Prospects

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WORLD – Macroeconomic Scenario for 2019-2020

Prevention better than cure

The strong, synchronised cycle of global growth has ended. Alongside hopes that the US–China trade negotiations will result in a deal and that Chinese growth picks up – but not deceiving ourselves about China's ability to drive the world economy – we are seeing signs of flagging, although not a collapse. The major economies will mainly rely on the strength of their domestic demand to achieve a soft landing that is close to potential growth rates. And, preferring prevention rather than cure, cautious central banks have opted for more accommodative monetary policy than expected.

Zoom vidéo

Prevention rather than cure

Subject to a China-US agreement and a pick-up in Chinese growth, the end off the global cycle still looks as if it will be "orderly". In showing themselves to be more accommodating than expected, central banks have, nevertheless, decided that prevention is better than cure.

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Everyone agrees that the fundamentals of growth are holding up, with the end of a cycle of strong growth, largely devoid of inflation, and a decline in the synchronised vigour of the leading economies. That said, the slowdown in the manufacturing sector and the diminishing contribution from net foreign trade are already having an impact on growth.

It is clear that economies are being affected unevenly, depending on their exposure to world trade and the space which their industrial sectors[1] occupy: contrast the US, which is closed and not a centre of manufacturing, with Germany, which is largely open and still a manufacturing economy.

The US and the Eurozone (like Japan) are therefore experiencing different fortunes and – even

[1] Foreign trade (exports + imports of goods) as a % of GDP (source: World Bank): United States 20%, Japan 28%, China 34%, Eurozone 70% (of which Germany 71%, Italy 50%, France 45%); Industry (including energy) as a % of GDP (source: OECD): Germany 26%, Japan 24%, Eurozone 20%, Italy 19%, United States 16%, France 14.5%.

supposing that the US–China trade dispute can be resolved and that Chinese growth will pick up (without deceiving ourselves as to China's ability to drive the world economy) – are unlikely to follow the same growth path.

In the **US**, the strength of the labour market (where the unemployment rate is at an all-time low despite the fact that the participation rate is not falling) has finally led to a rise in average wages, which, without any increase in inflation, will eat into firms' margins and productive investment. **The contribution from net external demand is likely to be only very slightly negative, enabling growth to edge down 'gently' towards its potential level of 2%.**

In the **Eurozone**, a marked drop in foreign demand is behind the sharp slowdown in growth. The slowdown has triggered fears that Eurozone growth, which came late to the phase of swift expansion, could brutally and prematurely drop off. But, as wages take up the slack from jobs, demand from households (consumption and housing investment) is proving resilient. Firms' high margin ratios and continued easy access to financing are conducive to investment. On the other hand, the outlook for any recovery in external demand is uncertain, and it is the incentive for investment that is giving way. **Failing any recovery in exports, growth seems unlikely to exceed 1.2% in 2019.**

Under the auspices of central banks (which are almost astonishingly benevolent, especially the US Federal Reserve), the resilience of domestic demand means it is still possible to outline a scenario of an 'orderly' decline in growth rates towards the potential rate. However, this would be subject to the dual condition that US–China negotiations end with an agreement and that Chinese growth picks up.

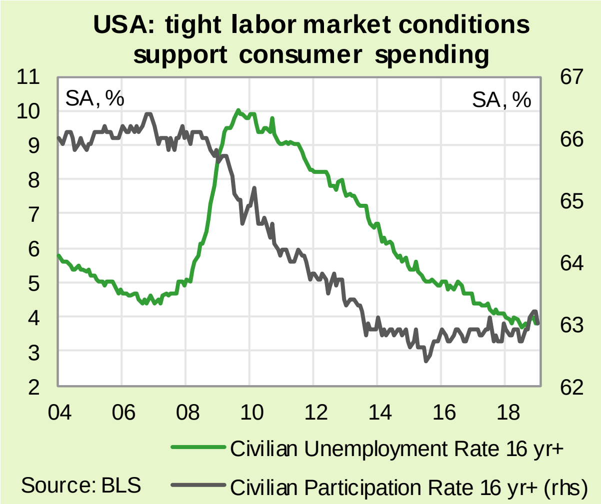
We should not count excessively on China's ability to carry the rest of the world along in its wake, however. There are signs that Chinese growth is gathering pace, suggesting that it might be only just slightly less than 6.5% in 2019. But, **while the rate of growth is important, so is its profile.** However, the Chinese authorities' stimulus plan is not 'rustic', like previous plans, which involved public investment, infrastructure projects and aid for state-owned enterprises. In addition to monetary easing, it aims, in particular, to stimulate private demand (ie, households and small businesses) by cutting taxes and VAT. It could, therefore, prove effective but percolate more slowly and may in the short term prove less import-intensive.

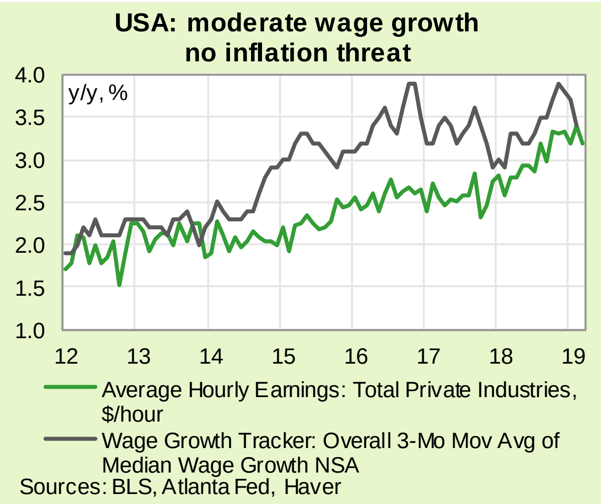
While we cannot count on a recovery in world trade, we can, however, be sure that **monetary conditions will remain accommodative**: the idea is to avoid the end-of-cycle monetary misstep that actually triggers its end. Pointing to the global slowdown, the US Federal Reserve has led the way and softened its guidance at an amazing lick, due to implicit fears of renewed intense financial pressures as seen at the end of 2018. The Fed now says it is inclined to be patient and has not taken things to the end of its course of expected normalisation. The ECB, for its part, has put an early stop to the normalisation, which had only timidly begun.

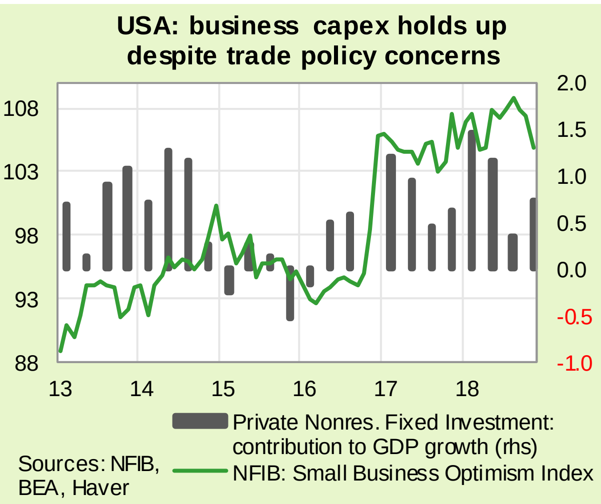
Thanks to the economic slowdown and virtually non-existent inflation, central banks intent on managing the slowdown to promote a soft landing (and not spooking the financial markets by showing a benevolent face), and the still-uncertain international political and economic climate subject to rushes of risk-aversion, **risk-free long-term rates will continue to be sought and will edge up only slightly, just like the EUR's appreciation against the USD.**

Developed countries – Counting on their own strength?

Everyone agrees that the fundamentals of broadly domestic growth are holding up, with the end of a cycle of strong growth largely devoid of inflation and a decline in the synchronised strength of the leading economies. That said, the contribution from foreign trade is eroding and slowing growth towards its potential rate.







USA: Growth slows towards trend in 2019

We expect the above-trend pace of real GDP growth in 2018 (3.0% Q4/Q4) to slow to its 2% sustainable trend in 2019, but slip below-trend to 1.4% in 2020. Core inflation is expected at around 2%, with risks tilted slightly to the downside as inflation expectations are well-anchored.

The stronger pace of growth in 2018 was boosted by fiscal measures including tax cuts and spending increases. That deficit-financed stimulus is fading this year. Growth in 2018 also benefitted from synchronized strength in global growth, which has since reversed with slowdowns in China, Europe and many emerging-market countries.

There is currently more downside than upside risk to US growth, in our view. Data earlier this year was weakened, due to temporary effects related to the Federal government shutdown. However, we expect growth to approach 2% for the year, underpinned by solid macroeconomic fundamentals.

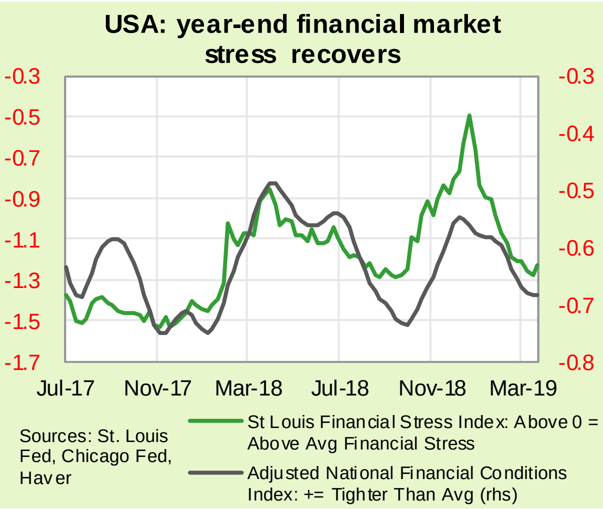
Consumer spending is expected to remain supported by strong labour market conditions. We expect US labour markets to remain tight with wage growth accelerating this year, which should support consumption spending. The unemployment rate (3.8% in March) is below the Fed's full employment estimate of 4.3%. Tight labour market conditions have led to a rise in the participation rate as more workers are drawn into the jobs market. Non-farm payroll gains have averaged about 180k per month over past three months; however, slower payroll gains are expected in 2019. The number of job openings currently exceeds the number of unemployed.

Average hourly earnings growth is trending higher by various measures, as indicated in the below graph. We expect the economy to remain on the relatively flat portion of the Phillips curve. While a shift towards more attractive benefits in total compensation packages may still put upward pressure on labour costs, firms' pricing power remains limited due to globalisation and other structural changes in market competition forces. Consequently, **we expect corporate profit margins to be squeezed and that could hurt investment spending going into 2020, contributing to below-par growth.**

Near-term business optimism remains relatively high, but there are concerns over the impact of tariffs and trade negotiations on supply chains. Firms are optimistic and see a solid (if somewhat slower) pace of domestic growth for this year, reduced business regulation and continued capex tax-investment incentives.

Trade negotiations between China and the US appear to be progressing well, reducing the negative risk of a trade war. A good trade performance in H118 was supported by solid US exports of agricultural products. A deterioration in H218 reflected continued growth in imports and a tariff-related drop in exports. Barring a trade war, we see net exports as mildly negative for this year's real GDP growth.

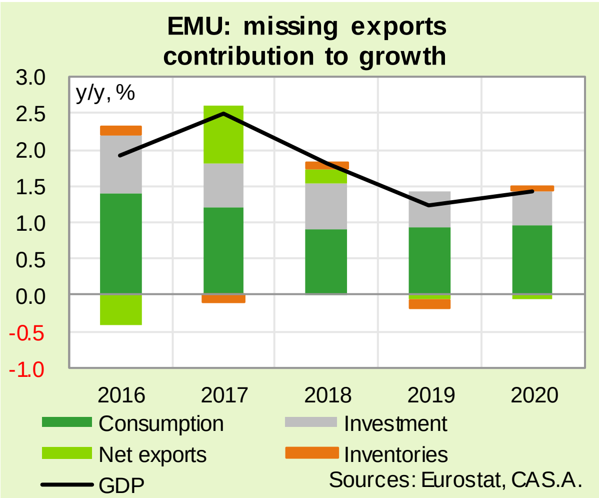
The recent synchronised global slowdown has prompted global policymakers to respond with growth-supportive measures. The Fed's analysis of domestic and international developments led to a significant policy pivot away from "gradual tightening" to "patience", as monetary policymakers now believe that incoming data does not suggest a rate adjustment in either direction this year.



The Fed is not alone in its more cautious approach. Other central banks, such as the ECB, have moved to push back any consideration of rate increases and the response from Chinese authorities has been to offset the slowdown with fiscal and monetary stimulus measures that are expected to lead to a controlled and balanced deceleration in growth this year and next.

Financial market conditions are less supportive than they were in autumn 2018, although they have mostly recovered from the tightening seen in December. However, the inversion of some portions of the Treasury yield curve has historically been a leading indicator of an economic downturn. The potential sign of recession from a curve inversion might not be as significant as in the past, in light of policies (QE) that have intentionally lowered long-term interest rates, although the markets will watch curve developments closely.

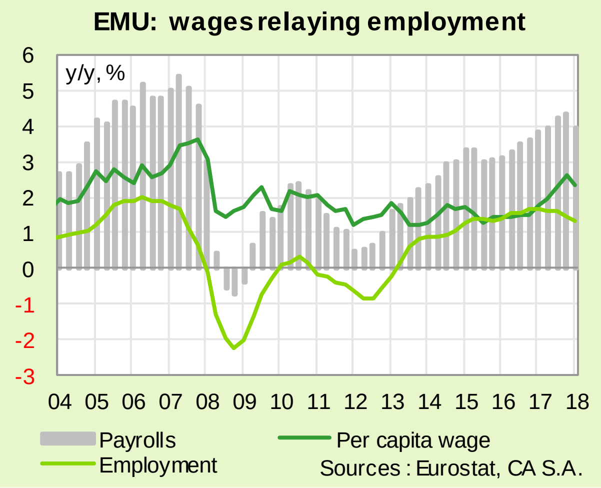
Eurozone: self-sufficiency is not enough



The Eurozone came late to the growth cycle, and recent signs suggest that it is exiting it earlier, too. The growth rate has slowed very rapidly: the GDP growth rate halved in the space of a year, going from 2.7% YoY at end-2017 to 1.1% at end-2018. **Are there grounds for concluding now that the last growth cycle was spoiled? And if this were the case, where should we point the finger?** We knew that in view of the cyclical mismatch, asymmetry between leader countries (the US) and follower countries (the Eurozone) means that the latter imports the monetary policy of the former, leading to an early end to the cycle because of over-restrictive monetary conditions justified by the cyclical position of the Eurozone. But we also now know that the ECB has done a very good job of uncoupling rate movements in the Eurozone from those in the US: **tighter monetary conditions imported from the US have not left their mark on the Eurozone. The contagion has nevertheless done its work elsewhere, especially in some emerging markets, and the pressures they are feeling have had some impact on Eurozone exports and growth.**

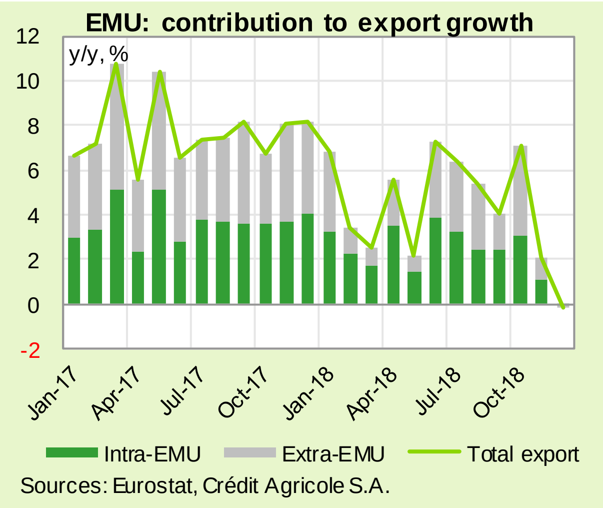
In 2018, domestic demand showed only limited signs of weakening, falling from 1.7% in the year to end-2017 to 1.4% at end-2018. **This means that it is the marked erosion in the contribution to growth from net exports, which caused the deceleration** (from 0.8ppt in 2017 to just 0.2ppt in 2018). The export growth rate has been reduced by a quarter since the end of 2017 due to a steady decline in non-Eurozone exports. The fall can be ascribed mainly to a drop in exports to the UK, Russia and Turkey, and to a slowdown in Chinese imports. We think there is hope, therefore, that the forecast pick-up in these countries' economies (except the UK's) and the stimulus measures implemented by the Chinese authorities will help to stimulate Eurozone exports to these important trading partners.

That said, **not all the guilty parties have been identified, as we also saw a collapse in intra-Eurozone exports** in Q418. At the time of our last forecasts, we highlighted the important role of temporary factors: namely, the new environmental standards for motor vehicles and the low level of the Rhine had a negative impact on German car, chemical and pharmaceutical production[2]. Industrial production in the Eurozone has suffered large-scale dislocation. The latest available production data, from January, shows a rebound in all countries except for Germany: normalisation is visible in the chemical and pharmaceutical sectors, but activity in the auto industry is still in decline. Delays in certification tests are reported and stocks of finished products have accumulated in recent months. These factors seem to be delaying the recovery in the Auto sector activity and will have had an adverse impact on Q119's economic performance.



It is therefore worth asking the question: could the noise generated by these disturbances be masking a deeper trend weakness in the European cycle?

Specific factors are undoubtedly having an adverse impact on the growth trend in some countries (to Germany's difficulties should be added the Italian government's economic policy and the yellow-vest protests in France). Overall, however, **domestic demand remained strong and saw sustained growth** (including in Italy) in Q418. Household disposable income lost none of its strength in 2018. In real terms, it picked up at year-end as consumer price inflation slowed. The marked increase in negotiated wages (from 1.7% over the year in Q118 to 2.2% in Q418) more than offset the gradual weakening in job creation (from 1.7% over the year in Q417 to 1.3% in Q418). Yet, throughout the year, consumption continued to grow more slowly than purchasing power.



The ongoing recovery in the savings ratio since spring 2018 has continued, having bottomed out in mid-2016. The help from a durable goods consumption cycle that is slowly reaching maturity is obvious, as is the rise in house prices, making each acquisition more expensive and the prior effort to build up savings more substantial. This effect is not, however, undermining the strength of housing investment: it found new strength at year-end and stabilised households' annual investment ratio at its highest level since 2012 (9%). Real-estate wealth grew again, at 5% at year-end, offsetting the lower valuation of financial assets in connection with the fall in equity prices during Q418. The decline in net wealth as a percentage of GDP may have justified an increase in the savings rate in order to replenish real cash holdings. The fall-off is not a concern in an environment where, on the one hand, our scenario does not envisage a massive correction to stock prices, and where, on the other, the indebtedness ratio of Eurozone households is declining and is low overall.

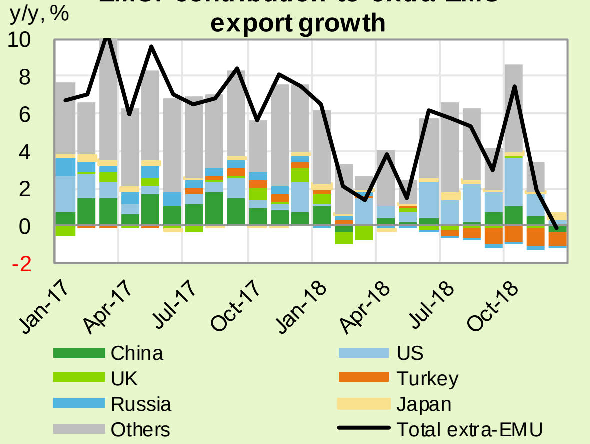
Household consumption should continue to be sustained by robust fundamentals, in our view. The natural slowdown in job creation will not be an obstacle to further falls in the unemployment rate; we expect disposable income to continue to be driven by wage increases, even if there is scant chance of a repeat of the sharp acceleration of mid-2018. Above all, however, it is the low level of inflation that will contribute to gains in purchasing power. In several countries, a reorientation (neither concerted nor coordinated) of fiscal policy in a more expansionist direction will deliver significant support for household incomes. Not all of this will be consumed, however, and we are forecasting a further increase in the savings ratio. This is likely to

[2] German economic institutes have estimated a negative impact on the country's GDP growth at 0.5ppt in Q319 and 0.3ppt in Q419

satisfy demand for housing investment, thanks to continuing highly accommodative monetary conditions, which are unlikely to change.

The weakest link in domestic demand is productive investment: its strength and longevity are questionable. Despite its late upturn (2014), weak activity places the investment ratio at a high level (its highest since 2008). The earnings outlook (the margin ratio is down since mid-2017 but remains high) and financing conditions (still accommodative) are not a cause for concern. Concerns derive above all from doubts as to the strength of addressed demand (and foreign demand in particular) to firms and to the impact on confidence from recent and multiple downward revisions of the production outlook. The modest slowdown in investment that we forecast is justified by stable intra-Eurozone trade growth rates and by a very modest recovery in exports outside the Eurozone. Without a more substantial contribution from imports from the rest of the world, the Eurozone will be unable to generate sufficient endogenous momentum to deliver above-potential growth. **Lacking the indispensable external contribution, our growth forecast is capped at 1.2% in 2019 and 1.4% in 2020.**

EMU: contribution to extra-EMU export growth

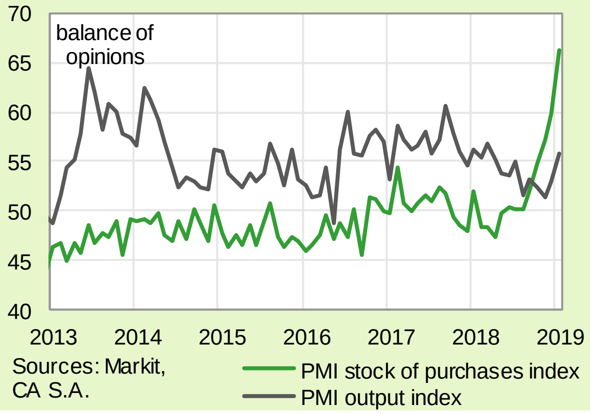


Sources: Eurostat, Crédit Agricole S.A.

United-Kingdom: Brexit delayed once again

The UK and the EU have agreed to delay Brexit until 31 October 2019, with the option for the UK to leave sooner if the withdrawal agreement is ratified by the UK Parliament. Brexit has thus been delayed twice this year, confirming that both the EU and the UK are aiming to avoid a no-deal Brexit (especially considering all the problems a delay creates for the European elections): 'no deal' is a scenario to which we have always attached a relatively low probability. That said, a no-deal Brexit can still not be ruled out completely, as it remains the default option if the withdrawal agreement is not ratified by the UK Parliament.

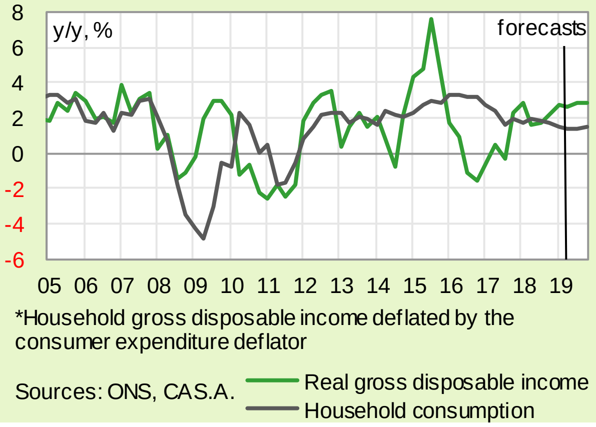
UK: sentiment in industry improves on the back of record high stock of purchases



Sources: Markit, CA S.A.

As it looks impossible to renegotiate the withdrawal agreement with the EU, a modification of the political declaration for the long-term relationship, either to include a customs union or a softer version of Brexit, is likely to be the only way out of the parliamentary impasse. Prime Minister Theresa May is currently looking for a cross-party consensus, but this has not yet given any results. Labour's request for a customs union between the UK and the EU requires the Conservatives to abandon their ambition for sovereignty over commercial policy, a compromise which seems difficult, if not impossible for the PM to deliver without risking further resignations within her party. The risk of a snap election and/or of a second referendum is particularly high in the current political stalemate. Whether a new election would help resolve the Brexit impasse is uncertain, to say the least, as it would possibly result in another hung parliament. A second referendum is also highly problematic as it may only confirm how divided UK society is on the Brexit issue.

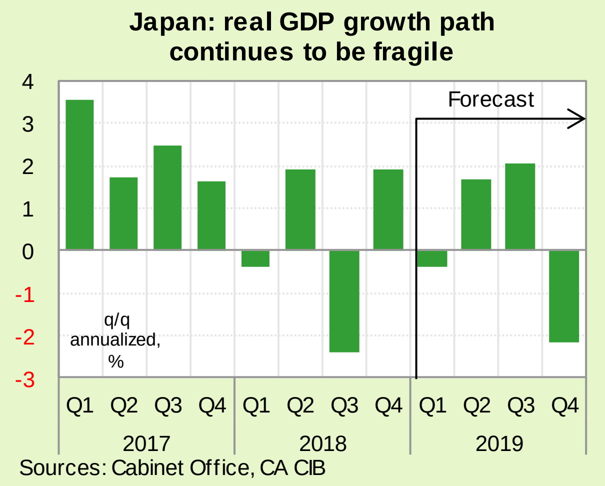
UK: consumer purchasing power & household consumption

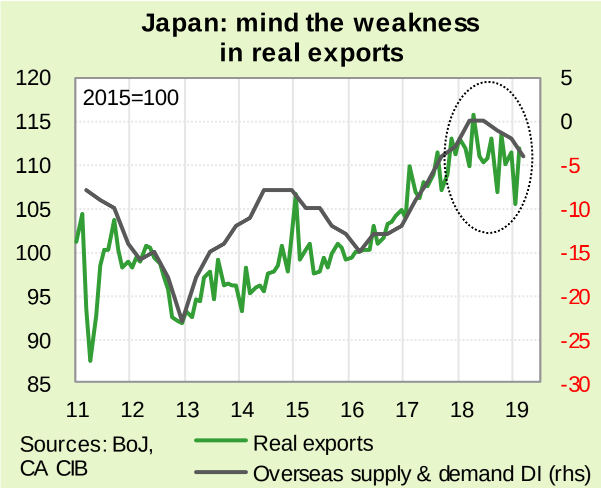


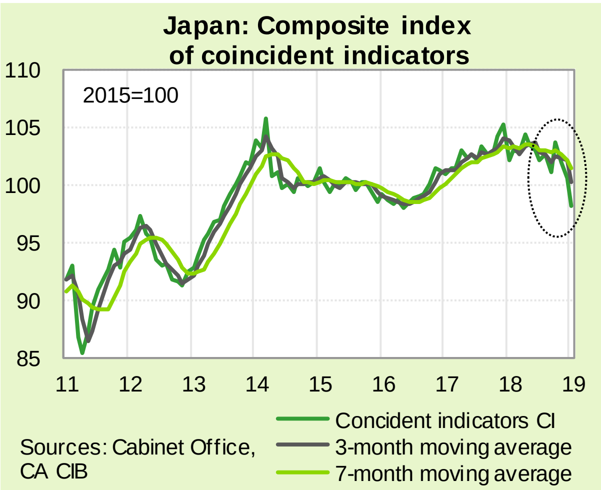
*Household gross disposable income deflated by the consumer expenditure deflator

Sources: ONS, CA S.A.

Business confidence has deteriorated significantly on the back of the intense political uncertainty. Even though some recovery is likely in the coming days thanks to 'no deal' being avoided in the short term, the uncertainty over the exact date and precise terms of the UK's departure from the EU are likely to continue to exert downward pressure on confidence and investment intentions. The PMI output composite index fell to 50 in March, its lowest since the EU referendum and consistent with stagnation. The weakness is driven by the service sector, which plunged into recessionary territory, while sentiment in the manufacturing sector improved sharply thanks to strong stock rebuilding, driven by a recovery in domestic demand. **We have lowered our GDP growth forecasts to 1.2% this year, although we still**







expect 1.4% growth next year based on our scenario of a smooth and orderly Brexit. We continue to expect resilient household consumption, underpinned by a tight labour market and accelerating growth in real incomes. However, business investment is likely to remain weak in the short to medium term, owing to uncertainty about the future relationship with the EU and concerns about the global growth slowdown. Net trade is likely to continue to subtract from growth. The policy mix will remain accommodative as fiscal policy has been relaxed and monetary policy tightening is expected to be scaled down.

Japan: mind near-term weakness in exports

Real GDP in Q418 grew by +0.5% QoQ (+1.9% QoQ annualised), recovering from a contraction of -0.6% QoQ (-2.4% QoQ annualised) in Q3. However, momentum was lacking and the recovery was no more than a technical pick-up after natural disasters in Q3. The momentum was confirmed by the main demand components, with private consumption up 0.4% QoQ in Q4 compared to -0.2% QoQ in Q3 and with capital expenditure up 2.7% QoQ in Q4 compared to -2.6% QoQ in Q3.

Looking ahead, **near-term economic momentum will continue to be weak** and we currently expect real GDP growth to be -0.1% QoQ (-0.4% QoQ annualised) in Q119. Based on our provisional forecast, quarterly real GDP growth for Q119 will have repeated the pattern since Q417, that a negative growth rate follows a positive rate, so the growth path will continue to be fragile.

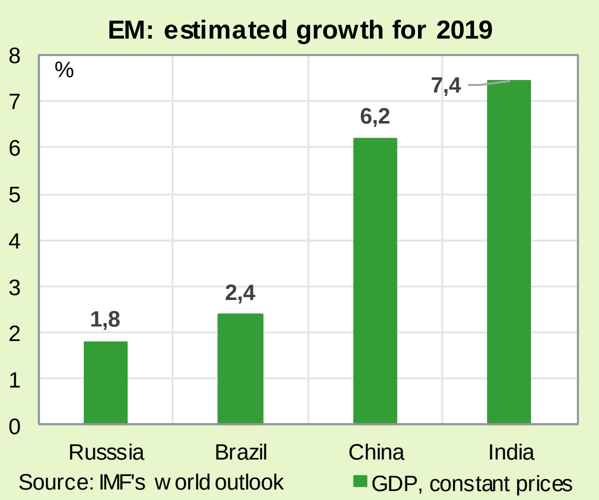
One of the demand components that we expect to have been a major drag on the economy in Q1 is real exports. Overseas supply and demand conditions for the products diffusion index (DI) – one of the survey components in the Bank of Japan's Tankan survey – has a close correlation with real exports and shows near-term weakness. While we expect global macroeconomic fundamentals to stabilise if not recover strongly, mainly thanks to Chinese fiscal stimulus, **the weakness in Japan's real exports in recent quarters indicates that the impact from global trade friction should not be underestimated.**

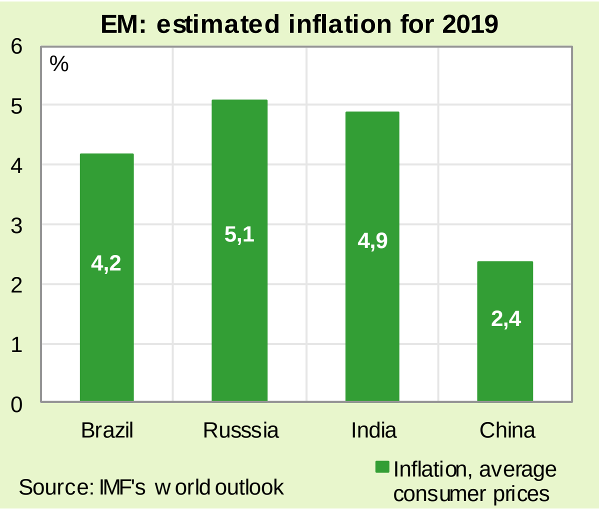
The latest economic recovery, defined by the trough in November 2012, was supposed to be the longest as at January 2019. However, there is now a risk that the latest expansionary phase was judged to have ended in October 2018, as industrial production started to soften, due to weak exports.

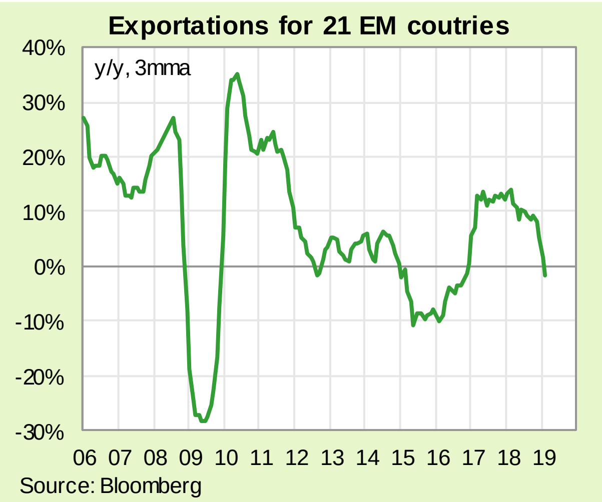
Technically, the Cabinet Office uses the composite index (CI) of coincident indicators as a tool for judging business cycle phases. The 3-month and 7-month moving averages, which are the main measures of the CI of coincident indicators, are all pointing down. **If the Cabinet Office officials judge that the latest economic expansionary period ended before January 2019, it would be a touch short of the longest economic recovery phase in the post-war period.** Although the judgement itself is backward-looking and does not necessarily have any economic impact, it still has an important political impact: nationwide municipal government elections are held in April and, more importantly, the Upper House election is in July.

Emerging countries – Close to bottoming out?

The export-led deceleration has been bolder than expected in Q1, but the stabilisation in China, decent growth in the US and relatively supportive monetary conditions should allow a stabilisation in H2. There remain weak spots, first of which Turkey.







Spring is coming

Three key changes in the EM backdrop have occurred since end-2018, two of which have been favourable. **First, the Fed has become significantly more dovish,** as the dot-plot currently shows that US policymakers are not expecting to hike rates in 2019. This is supportive in principle for all the emerging markets that rely on external financing. **Secondly, the tone of the US-China trade talks has improved.** Both sides now seem committed to finding a compromise. In our view, the Chinese leadership has realised that the US determination to redefine the relationship with China is not only dependent on the Trump administration, but is here to stay: hence, more commitment to reach a deal. It now seems realistic to expect a constructive dialogue to continue between the US and China, with a potential trade deal being reached later this year (possibly in a few months or even weeks).

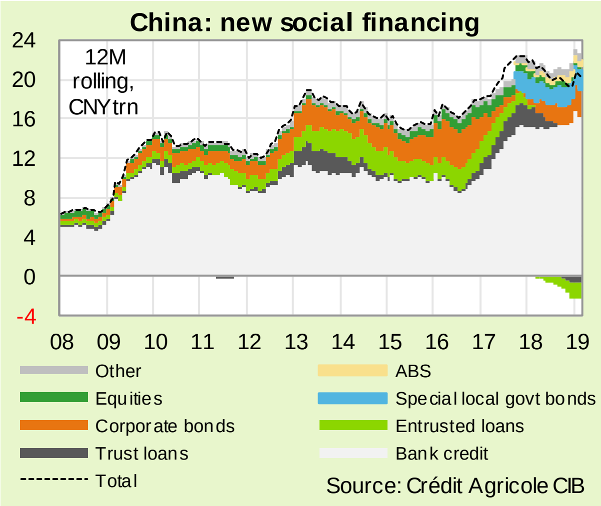
The third change has been negative. **The soft patch in global manufacturing and trade has been worse than expected.** EM exports have contracted from a year ago. The fall in exports in Q1 has been accentuated by one-off factors (like the regulatory changes in the auto sector or the front-loading of Chinese imports at the end of last year at the expense of Q1's trade numbers). The outcome is a sharper-than-expected slowing in exports in recent months, which has fuelled fears of a bumpier economic landing.

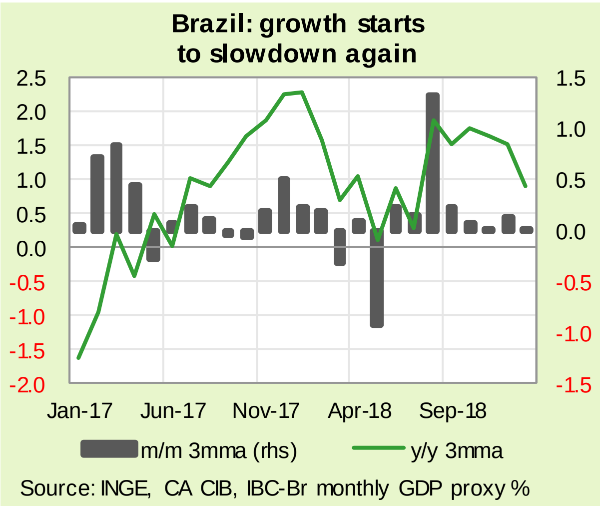
However, our view is that **the worst of the deterioration is probably over, and that EM trade should stabilise from Q219 or the middle of the year.** In China, we expect the recent stimulus measures (including the increase in aggregate financing since the beginning of the year and fiscal measures) gradually to fuel the stabilisation of the economy. In the US economy, despite its deceleration, we expect it to continue to grow close to potential. This makes for a decent mix for EMs, as it suggests (1) that there should be decent demand from the US; and (2) that the Fed might not hurry to hike rates. The PMI manufacturing surveys for EMs in February and March also suggest that a stabilisation of economic momentum is a realistic assumption.

On the domestic side, **inflation pressure is limited in EMs**, suggesting there is no urgency to tighten monetary policy in most countries. Rather than from inflation, the pressure to tighten may come from FX which is likely to drive central bank vigilance in some countries. In our view, for instance, the situation remains precarious in Turkey. Should the Erdogan administration respond to the recent mixed election results by supporting economic growth, then growing domestic demand may favour a return of external deficits, likely keeping pressure on the TRY.

The general election in India will also be a key event in Q2. Recent polls suggest that the BJP-led coalition could remain in the driving seat. However, there is still a risk that the election will produce a hung parliament, which would make policy-making and reforms more difficult.

Overall, **we forecast that GDP growth in emerging markets will slow only marginally, from 4.4% last year to 4.2% in 2019.** Asia will remain the best-performing region, growing by 5.9% in our view (China: 6.4%).





In Latin America, Emerging Europe and the Middle East, GDP growth will be much lower than in Asia.

China: awaiting a mid-year rebound in activity

Stimulus and trade talk progress offer hope. The economy continues to be under pressure and is likely to remain so until mid-year, when the recent credit stimulus should kick in, supported by ongoing monetary and fiscal easing. In addition, constructive trade negotiations with the US are likely to continue, opening the door to an agreement some time in 2019. Such an outlook is likely to stabilise sentiment in the spring and revive economic activity in the summer. We therefore continue to expect annual growth of 6.4%. The price to pay for such performance will be a rebound in economic leverage, albeit a moderate one.

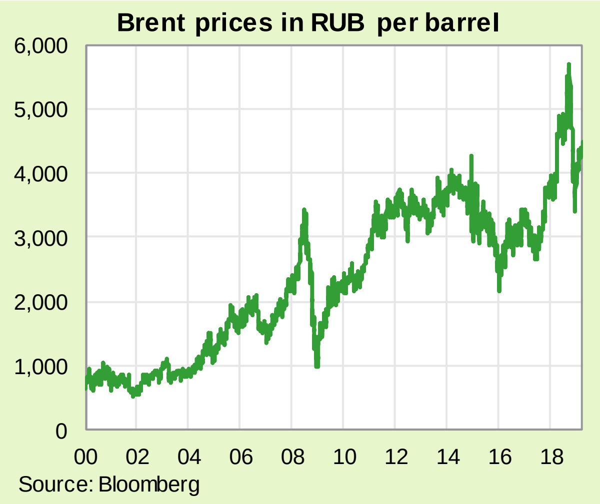
The outlook bodes well for capital inflows into China, especially in light of the inclusion of its bonds in Bloomberg Barclays indices and an increase in the weight of Chinese equities by MSCI. We remain bullish on Chinese Government Bonds, with the 10Y yield likely to end the year at 2.75%. We are also bullish on the RMB, which should appreciate to 6.65 against the USD at year-end.

Brazil: reality hits again

As President Jair Bolsonaro's administration approaches its 100th day, the difficulties associated with implementing an ambitious reform agenda are starting to surface. The temperature in Brasilia is rising: former president Michel Temer has been arrested and the relationship between the executive and congress is becoming less predictable. The main pillar of the economic agenda is pension reform, and the fragility of the relationship between the executive and the finance ministry and congress is translating into delays and lower expectations of solid reform. While initially it was thought the pension reform would go through the three-stage approval process in the lower house by June, markets are already talking about September. As the process is proving less straightforward, markets are also curbing their expectations for growth. The odds this year of a positive surprise associated with the reforms are becoming lower.

Our base scenario incorporates the passage of pension reform, which analysts consider good - not the type of reform that completely resolves any imbalances in the pension system, but probably one that creates sustainability in the system for the foreseeable future. In terms of figures, the administration's initial proposal would have saved as much as BRL1trn in 10 years. We believe the government will be able to approve a reform that will in fact save between BRL650-750bn. Meanwhile, while we still expect several other smaller reforms such as tax and labour-market law simplifications, and an overall push to privatise state assets and to build public-private partnerships, the delays associated with the pension reform postpone the entire economic agenda. Bolsonaro's economic team is unambiguously liberal.

Apart from the political procedural difficulties in achieving a reformed pension system, we remain positive about Brazil. Our base scenario for **the passage of a good pension reform ultimately implies market stability**, key in keeping monetary and financial conditions slightly favourable for a growth rebound. We started the year looking for stronger growth in 2019, mainly on the back of cyclical elements. Even though conditions remain favourable – low interest rates, low inflation and wide slack in the economy – economic activity remains soft and we now expect growth of only 1.8% in 2019 (from 2.4% before). Several years of subdued investment has probably depressed the rate of potential growth, and in our view, potential growth in Brazil is probably close to only 2%. Despite weak growth and the likely low level of potential growth, the Brazilian Central Bank (BCB) is unlikely to raise interest rates before Q120. The main risk is that Bolsonaro's team might fail to execute their plan to push for structural reforms, in which case a market sell-off could force the BCB to act sooner. Further disappointments on growth could also raise the risk of additional rate cuts, markets permitting.



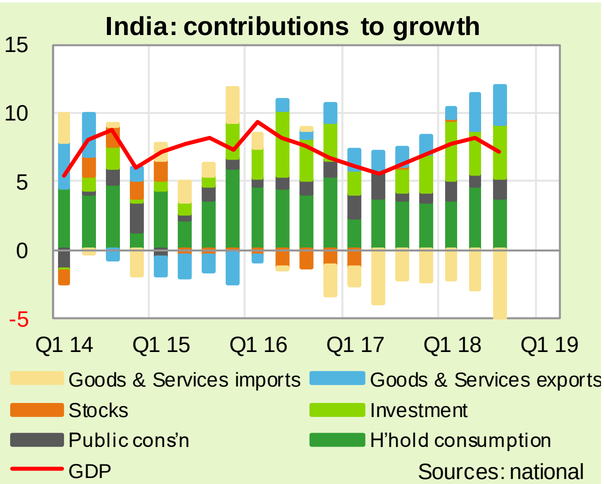
Brent prices in RUB per barrel
Source: Bloomberg

Russia: macro versus sanctions

The Russian economy is benefiting from relatively favourable oil prices, especially denominated in RUB, which support the economy as well as the budget and current-account balances. True, the Russian economy has not been immune from the global soft patch over the past few months. However, we forecast decent growth for 2019, at 1.6%, close to the country's potential growth.

Inflation has accelerated in the past few months, partly because of the hike in the VAT rate in January. However, the central bank tightened monetary policy pre-emptively last year, and may not need to tighten again later this year for macroeconomic reasons.

However, geopolitics remains in the picture. The US senate has introduced a new draft sanctions law against Russia. It is not clear whether the law will eventually lead to actual sanctions, though should the law be passed in a wide-ranging version (covering some banks, some corporates in the energy sector and the OFZ market), then it could put the Russian markets under pressure, and the Russian central bank may have to hike rates defensively. However, we expect the macroeconomic impact to remain limited.



India: contributions to growth
Sources: national

India: elections highly uncertain

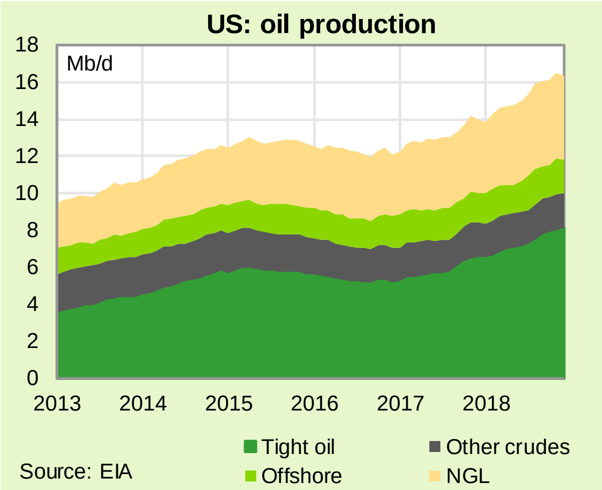
A scenario in which **Prime Minister Narendra Modi loses power to the Congress Party or to a regional leader would surprise the markets** and result in exchange rate volatility.

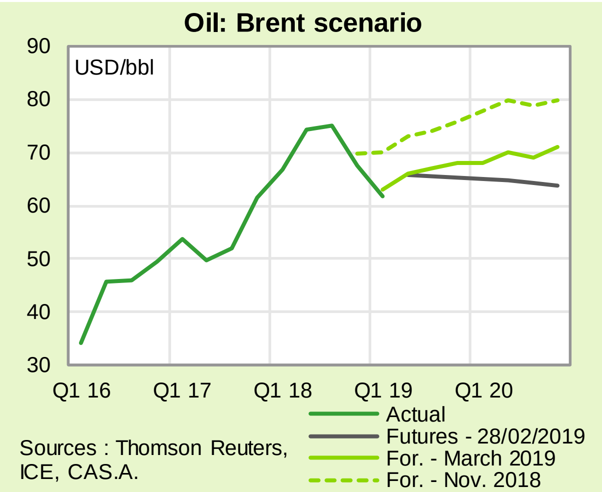
Opinion polls are suggesting that Mr Modi's popularity is on the rise again, thanks to the recent strikes against Pakistan. But his personal popularity is greater than that of his party, which is paying the price for reforms. These reforms have undoubtedly stimulated digitalisation of the urban middle classes and greater financial inclusiveness among the people. However, the reforms are causing suffering in rural India, where over-indebted farmers are feeling the pain of falling agricultural prices. **The reforms** have also widened the wealth gap between states and exacerbated the problems faced by small and medium enterprises. Overall, the reforms **have accelerated the country's economic (and hence political) fragmentation.**

However, if **India does not enter a phase of political instability, it is highly likely it will see a resumption of investment**, fuelled by high capacity utilisation rates and business deleveraging. In addition, India will be largely untouched by the weakness of the global manufacturing cycle, as its growth is driven more by domestic demand.

Oil – Stability amid growing chaos

Despite the risks of growing supply and demand instability, the assumption that OPEC might balance the market in 2019 and 2020 should keep the oil price with the USD60-70/bl range.

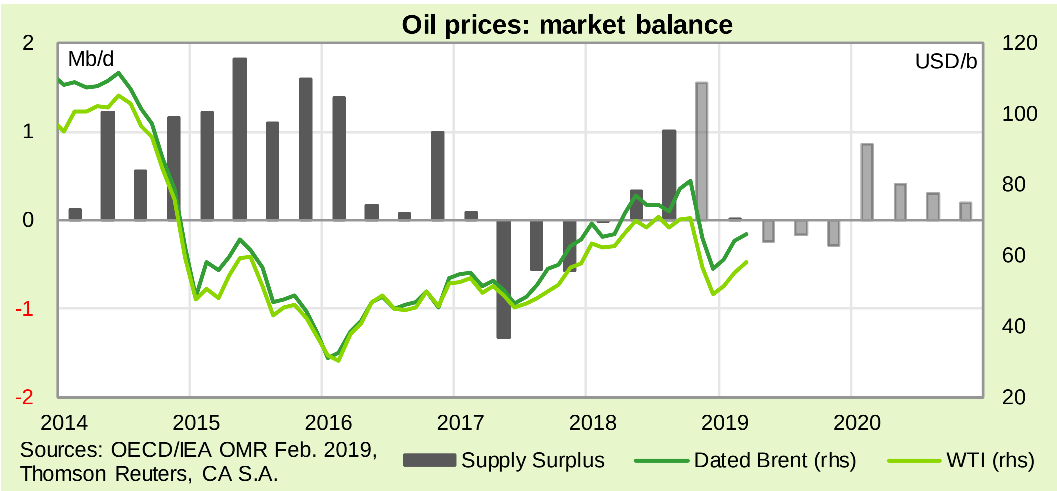




Similar to Q418, our scenario is based on the assumption that OPEC – **Saudi Arabia in particular – will adjust its production to hold the oil price at USD60-70/bl.** This price range will help Saudi Arabia improve its trade balance by USD40m a day compared with last December. It will also soothe President Trump, who might object to any sharp hike in the oil price.

Saudi Arabia, which has made the biggest contribution to efforts to cut production and which was quickest off the mark in cutting its oil exports, should get a bit of a helping hand from the US. **US sanctions against Venezuela** are likely to have an adverse effect on Venezuela's oil production, especially in light of its growing political and economic problems. It is also possible that **growth in US oil production will also be more modest** than initially thought. After the recent fall in the oil price, independent US producers, who are coming under pressure from shareholders, are likely to focus more on investment profitability than on output growth, in our view.

Market balancing by OPEC, especially by its biggest producer, Saudi Arabia, will perhaps be necessary in 2020, due to **the risks of an economic slowdown** that would slow the rate of growth in global demand for oil. That said, our scenario is based on relative price stability, supported by the introduction of new International Maritime Organisation rules. Our scenario is based on an average price of Brent of around USD66/bl in 2019, and close to USD70/bl in 2020.



Monetary policy – Prevention better than cure

Pointing to the global slowdown, the US Federal Reserve now seems inclined to be patient, whereas the ECB has ended the normalisation that it had only just begun to timidly roll out. Both are seeking to avoid fatal monetary errors and are cautiously managing the delicate end-of-cycle tightening which will hasten its end. Monetary policies will remain accommodative.

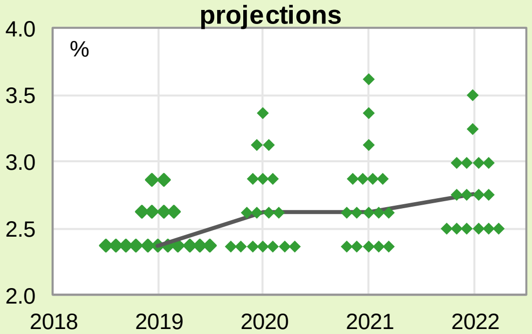
Dovish Fed on hold

The FOMC's dovish policy pivot in January towards patience on future monetary policy adjustments was confirmed in March. The fed funds target range was left unchanged at 2.25-2.50% while **the median projection in the dot-plot was for unchanged policy in 2019 with one rate hike likely in 2020.**

Fed officials marked down their near-term growth projections, reflecting US Federal Reserve officials marked down their near-term growth projections, reflecting slower global growth and a sluggish start to the year but stressed that underlying economic fundamentals remained solid. Chairman Jerome Powell appeared unworried that rising wages might lead to higher inflation. However, he said that Fed policymakers had not yet "convincingly achieved" their 2% inflation target mandate in a "symmetrical way."

The Fed plans to reduce the roll-off of its Treasury holdings by halving the monthly redemption cap to USD15bn in May and ending redemptions at the end of September. Beginning in October, MBS monthly proceeds will be reinvested in Treasuries. The Fed anticipates that it will hold the size of its balance sheet constant for a time after September as bank reserves adjust lower towards an optimal level, consistent with the "efficient and effective conduct of policy". We expect this to be consistent with the balance sheet bottoming out at just above USD3.5trn.

FOMC March Fed funds projections



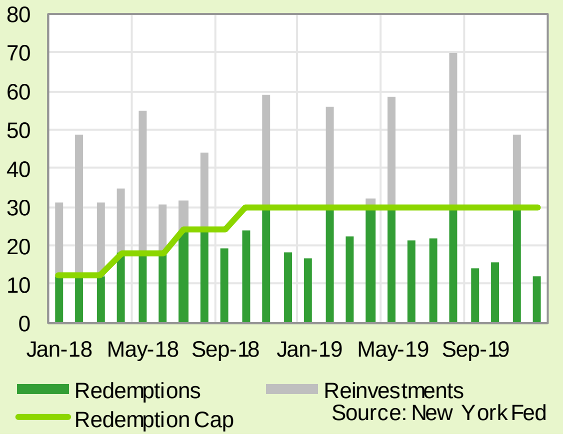
	2019	2020	2021	Longer run
Median	2,375%	2,625%	2,625%	2,750%
	+0bps	+25bps	+0bps	

Each shaded circle indicates the value (rounded to the nearest 1/8 percentage point) of an individual participant's judgment of the midpoint of the appropriate target range for the federal funds rate or the appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run.

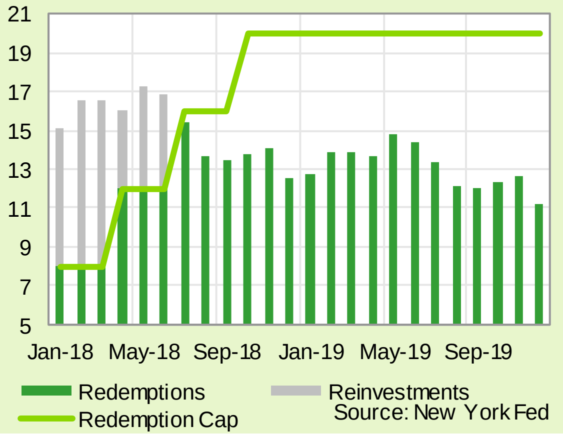
Source: Fed

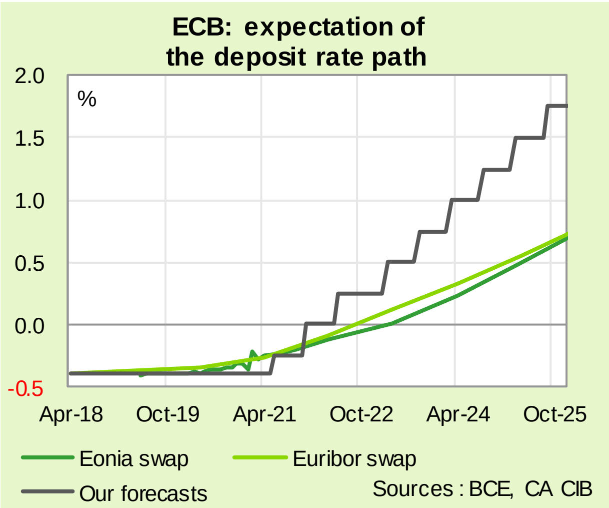
Median projection

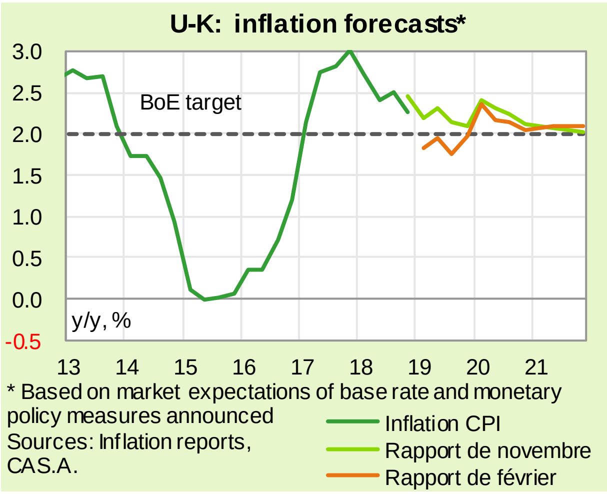
Fed: maturity Profile of SOMA Treasury Securities



Fed: Maturity Profile of SOMA Agency Debt and MBS Principal







ECB: was Sisyphus happy?

The deterioration in the international economic environment and its impact on the Eurozone economy seems likely to force the ECB to retain an accommodative stance for an long time. The ECB had begun the process of normalisation in June 2018 by announcing the end of its net asset purchase programmes in December 2018, which it subsequently did.

Effective normalisation – shrinking its balance sheet and moving away from negative interest rates – will have to wait. We are not expecting any tightening of monetary policy before mid-2021 at the earliest, when core inflation reaches satisfactory levels for the ECB of at least 1.3%.

In this environment of persistently negative interest rates, the ECB may consider rolling out measures to soften the cost for banks, as suggested by Mario Draghi on 26 March this year. In parallel, the ECB will need to fix the conditions for its new TLTRO III long-term financing operations, which it announced on 7 March.

Overall, and at this stage, **we are not seeing any further monetary easing; only the continuation of current monetary conditions.** The TLTRO IIIs and a possible two-tier deposit rate are likely to be calibrated to achieve this.

The ECB must once again roll the rock of low inflation to the top of the hill of Eurozone economic and institutional dysfunction – one must imagine Sisyphus, pushing his rock up the hill, to be a happy man.

BoE: heightened uncertainties warrant caution, at least in the near term

UK domestic inflationary pressures have continued to firm up, as evidenced by the tightening in the labour market, the acceleration in wage growth and, to a lesser extent, in unit labour-cost growth. However, the Bank of England had no choice but to postpone its monetary policy tightening on the back of intensifying Brexit uncertainty and a decelerating world economy. **We now expect a stable Bank rate this year (compared with one rate hike in May 2019 previously) and one rate hike at the start of 2020 (from two rates hikes, previously).**

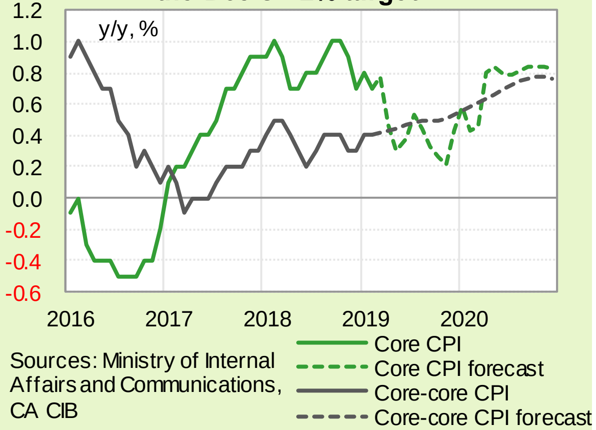
In its February 2019 *Inflation Report* the BoE revised down the near-term outlook for UK growth, and made sharp negative revisions to its outlook for growth of business investment and exports. The BoE now expects GDP growth to average 1.2% in 2019 (in line with our forecast) before increasing towards potential in 2020 at 1.5%, compared to 1.7% previously expected by the BoE for 2019 and 2020. A small margin of spare capacity is expected to open up this year.

The BoE also revised down its projections for CPI inflation in the near term, which it now expects to remain below target until Q419. After that, Brexit uncertainty is expected to dissipate gradually, consistent with the BoE's assumption of a smooth withdrawal from the EU. Accordingly, GDP growth is expected to reaccelerate towards the end of the year and to drive up domestic inflationary pressure. Hence, the BoE continues to expect CPI inflation to be above target from 2020 onwards and signals ongoing monetary policy tightening over its forecast period. This is likely to be extremely modest though: no more than two rates hikes over the next three years.

BoJ: no changes expected in 2019 but risk case of USD/JPY below 100

With a sharp decline in crude oil prices later last year and the range-bound performance in recent months, we maintain our view that **CPI inflation rates will stay subdued in 2019.** Indeed, we expect core CPI inflation (CPI excluding fresh food) to trend down for most of 2019 and the core-core CPI (CPI excluding fresh food and energy) to stay below 1%.

CPI inflation rates: nowhere near the BoJ's +2% target



Sources: Ministry of Internal Affairs and Communications, CA CIB

Underlying CPI inflation rates should be affected by some institutional changes in the coming years. To begin with, the government is to hike the consumption tax rate to 10% from 8% from October 2019. Secondly, the government is to adopt a policy of free infant education from October 2019 and free higher education from April 2020. Although the upward impact of the consumption tax hike will be offset by the free education policies, the Bank of Japan's policy decision will focus on the CPI inflation rates excluding those institutional changes.

As the CPI inflation rate approach nowhere near the BoJ's +2% price stability target, we maintain our view that the BoJ will leave the **present monetary policy settings unchanged in 2019.** We expect the BoJ to keep the current targets under its yield-curve control policy intact, with the Interest Rate on Excess Reserves at -0.1% and the 10Y JGB yield target at approximately 0%. Also, the permitted deviation of the 10Y JGB yield will be maintained at +/-20bp from the 0% guidance.

One of the risk cases we assume, however, is a sharp appreciation of the JPY. Specifically, if USD/JPY goes below 100, we think there will be a growing pressure on the BoJ to take action. In that case, we expect the BoJ to strengthen the qualitative aspect of its quantitative and qualitative easing (QQE) and to increase the purchases of TOPIX-linked ETFs.

Considering the negative side effects of the negative interest-rate policy on the profitability of financial institutions and of the yield-curve control policy on the functioning of the JGB market, we do not expect any significant policy on interest rates. Thus, the BoJ will use a 'mini-max' strategy to minimise the expected maximum negative side effects.

Interest rates – From monetary policy to politics (with a capital P)

We expect risk-free long-term rates to continue to be sought after and they are unlikely to move much for several reasons: the economic slowdown and virtually non-existent inflation; central banks' determination not to precipitate the end of the cycle and be as accommodative as they can, to try to avoid spooking the financial markets; and an ongoing uncertainty in the international economic and political climate, conducive to spikes in risk aversion.

Cooling core CPI supports a Fed pause

Sources: Bloomberg, Haver Analytics, CA CIB

Despite the rebound, vol has stayed low

Sources: Bloomberg, Haver analytics, CA CIB

10Y Bund yield

Source: Crédit Agricole CIB

US: A pause that refreshes

2019 is a year of transition for global central banks, in our opinion. **The Fed has paused its rate-hiking cycle**, by being more dovish than the market expected at the 20 March FOMC meeting in both its forward rate guidance and the timing of the balance sheet run-off. This was in a sharp contrast to the December FOMC meeting, which upset the markets at year-end.

At the March meeting, the Fed removed all rate hikes for 2019 in its dot-plot, keeping one hike for 2020. The median estimate for the fed funds range mid-point at year-end was trimmed to 2.375% from 2.875% in December. Prior to the FOMC meeting, most investors had expected the Fed to signal one hike for this year.

The Fed will taper the balance sheet run-off starting in May 2019 by adjusting the cap on redemptions and **the reduction of the balance sheet will stop in September 2019.**

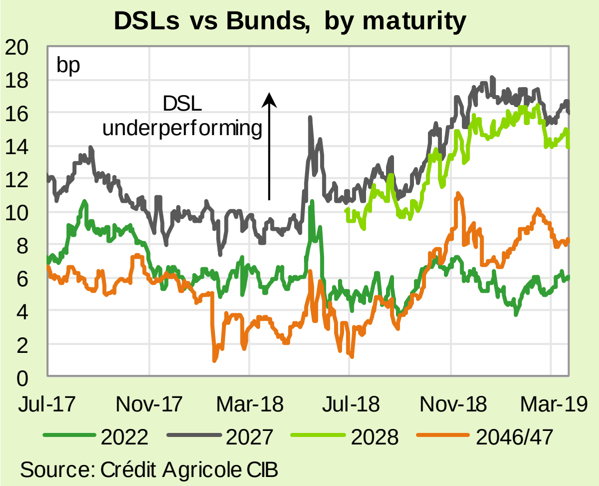
Recent US data releases have been mixed, and support the 'wait-and-see' approach adopted by the Fed. The February non-farm payroll report disappointed, with only 20k jobs created, while the unemployment rate dropped to 3.8% from 4.0%, reflecting furloughed government employees returning to work after the Federal shutdown. There was good news on wage inflation, as average hourly earnings (AHE) rose to 3.4% from 3.2%. Core CPI inflation saw a feeble 0.11% rise in February compared to the 0.22% average monthly increase of the past three months.

US rates broke the lower end of the trading range with the 10Y Treasury yield trading around 2.50%. Volatility has bounced somewhat with the market rally, but remains low on a long-term basis. Investors who are biased towards higher rates and higher volatility could consider buying cheap payers or payer spreads, such as a 1Y30Y, ATM+50 payer, in our view.

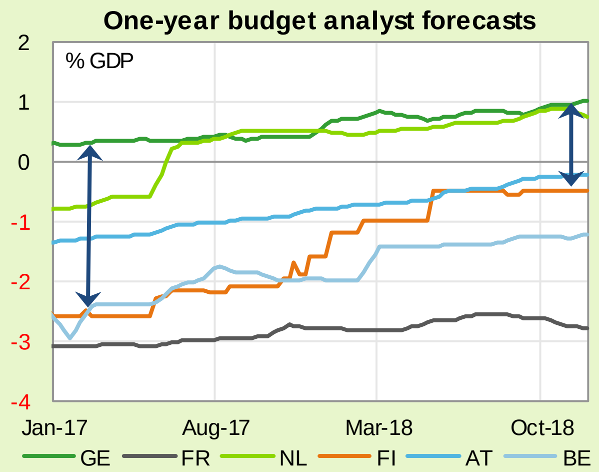
Eurozone: political risk versus yield hunting

To look at where Eurozone interest rates are going, we need to look back at why they have dropped alarmingly over the past couple of quarters, especially during Q1. **We attribute the broad drop in developed market bonds to three factors:**

- ✓ Political uncertainty, as the probability of a no-deal Brexit was repriced higher;
- ✓ Global economic news flow disappointed, as growth and inflation often undershot expectations;
- ✓ In reaction to the first two factors, central bankers turned dovish – to some extent more than the market had anticipated.



Source: Crédit Agricole CIB

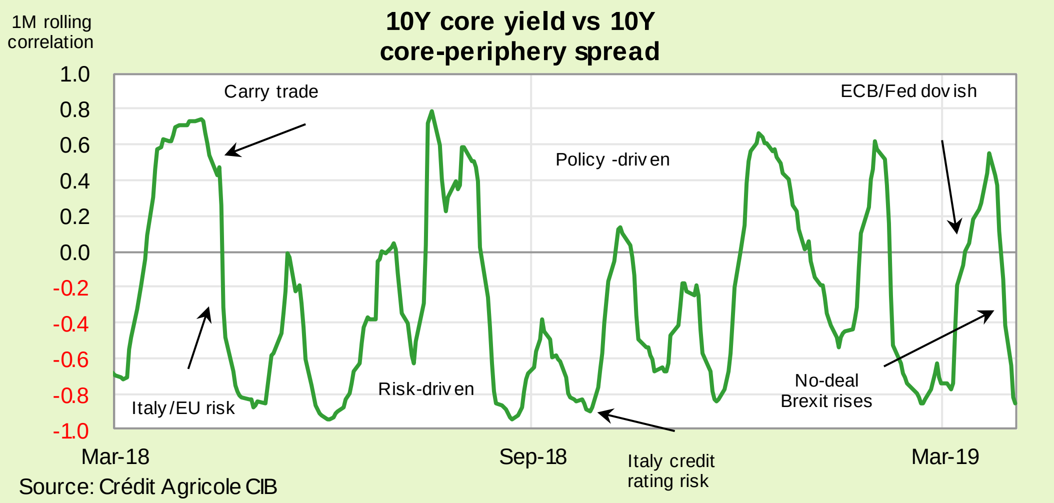


Sources: Bloomberg, Crédit Agricole CIB

All three of these factors have had positive impact on Bund prices and resulted in the 10Y yield returning to negative territory last month, for the first time in two and a half years. **These drivers provide a clue as to how the market could behave going forward,** especially in the event of a positive Brexit development where a no-deal is averted – our central scenario. Against the political backdrop, **we expect the 10Y Bund yield first to sustain a move back to positive-yield territory,** and potentially back to the 10-20bp range provided imminent political deadlines are pushed back.

The bullish Bund move glossed over the interesting dynamics that have been driving the broader Eurozone government bond (EGB) market. This can be categorised into **two broad regimes, ie, policy-driven and risk-driven**. Whether the market is being driven by one regime or the other can be determined by analysing the correlation between the movement of outright core yields and core-periphery spreads. If the yield and spread move in the same direction it can be viewed as being a policy-driven regime (ie, positively correlated) and if they move in opposite directions it can be determined to be a risk-driven regime (ie, negatively correlated). **The market is currently being driven by risk**, as the chance of a no-deal Brexit remains significant. Our view for greater political clarity in the coming weeks and months ahead could see a **return to a policy-driven regime** with an ECB policy of 'low-for-longer' rates resulting in some yield- hunting.

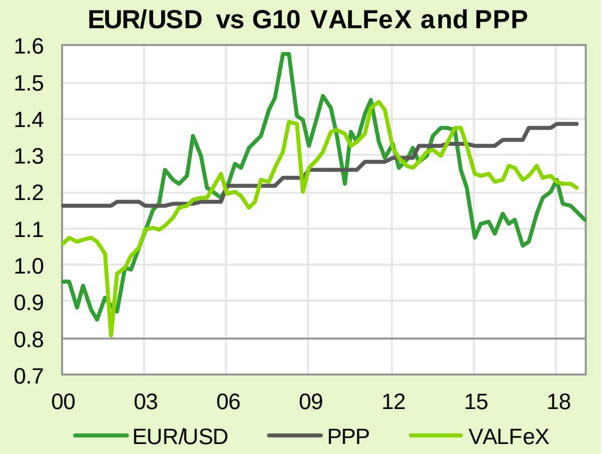
In a yield-hunting scenario, we think there is **scope for EGB yields to converge.** However, we would confine this to core/semi-core issuers only (versus the Bund) at the moment, in view of the risks that are still lingering. Aside from the ECB's dovish outlook, the argument for convergence between EGB issuers extends to fundamentals; for instance, the **breadth of fiscal consolidation in the Eurozone has been encouraging.** The binary nature of political developments is likely to result is risk-sentiment driving rates in the very near term, but beyond this (averting a political earthquake) we expect the focus to shift to policy and economic fundamentals.



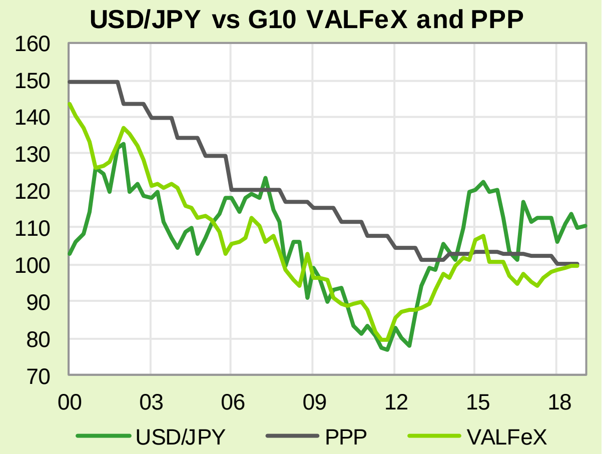
Source: Crédit Agricole CIB

Exchange rates – Everything is in place, and yet…

What with growing external surpluses, real-yield spreads, and undervaluation against the dollar, fundamental factors continue to support a stronger EUR. Yet the single currency continues to struggle at a time of substantial risk-aversion, so its potential for appreciation is limited.



Sources: Bloomberg, OECD, CA CIB



Sources: Bloomberg, OECD, CA CIB

The "Japanification" of the Eurozone and the euro

In our view, prolonged low real rates and yields and the continuing build-up of excess savings (current-account surpluses) in the Eurozone could become one of the most visible symptoms of the growing risk of Japanification. Our G10 FX VALFeX fair value model provides estimates of long-term equilibrium value for USD crosses, focusing on currency drivers like the 2Y real rate spread, 10Y real bond yield spread, relative productivity, relative external imbalances and relative terms of trade. The model is thus well suited to help us track the often conflicting FX impact of the Eurozone's very low real rates and persistent current-account surpluses. Our model also allows us to use USD/JPY as a template for the historical impact of low real rates and excess savings in Japan on the currency's longer-term fair value. To start with, we note that, at present, our G10 VALFeX model suggests that both the EUR and JPY are very undervalued relative to the USD.

For EUR/USD, this suggests that **the positive impact from the bloc's sizeable current-account surplus more than outweighs the negative impact from very low real rates.** We draw a similar conclusion for USD/JPY. The long-term fair value for EUR/USD has recently hit a 10-year low, however, because the 2Y EUR-USD real-rate spread and the 10Y Bund-UST real-yield spread have remained close to extreme lows, whereas the relative Eurozone-US external imbalances have no longer moved in support of the pair. The results therefore suggest that, while there still seems to be potential for a EUR/USD rebound, it may be more limited than at the time of our previous G10 VALFeX.

The appreciation of the JPY against the USD between 2000 and 2012 went hand in hand with falling USD/JPY long-term fair value, suggesting that the build-up in the Japanese current-account surplus more than compensated for the impact of very low Japanese real rates and yields relative to the US over the same period. We think a similar dynamic could keep EUR/USD fair value close to current levels, provided that the Eurozone continues to run current-account surpluses that contrast with the current-account deficits in the US. That said, in our view, a further build-up of excess savings in the Eurozone and low returns at home could also lead to growing domestic demand for EUR-funded carry trades, which would limit future EUR appreciation. EUR gains may remain more subdued also during any bouts of risk aversion, which should in theory trigger the unwinding of some of the EUR-funded carry trades. This is because political and existential risks may make the EUR a less appealing safe haven in the long term, so that Eurozone investors could stay invested abroad for longer.

Turning to the outlook for relative rates, we think that the 2Y EUR-USD real rate and Bund-UST real yield spreads are getting closer to bottoming out: we believe we may be on the verge of cyclical and policy convergence between the US and the Eurozone. Indeed, Crédit Agricole CIB's economists expect **the Eurozone economy to consolidate and the US economy to slow down sharply in H219.** In addition, we consider that the ECB is at the rock-bottom of its easing cycle, whereas the Fed has some scope to ease if needed, especially if global risk-aversion triggers renewed tightening in US financial conditions. In our opinion, this could trigger renewed widening of the real EUR-USD rate and Bund-UST yield spreads over the long term and thus keep EUR/USD on an upward trending path. That said, the process of convergence could be lengthened by the ECB's ultra-dovish policy stance and this is likely to flatten the upward sloping trajectory of EUR/USD.

EUR - USD NEER & forecasts

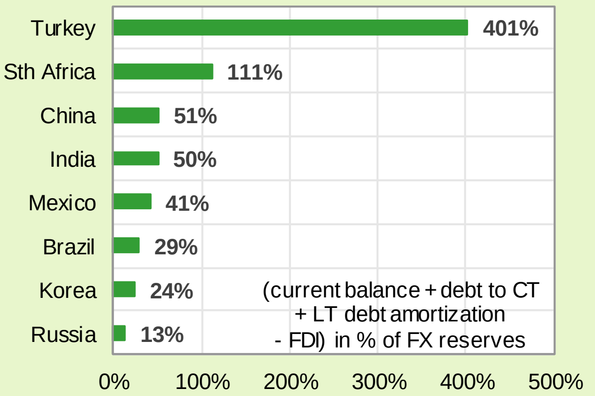
Sources: Bloomberg, CA CIB

Overall, the risk of Japanification of the Eurozone warrants a less upbeat EUR/USD outlook, in our view. Moreover, this is currently consistent with the lower G10 VALFeX fair value, discussed above. In our updated forecasts we continue to see **upside risks to EUR/USD over the medium to long term,** considering the currency pair's undervaluation, the persistent current-account surpluses in the Eurozone and the likely loss of USD rate advantage from now on. That said, we lower our forecast profile and now see EUR/USD at 1.18 in Q419 (down from 1.20 previously) and at 1.25 in Q420 (down from 1.28 previously).

Emerging-market currencies: limited appreciation, but weak spots

We still expect emerging-market currencies to appreciate gradually and in a limited way against the USD in the coming quarters. If global and EM momentum stabilise, as we expect, then EMs could benefit from a relatively favourable situation. First, those fears about a possible strong economic deceleration, which intensified in Q119 as EM exports were contracting, would moderate. This would support capital flows to EMs. Secondly, the Fed (and the ECB for that matter) have become more dovish since the end of last year. This clearly benefits countries with significant external financing requirements. The combination of decent global demand and dovish global central banks creates a more favourable backdrop for EMs. Let us also bear in mind that our G10 FX strategists expect the **USD to weaken against the EUR**. In this environment, slight EM FX appreciation versus the USD should not be seen as an overly strong performance.

External financing requirement for 8 EM countries



Source: Moody's, CA CIB for.

In addition, one has to differentiate among currencies in the EM arena. In some economies, challenging idiosyncratic stories include a reasonably strong share of political uncertainty. In Turkey, for example, the risk is that economic policy will become more supportive as Erdogan's political support erodes, in a way that could fuel external imbalances and keep the TRY under pressure. Elections in India in April and May and South Africa in May should weigh on the currency – although in both cases this could be only temporary. In Mexico, even if the economy is doing rather well, AMLO's politicisation of economic policy may also weigh on the MXN at some point.

Economic and financial forecasts

Interest rate

		9-Apr	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
USA	Fed funds	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
	10Y	2.50	2.60	2.70	2.80	2.80	2.70	2.70	2.60
Eurozone	Repo	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	10Y (Germany)	0.00	0.10	0.20	0.30	0.35	0.40	0.45	0.50
10Y Spread vs. EUR	France	0.35	0.35	0.35	0.30	0.30	0.25	0.25	0.25
	Italy	2.58	2.55	2.80	2.50	2.45	2.40	2.35	2.30

Exchange Rate

USD Exchange rate Industrialised countries		9-Apr	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Euro	EUR/USD	1.13	1.14	1.16	1.18	1.20	1.21	1.23	1.25
Japan	USD/JPY	111.12	108.00	106.00	105.00	104.00	104.00	102.00	100.00
United Kingdom	GBP/USD	1.31	1.35	1.37	1.40	1.42	1.43	1.46	1.48
Switzerland	USD/CHF	1.00	1.00	1.00	0.99	0.98	0.98	0.97	0.96
Asia									
China	USD/CNY	6.71	6.68	6.66	6.65	6.63	6.60	6.58	6.55
Hong Kong	USD/HKD	7.84	7.81	7.81	7.80	7.80	7.80	7.80	7.80
India	USD/INR	69.26	72.50	73.00	73.50	74.00	74.50	75.00	75.50
South Korea	USD/KRW	1140	1115	1110	1100	1095	1090	1085	1080
Latin America									
Brazil	USD/BRL	3.85	3.75	3.75	3.75	3.75	3.75	3.70	3.70
Mexico	USD/MXN	18.91	20.00	20.25	20.25	20.25	20.25	20.00	20.00
Emerging Europe									
Poland	USD/PLN	3.80	3.80	3.70	3.60	3.53	3.48	3.41	3.32
Russia	USD/RUB	64.86	68.00	67.00	67.00	66.50	66.00	65.50	65.00
Turkey	USD/TRY	5.69	5.50	5.95	6.10	6.15	6.20	6.20	6.25

Commodities

		9-Apr	2019			2019			
Precious metals			Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gold	USD/oz	1,305	1,360	1,370	1,370	1,390	1,410	1,430	1,450

		9-Apr	2019			2020			
Av. quarter price			Q2	Q3	Q4	Q1	Q2	Q3	Q4
Brent	USD/BBL	71	66	67	68	68	70	69	71

Economic Forecasts

	GDP (yoy, %)			Consumer prices (yoy, %)			Current account (% of GDP)		
	2018	2019	2020	2018	2019	2020	2018	2019	2020
United States	**2.9**	**2.4**	**1.7**	**2.4**	**1.7**	**1.9**	**-2.4**	**-2.7**	**-2.7**
Japan	**0.8**	**0.5**	**0.5**	**0.8**	**0.7**	**1.5**	**3.5**	**2.7**	**3.1**
Eurozone	**1.8**	**1.2**	**1.4**	**1.8**	**1.3**	**1.3**	**3.2**	**3.2**	**3.1**
Germany	1.5	0.8	1.3	1.9	1.4	1.7	7.3	7.1	6.9
France	1.6	1.5	1.4	2.1	1.2	1.3	-1.1	-1.0	-1.0
Italy	0.8	0.1	0.9	1.2	0.9	0.8	2.2	1.8	1.8
Spain	2.5	2.2	1.9	1.7	1.0	1.1	1.4	1.8	1.7
Netherlands	2.6	1.8	1.6	1.6	2.4	1.1	9.8	9.8	9.9
Other advanced									
United Kingdom	1.4	1.2	1.4	2.5	1.9	2.2	-3.9	-3.5	-3.8
Canada	1.8	1.5	1.8	2.3	1.7	2.0	-2.8	-2.6	-2.5
Australia	3.2	2.8	2.7	2.2	2.3	2.5	-2.8	-3.1	-3.0
Switzerland	2.5	1.7	1.6	0.9	0.9	1.0	10.0	9.8	10.0
Asia	**6.0**	**5.9**	**5.7**	**2.5**	**2.5**	**2.7**	**0.9**	**0.5**	**0.3**
China	6.6	6.4	6.0	2.1	2.1	2.2	0.4	0.1	-0.1
India	6.7	7.3	7.1	3.6	3.4	4.1	-1.9	-2.7	-2.8
South Korea	2.6	2.5	2.5	1.6	1.8	1.9	4.5	4.3	4.0
Latin America	**1.2**	**1.7**	**2.4**	**9.4**	**6.8**	**5.9**	**-1.8**	**-1.6**	**-1.9**
Brazil	1.1	1.8	2.6	3.8	3.8	4.0	-1.0	-1.2	-1.8
Mexico	2.0	1.6	1.6	4.4	3.7	3.5	-1.5	-1.2	-1.5
Emerging Europe	**3.1**	**1.6**	**2.6**	**6.5**	**6.9**	**5.5**	**1.3**	**1.1**	**0.3**
Russia	2.3	1.6	1.6	4.3	5.0	4.0	5.0	4.5	3.5
Turkey	3.3	-2.0	3.8	16.5	18.0	14.0	-3.8	-3.7	-5.1
Poland	5.1	4.3	3.8	1.6	1.5	2.0	-0.7	-1.0	-1.2
Africa, Middle East	**1.7**	**1.6**	**2.5**	**8.3**	**9.8**	**7.3**	**2.8**	**2.2**	**2.1**
Saudi Arabia	2.0	2.5	2.3	2.4	2.0	2.0	9.1	8.2	7.5
United Arab Emirates	1.7	2.7	3.3	3.6	1.6	2.0	9.6	8.4	7.3
Egypt	5.3	5.2	5.4	15.0	13.0	10.0	-2.0	-1.9	-1.1
Morocco	3.0	3.3	3.8	1.8	1.8	2.0	-4.0	-3.8	-3.6
Total	**3.4**	**3.1**	**3.1**	**3.5**	**3.3**	**3.1**			
Advanced economies	**2.2**	**1.7**	**1.5**	**2.0**	**1.5**	**1.7**			
Emerging countries	**4.4**	**4.2**	**4.4**	**4.7**	**4.6**	**4.1**			

Public accounts

	Government balance (% of GDP)			Public debt (% of GDP)		
	2018	2019	2020	2018	2019	2020
United States	**-3.9**	**-4.7**	**-5.1**	**77.5**	**78.9**	**80.6**
Japan	**-4.5**	**-3.7**	**-2.7**	**237.0**	**234.6**	**233.5**
Eurozone	**-0.8**	**-0.9**	**-0.7**	**87.5**	**86.2**	**84.8**
Germany	1.3	1.2	1.0	61.0	58.3	56.3
France	-2.5	-3.3	-2.2	98.4	98.9	98.4
Italy	-2.1	-2.4	-2.7	132.2	133.2	133.8
Spain	-2.8	-2.1	-1.5	98.2	96.6	94.4
Netherlands	0.7	0.9	1.0	53.6	50.5	48.8
Belgium	-1.0	-1.2	-1.4	101.8	101.7	100.1
Greece	0.4	0.2	0.2	176.1	170.4	165.4
Ireland	0.3	-0.3	0.3	64.2	61.9	59.0
Portugal	-0.7	-0.6	-0.2	121.5	120.2	117.6
United Kingdom	**-1.9**	**-1.5**	**-1.3**	**86.5**	**84.7**	**83.2**

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