Guinea	Oil & gas ~85 %	28 % / 58 %
South Africa	Industrial metals & minerals ~ 35 % Vehicles & machinery ~ 5 %	19 % / 41 %

Source: SG Economic & Sector Studies, Harvard Atlas of Economic Complexity

The slowdown in Chinese and global activity should impact the region mainly through the trade channel, via a “quantity” effect for the countries trading the most with China and via a “price” effect for all the countries exporting industrial raw materials (oil, gas, metals). As such, the cases of **South Africa** and **Angola** seem the most problematic, given their weight in African GDP (15% and 5% respectively). The former, which recorded in 2019 its lowest growth rate since 2009 (0.2% yoy), sees this double effect added to several domestic problems on which the recent progress remains too meagre: structurally low investment rate (just over 15% of GDP); recurrent social tensions (fuelled by high unemployment and inequalities); public finances and infrastructure burdened by failing public enterprises (in particular the electricity supplier ESKOM); etc. All in all, the country – probably the most integrated in global industrial cycles among African countries – could see its growth recovery postponed to 2021, instead of an expected acceleration to slightly below 1 %.

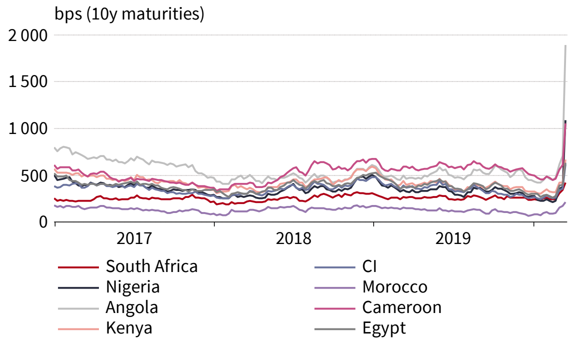
In Angola, after 4 years of contraction (average of -1% per year between 2016 and 2019), the return to positive (but weak) growth (at around 1%) in 2020 also seems to be compromised. First, the country's oil production continues to decrease due to repeated technical problems, and barely exceeded 1.3mb/day at the end of 2019 – its lowest level in 15 years. The foreseeable drop in quantities exported to China (which absorbs most of the country's oil exports) should not stimulate the sector. In addition, lower oil prices (-35 USD/barrel year-to-date) will erode already fragile budgetary and external balances, even though repayments of external debt estimated for this year are high (around 7bn USD). This double effect (quantity and price) will also weaken several Central and Southern African economies which export industrial raw materials, such as **Zambia**, **Equatorial Guinea** and **the Republic of Congo**, 3 countries with significant growth and public debt problems over the past few years. Finally, other "large" hydrocarbon exporters such as **Nigeria** and **Algeria** (respectively 20% and 7% of regional GDP), which should mainly be affected by the price effect (since they mainly export to Europe or the United States), suffer for their part from still difficult security or political situations: persistence of religious or farmer-herder conflicts in the 1st country; prolongation of social movements and political uncertainty in the 2nd (which delays the formation of a new social consensus yet essential for the proper implementation of essential reforms).

Real GDP growth



Source: Refinitv, SG Economic and Sector Studies

Sovereign spreads



Source: Refinitv, SG Economic and Sector Studies

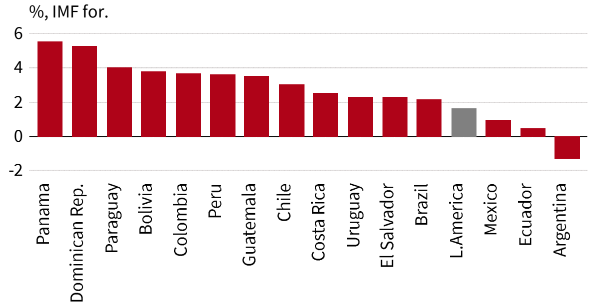
These new threats to regional growth, coupled with the deterioration (already underlined for several quarters) of debt sustainability in the majority of African countries, seem to have only partially diminished the appetite for "African risk" on financial markets. Since the start of the year: i) sovereign spreads remain rather low (despite an uptick due to the Covid-19, without specific "penalty" for Africa; and ii) access to international capital markets has been confirmed, as illustrated by recent eurobonds issuances by Gabon, despite being poorly rated by agencies (1bn USD at 10 years; coupon at 6.63%) and by Ghana (o/w 750m USD at 40 years; coupon at 8.75%).

LATIN AMERICA

- **Regional growth will remain disappointing**
- **Outside Argentina, inflation remains contained and below central bank targets**
- **Risks are on the downside as the region is dependent on Chinese demand for commodities**

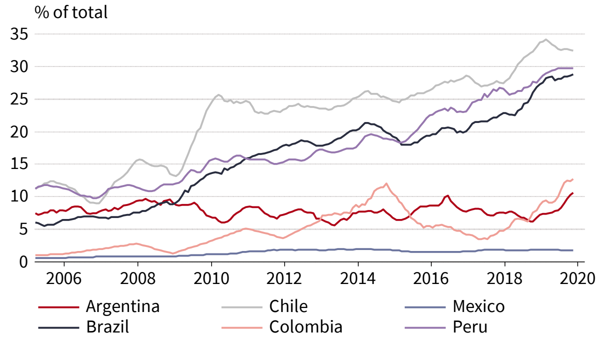
Regional growth is expected to contract in 2020 as the three main economies (Brazil, Mexico and Argentina) of the region fall in recession. Elsewhere, growth is expected to be more dynamic, benefiting from a stronger internal demand and a favourable policy mix. However, downward risks are mounting with the Covid-19 outbreak. The region is dependent on commodity prices and on demand from China, the main trading partner for most countries of the region. Additionally, persistent financial volatility could reduce monetary policy room to manoeuvre.

2020 GDP growth rate



Source: Refinitiv, SG Economic & Sector Studies

Latam: Exports to China

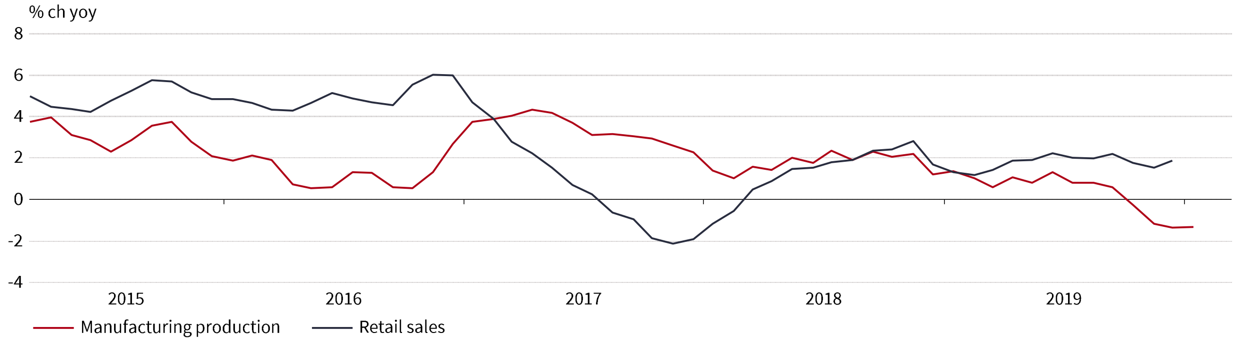


Source: Refinitiv, SG Economic & Sector Studies

In Brazil, growth is set to contract in 2020. The recovery of investment is only tepid despite the adoption of the pension reform in October 2019 and other economic reforms long awaited by the business community. The BCB has decreased its policy rate to 4.25%, its historical low as inflation pressures remain contained.

In Mexico, economic activity suffered in 2019 from weak manufacturing activity and lower oil output. Moreover, the decline in business confidence points to weak investment in the coming quarters. Inflation remains under control at 3 % year-on-year in January, reflecting weak domestic demand. Accordingly, the Central Bank has been gradually reducing its key rate since July 2019, which nevertheless remains at a very high level (7% in January). Considerable uncertainty regarding the government's economic policy and the external environment are preventing the Central Bank from reducing its key rate more rapidly.

Mexico: activity indicators



Source: Refinitiv, SG Economic & Sector Studies

In Argentina, the government is undergoing talks to restructure its public debt. The IMF labelled the Argentinean public debt as unsustainable, which implies that the multilateral organization supports some sort of restructuring of the country's public debt. Debt servicing in 2020 amounts to USD 50bn (almost half in local currency) the bulk of that consisting on securities governed by local law. Economic activity is likely to remain recessionary in 2020 while inflation is also likely to remain high. Finally, strict capital controls are in all likelihood stay in place until the debt negotiations ends.

The smallest economies are enjoying robust growth, but this at risk from the Covid-19 crisis and this remains well below the growth achieved during the last rising commodity price cycle.

In Chile, Colombia and Peru authorities are implementing an expansionary policy mix. Contrary to the major economies in the region, these countries have considerable leeway to implement counter-cyclical policies. Colombia and Peru have primary budget surpluses. Chile has a moderate primary budget deficit and all three countries have low public debt ratios. They also have low inflation rates, which has enabled central banks to pursue a rate cutting cycle.

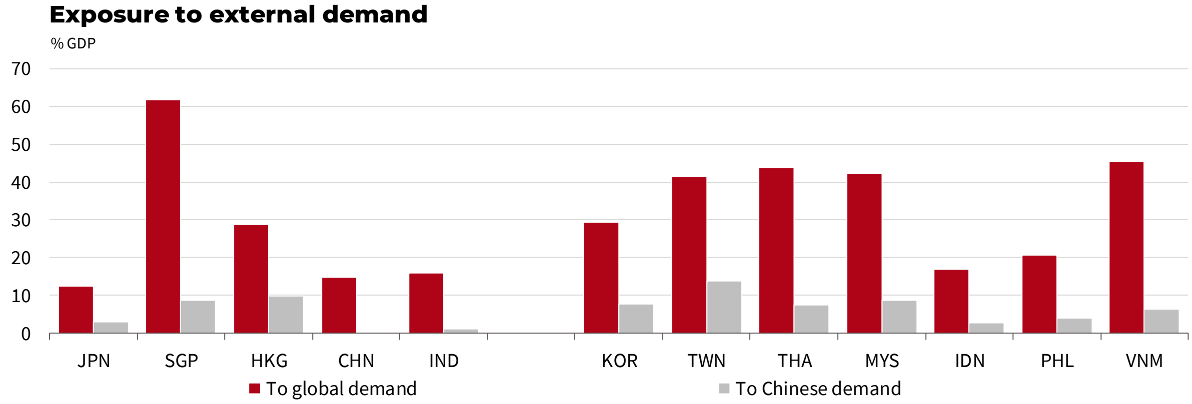
EMERGING ASIA

- **Growth outlook deteriorates with Covid-19**
- **However, a reactive policy mix should offer some support to domestic demand despite more limited policy space**
- **Reversal of international liquidity conditions is a risk for countries with external financing needs**

Growth in the region is being hit by the spread of Covid-19, which adds to the previous negative factors (trade war and the semiconductor industry downturn) that have barely faded and have already weighed on the region's economy since 2018. As a result, GDP is expected to weaken in 2020 and recover in 2021.

Countries that are dependent on international tourism receipts are most directly affected by the pandemic. Thailand has a high dependency on the sector, accounting for almost 13% of GDP. Hong Kong, already in recession as a result of the Sino-US trade war and social movements, is expected to receive an additional shock: tourism-related receipts account for 11.5% of GDP. Malaysia and Vietnam are also exposed, with international tourist spending amounting to 6% and 4% of GDP respectively.

Many are dependent on global demand



Source : OECD, SG Economic and Sector Studies

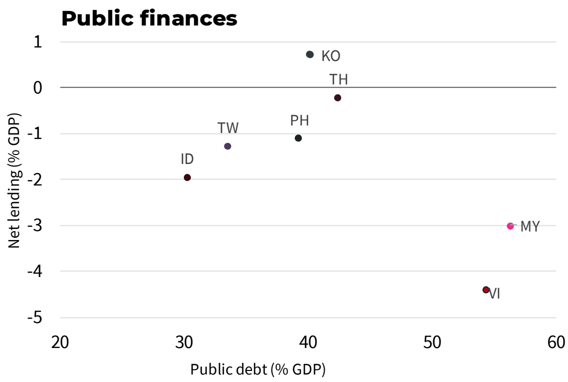
Secondly, the countries most exposed to Chinese final demand and, more generally, to that of the World economy will see their growth strongly impacted by the deterioration in external demand. Taiwan, Thailand, Malaysia and Vietnam are the most open economies in emerging Asia (excluding China and India), and therefore the most sensitive to changes in global economy. Their degree of exposure to Chinese final demand is similar, except for Vietnam, which has relatively low exposure to Chinese demand compared with that to the world economy. To this list can be added South Korea which, despite its lower degree of exposure to world demand, is as exposed to Chinese growth as Thailand. All countries will therefore be impacted and China's slowdown in 1Q20 will be felt head on. In addition, some countries, notably South Korea, are themselves affected by Covid-19.

In response to this slump, support measures have been announced rapidly in the region, which will help offer some offset. On the monetary policy front, since the beginning of 2020, Malaysia, Thailand, Indonesia and the Philippines have lowered interest rates, and Vietnam has raised its credit growth target. On the fiscal side, all governments have planned additional spending to support demand and preserve the SME sector.

These reactive measures are helpful, but it should be noted, however, that the policy space is not uniform. On the monetary side, while inflation is moderate in emerging Asia (excluding China and India), in South Korea and Thailand, interest rates have become as low as they were during the Lehman crisis. On the fiscal side, Malaysia has a high public debt at 56% of GDP and is going through a political crisis that is disrupting the implementation of support measures. Vietnam also has a relatively high public debt (55% of GDP).

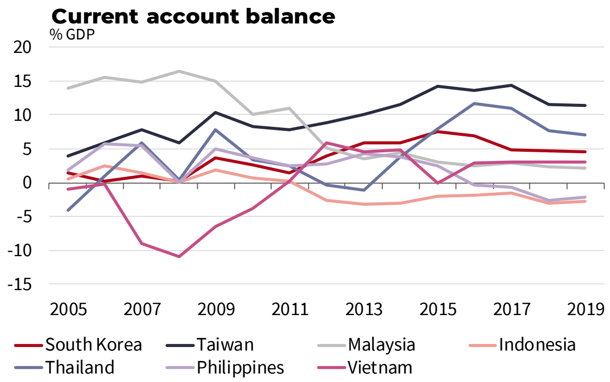
Finally, the external position of the countries in the region remains relatively sound, providing a buffer against a reversal of international liquidity conditions. In general, they are not very dependent on external financing and foreign currency financing. Only the Philippines and Indonesia have a negative current account balance, which could constitute a fragility vis-à-vis the volatility of international flows.

Limited fiscal space for some



Source: Refinitiv, SG Economic & Sector Studies

External financing need for some



Source: Refinitiv, SG Economic & Sector Studies

GULF STATES

- **The economic prospects of the region are clouded by the oil price collapse and precarious growth prospects for key trading partners**
- **Budget deficits look set to widen as oil revenues diminish**
- **In Saudi Arabia, the leisure and entertainment sector are supporting GDP growth in the non-hydrocarbon sector**

The region continues to deliver growth, but declining oil revenues, precarious economic prospects for key trading partners (China, Europe) and high levels of geopolitical uncertainty are headwinds. Non-hydrocarbon GDP growth in the GCC has slowed considerably since 2015. It was expected to be in the range of 2 to 3% in 2020 before the Covid-19 pandemic, far from the 7.5% growth norm for the period 2000-2015 when the GCC benefited from a growing oil rent and witnessed a rapid expansion of infrastructure.

Covid-19 will weigh on GDP growth through weaker global demand. Yet the biggest risk to the GCC comes from the resulting collapse in oil prices. With the Coronavirus pandemic leading to a drop in global oil demand and OPEC+ failing to agree to reduce supply, the price of oil has accentuated its downward trend. It accumulates a loss of almost 50% since the beginning of the year ($36/b on March 12 compared to $69/b in early January). Oil prices could remain low for long, especially if producers attempt to offset lower prices by increasing supply and sales volumes.

The transmission channel of the Covid-19 crisis also include sectoral linkages. UAE is facing the impact on airline traffic and retail spending. The country with the most exposure to Chinese contractors is Saudi Arabia, but delays should be temporary. At the macro level, the impact of the Covid-19 are likely to be strong in the 1H 2020 but activity should resume rapidly as the Chinese economy rebounds.

National economic development long-term plans envisioned by GCC governments focus on the modernisation of the economy, the development of renewable energy and on efforts to insulate revenues from oil price volatility. Progress has been uneven and results in this area will be seen in the long run. Workforce nationalization measures, for instance, led to an exit flow of migrant workers from Gulf countries, which hurt consumption expenditures locally. Many sectors in the UAE work with excess capacity and the real estate market has faced headwinds in the recent years.

In Saudi Arabia, the leisure and entertainment sector with government support is driving GDP growth up. Moving forward, the challenge is to create the business conditions that will allow the private sector to play a larger role in the economy.

Budget deficits look set to become a structural feature. Fiscal breakeven oil prices have generally declined since 2014 thanks to austerity measures, including freezing public wage bills, tax reform (the successful introduction of a 5% VAT in Saudi Arabia, UAE and Bahrain) and a decline in subsidies and social transfers. Fiscal breakeven are way too high to balance national budgets in most GCC.

Fiscal breakeven oil price, $/b

	2014	2015	2016	2017	2018	2019	2020
Bahrain	103	119	106	113	118	95	92
Kuwait	54	47	43	45	54	54	54
Oman	94	102	101	91	99	87	88
Qatar	58	54	54	50	50	49	46
Saudi Arabia	106	94	96	84	89	86	84
UAE	91	65	51	61	66	70	70

Source: IMF Regional Economic Outlook (October 2019), SG Economics & Sector Studies

To offset revenue losses, governments have been highly active on the international debt markets. Saudi Arabia also sold 1.5% of shares of Aramco, the giant National oil company, to raise funds to modernise the economy. The amount raised totalled USD 25.6bn, making it the world's biggest IPO in history. The IPO still fell short of Saudi Arabia's initial lofty expectations and had little participation from foreign investors.

For more than three decades, GCC economies have benefited from leaving their currencies anchored to the USD. The pegs have provided monetary stability for investors and business. Volatile oil prices and not least the economic diversification agenda may lead to a reconsideration of the strategy at a point in time. Any reform of the FX regime would not be done in haste. However, Bahrain or Oman, which have large external deficits, could face FX speculative pressures if they were to face a prolonged period of depressed oil prices.

Geopolitical concerns seem set to remain a source of uncertainty. The missile attack targeting Saudi's oil facilities in September 2019 raised concerns that the proxy conflict between the Kingdom and Iran could translate into direct confrontation, against a backdrop of relentless tensions between the US-Iran and regional rivalries. The blockade of Qatar since 2017 by its closest neighbours does not seem to have inordinately disrupted the country's economic performances. Yet, the diplomatic rift has entered the third year with little signs of easing, reducing economic cooperation within the region and business prospects for firms with activity in all GCC economies.

On a positive note, Saudi Arabia is chairing and hosting the G20 in 2020, confirming the country's intention to assume a leading position in the international arena and adopt international standards. 2020 is also the year of the Dubai World Expo and the region would attract the attention of the business community.

CENTRAL AND EASTERN EUROPE

- **The "decoupling" between CEE and euro area growth has faded and activity is set to decelerate in 2020-21, in line with the euro area**
- **Inflation has passed its peak and is expected to decelerate further amid lower oil prices**
- **A further intensification of the Covid-19 crisis in Europe would have a significant impact on the highly integrated CEE region**

Since end-2019, GDP growth in Central and Eastern Europe (CEE) has started to decelerate in line with the ongoing slowdown in the Euro area. For two years up to late 2019, CEE delivered resilient growth despite the euro area slowdown. However, the "decoupling" has recently faded with late-cycle signs. The prolonged external sluggishness is now combined with increased supply constraints in the region. Job vacancy rates have reached historical heights fuelling wages' increase and hurting corporate profit margins.

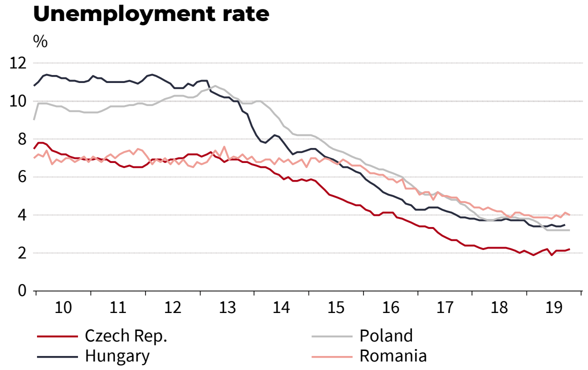
Turkey remains a special case. Following the 2018 crisis, growth resumed with a noticeable rebound in manufacturing activity in late 2019. The new economic programme for 2020-2022, which targets 5% growth, is unrealistic. Large Turkish conglomerates still must adjust to the rising cost of servicing external debt, as the lira has plummeted against the dollar since 2018 and investment is likely to suffer.

All countries in the region will feel the impact of the Covid-19 outbreak. The pandemic is likely to deepen the industrial recession accentuating lagging growth in CEE's key trading partners, notably the euro area. Yet, still fairly robust private consumption, European structural funds and not least supportive fiscal policies offer some offset. Poland and Hungary will remain among the best performers in Europe with Czech Republic just behind, as the country is more affected by the difficulties of the German auto sector. Private consumption will remain the main growth driver, supported by still robust wage growth as a result of high level of labour shortages and expansionary fiscal policies. Public investment will benefit from EU structural funds available for the 2014-2020 period. So far, CEE countries have only absorbed between 30% and 40% of the EU funds available and there is clearly some upside potential in the coming years.

Regional inflation peaked in May 2019 but remained above 2% until March 2020, still fuelled by dynamic wage growth, resilient domestic demand and rising food prices. Against the background of soft external demand and the ECB's loose monetary policy stance, central banks in Hungary, Poland and Romania stood pat at their March meetings marking a pause in the previous tightening or normalisation stance. The decline in oil prices ($43/b expected in 2020) following the breakdown of talks between OPEC+ countries will lead to a disinflationary period for the entire year in

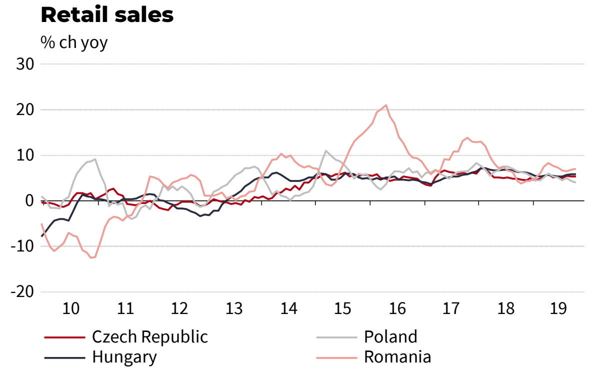
CEE. In 2021-2022, inflation could increase again amid higher oil prices ($55/b expected in 2021 and USD 60 in 2022).

Significant improvement in labour markets in the region has supported private consumption



Source: Refinitiv, SG Economic & Sector Studies

In this context, retail sales have posted dynamic growth in the region



Source: Refinitiv, SG Economic & Sector Studies

Looking forward, several risks have to be monitored in the region.

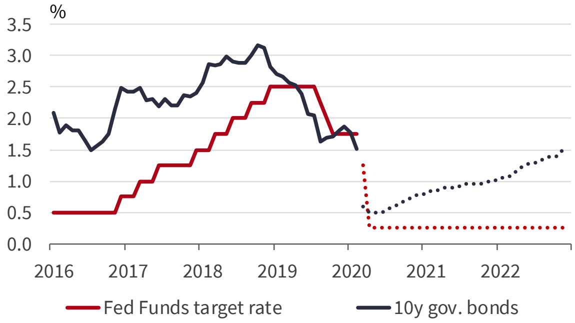
The Covid-19 outbreak already has an impact on global growth. Considering the high level of integration of CEE countries in global value chains, a long-lasting Covid-19 crisis in the Euro area will have a significant impact on activity in CEE especially in the car industry and electronic sector (the two most integrated sectors). Indeed, CEE post the highest share of imported inputs in its exports in the world (29% for CEE vs. 27% for the ASEAN and 16% for the Euro area).

Macroeconomic imbalances in Romania are deepening. The current account deficit surpassed 5% of GDP in 2019 while the budget deficit reached up to 4.5% of GDP. In this context, the European Commission opened an Excessive Deficit Procedure in March 2020. The new pension law paved the way for large pension increases (+15% already implemented in Sept. 2019 and +40% planned in Sept. 2020) that will put further stress on public finances and on the external situation. In this context, there are mounting risks on the FX side and a higher probability of a growth steep downturn.

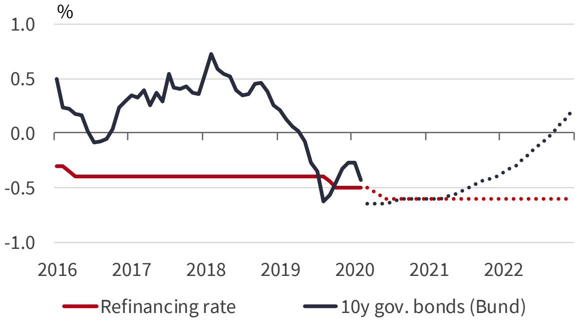
Finally, a decrease in European structural funds for the 2021-2027 period would have a negative impact on growth in the medium term in all the region that already suffers from a decline in active population. Several European countries signed a declaration end-2019 in Prague claiming that the amount of European structural funds should be the same in 2021-2027 as in 2014-2020, considering that European funds are the main engine of investment in CEE and ask for more flexibility in the fund absorption mechanism. However, the exit of the UK, one of the EU's main net contributors, has left the remaining 27 member states with the task of filling an annual budget hole of about EUR 10bn.

ECONOMIC AND FINANCIAL DATA

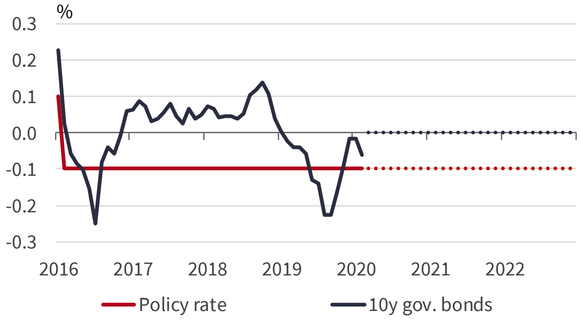
United States: interest rates



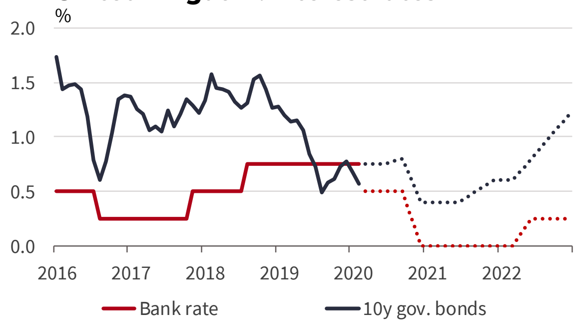
Euro area: interest rates



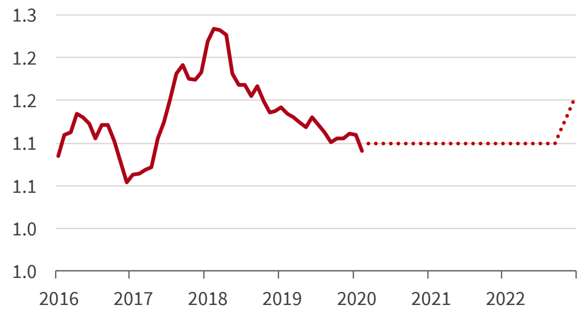
Japan: interest rates



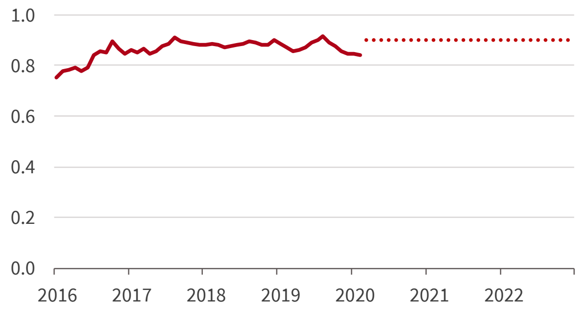
United Kingdom: interest rates



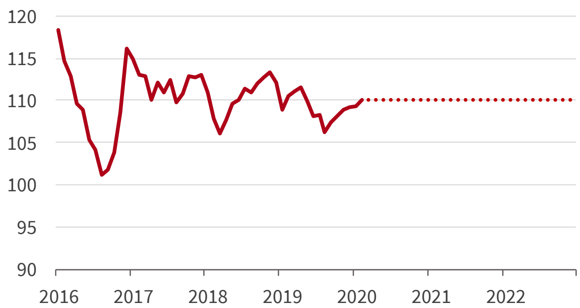
EUR/USD: exchange rate



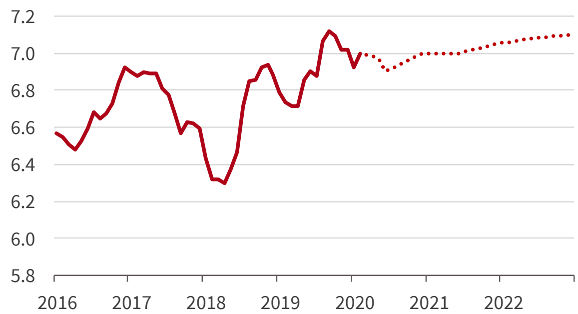
EUR/GBP: exchange rate



USD/JPY: exchange rate



USD/RMB: exchange rate



Real GDP, % ch yoy	2014	2015	2016	2017	2018	2019e	2020f	2021f	2022f
United States	2.5	2.9	1.6	2.4	2.9	2.3	-0.1	1.5	1.7
Japan	0.3	1.3	0.5	2.2	0.3	0.7	-1.1	0.8	0.7
United Kingdom	2.6	2.4	1.9	1.9	1.3	1.4	-0.3	1.1	1.3
Euro area	1.4	2.0	1.9	2.7	1.9	1.2	-0.4	0.8	1.1
Germany	2.2	1.5	2.1	2.8	1.5	0.6	-0.5	0.8	1.0
France	1.0	1.0	1.0	2.4	1.7	1.3	-0.4	0.8	1.1
Italy	0.1	0.7	1.4	1.7	0.7	0.3	-1.1	0.7	0.9
Spain	1.4	3.8	3.0	2.9	2.4	2.0	0.0	1.2	1.4
China	7.3	6.9	6.8	6.9	6.7	6.1	4.0	6.0	5.2
India	7.4	8.0	8.3	7.0	6.1	5.1	5.2	6.0	5.7
Brazil	0.5	-3.5	-3.3	1.3	1.3	1.1	-0.5	2.1	2.0
Russia	-0.2	-2.3	0.3	1.6	2.2	1.3	0.8	1.2	1.5

Inflation, % ch	2014	2015	2016	2017	2018	2019e	2020f	2021f	2022f
United States	1.7	0.2	1.3	2.0	2.5	1.9	1.1	2.2	2.1
Japan	2.8	0.8	-0.1	0.5	1.0	0.5	0.5	0.5	0.5
United Kingdom	1.5	0.1	0.6	2.7	2.5	1.8	1.1	1.7	1.9
Euro area	0.4	0.2	0.2	1.5	1.8	1.2	0.7	1.6	1.3
Germany	0.8	0.7	0.4	1.7	1.9	1.4	0.9	1.5	1.3
France	0.7	0.0	0.3	1.2	2.1	1.3	1.3	1.4	1.2
Italy	0.2	0.1	-0.1	1.3	1.2	0.6	0.0	1.0	1.0
Spain	-0.2	-0.6	-0.3	2.0	1.7	0.8	0.2	2.0	1.5
China	2.0	1.4	2.0	1.6	2.1	2.9	3.1	1.6	2.4
India	5.8	4.9	4.5	3.6	3.4	3.4	4.1	4.1	4.0
Brazil	6.3	9.0	8.8	3.5	3.7	3.6	3.7	3.8	3.5
Russia	7.8	15.5	7.1	3.7	2.9	5.0	4.5	4.0	4.0

Investment, % ch	2014	2015	2016	2017	2018	2019e	2020f	2021f	2022f
United States	6.6	3.4	1.9	4.2	4.6	1.3	-3.3	2.5	2.5
Japan	2.9	1.7	-0.3	4.3	1.1	1.5	-1.4	0.8	0.7
United Kingdom	6.6	3.7	3.6	1.6	-0.2	0.4	-0.1	1.3	3.9
Euro area	1.4	4.5	4.0	3.7	2.4	4.2	-2.5	-0.2	1.3
Germany	3.2	1.2	3.6	3.1	3.5	2.7	-2.1	-1.7	1.1
France	0.0	0.9	2.5	5.0	2.8	3.6	-0.2	1.1	1.4
Italy	-2.1	1.6	4.2	3.4	2.9	1.4	-1.6	0.4	1.3
Spain	4.1	4.9	2.4	5.9	5.3	1.9	-1.7	0.8	1.4
China	6.9	7.3	6.8	5.8	6.2	4.3	4.8	4.5	3.9
India	2.6	6.5	8.5	7.2	9.8	-3.2	1.5	5.5	3.8
Brazil	-4.2	-13.9	-12.1	-2.6	3.9	2.2	-3.3	3.8	3.8
Russia	-0.7	-10.0	1.0	5.1	2.5	0.8	0.4	0.6	1.2

Current account balance, % of GDP	2014	2015	2016	2017	2018	2019e	2020f	2021f	2022f
United States	-2.1	-2.2	-2.3	-2.3	-2.4	-2.3	-3.6	-4.4	-4.6
Japan	0.8	3.1	3.9	4.2	3.5	3.6	3.4	3.5	3.5
United Kingdom	-4.8	-4.9	-5.2	-3.5	-3.9	-3.8	-3.0	-3.5	-3.2
Euro area	2.4	2.8	3.2	3.1	3.1	3.0	3.4	3.3	3.2
Germany	7.0	8.5	8.4	7.8	7.6	7.4	6.5	6.1	5.8
France	-1.0	-0.4	-0.6	-0.7	-0.6	-0.8	-0.3	-0.2	-0.2
Italy	1.9	1.4	2.6	2.7	2.6	3.1	3.4	3.3	3.4
Spain	1.7	2.0	3.2	2.7	1.9	2.0	2.4	2.3	2.4
China	2.2	2.7	1.8	1.6	0.4	1.2	0.9	0.7	0.6
India	-1.3	-1.1	-0.6	-1.8	-2.1	-2.0	-2.3	-2.3	-2.4
Brazil	-4.1	-3.0	-1.3	-0.7	-2.2	-2.6	-3.0	-3.2	-3.2
Russia	2.8	5.0	1.9	2.1	6.8	5.7	3.9	3.4	3.3

Fiscal balance, % of GDP	2014	2015	2016	2017	2018	2019e	2020f	2021f	2022f
United States	-5.3	-4.7	-5.4	-4.3	-6.6	-7.3	-8.6	-8.5	-8.4
Japan	-5.6	-3.8	-3.7	-3.2	-3.2	-3.0	-3.5	-3.0	-2.8
United Kingdom	-5.6	-4.6	-3.3	-2.5	-2.2	-2.0	-2.7	-3.0	-3.1
Euro area	-2.4	-2.0	-1.6	-1.1	-0.7	-1.1	-2.3	-1.8	-1.7
Germany	0.3	0.7	0.8	1.2	1.9	0.4	-0.9	-0.4	-0.3
France	-3.9	-3.6	-3.5	-2.8	-2.5	-3.1	-3.7	-3.4	-3.2
Italy	-3.0	-2.6	-2.4	-2.4	-2.2	-1.6	-3.4	-2.8	-2.6
Spain	-5.9	-5.2	-4.3	-3.0	-2.5	-2.0	-2.7	-2.5	-2.3
China	-0.9	-2.8	-3.1	-3.0	-2.8	-2.8	-3.5	-3.0	-3.0
India	-7.1	-7.2	-7.1	-7.0	-6.4	-7.5	-7.2	-7.0	-6.9
Brazil	-6.1	-10.3	-9.1	-7.9	-7.2	-6.7	-8.0	-7.0	-6.0
Russia	-1.1	-3.4	-3.7	-1.5	2.9	1.0	-1.0	-0.5	-0.6

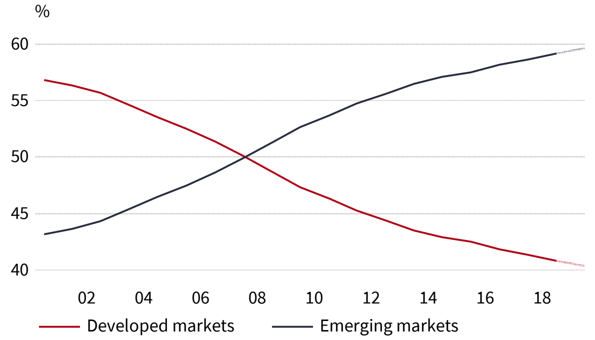
Public debt, % of GDP	2014	2015	2016	2017	2018	2019e	2020f	2021f	2022f
United States	74	75	77	76	78	78	84	87	90
Japan	236	232	236	235	237	238	240	241	241
United Kingdom	86	87	87	86	86	85	85	86	86
Euro area	96	94	94	92	90	89	91	91	91
Germany	76	72	69	65	62	60	60	59	59
France	95	96	98	98	98	99	101	102	104
Italy	135	135	135	134	135	135	140	141	141
Spain	101	99	99	99	98	97	99	99	98
China	40	41	37	36	36	37	38	38	38
India	67	69	68	68	68	69	69	68	67
Brazil	56	66	70	74	77	79	84	86	87
Russia	16	16	16	15	15	16	18	18	19

All data as of end-2018	GDP, current	GDP per capita	Indebtness			Internat. Invest. Position (IIP), net
			Public	Private, non-fin. corp.	Private, hholds.	
	USD billions	USD, PPP terms	% of GDP	% of GDP	% of GDP	% of GDP
Advanced markets						
United States	20 580	62 869	99	47	76	-46
Japan	4 972	44 246	216	91	59	62
United Kingdom	2 829	45 741	108	66	84	-12
Euro area	13 639	39 614	96	61	58	-4
Germany	3 951	52 386	67	40	54	60
France	2 780	45 893	110	73	60	-16
Italy	2 076	39 676	142	65	41	-5
Spain	1 428	40 172	108	65	59	-77
Emerging markets						
China	13 368	18 116	51	149	52	16
India	2 719	7 859	68	45	11	-16
Brazil	1 868	16 146	88	42	29	-32
Russian Federation	1 657	28 797	15	46	17	22
Turkey	771	28 044	30	69	15	-48
Czech Republic	245	37 340	33	57	32	-23
Romania	240	26 448	37	-	-	-43
Morocco	119	8 931	65	-	-	-65

Source: SG Economics & Sector Studies, IMF, Banque de France, BIS

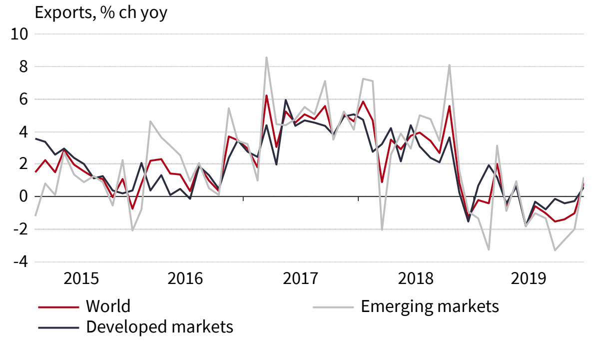
IIP = total external financial assets minus total external liabilities

Share of world GDP (PPP)



Source: Refinitiv, SG Economic & Sector Studies

International trade by volume



Source: Refinitiv, SG Economic & Sector Studies

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