Crédit Agricole Group economic and sector analysis

Prospects

Quarterly – No. 20/239 – October 2, 2020

WORLD – Macroeconomic Scenario for 2020-2021

All are equal, but some are more equal than others[1]…

Just like the recession, the rebound is now widespread. Just like the recession, it is strong but uneven. It is largely mechanical and showing signs of weakening, stoking fears about its resilience once the support is dialled back. These fears are vague, but two things are crystal-clear: very long-lasting low interest rates, and chaotic, asynchronous global growth.

Contents

What we can see

After a historically violent contraction in Q2, economic activity everywhere has recovered, taking a schematic but mislabelled V shape. While the shock was widespread, its damage has been uneven according to the pandemic's start date, the given country's health strategy, its pre-crisis strength and the structure of its economy. The depth of the shock has also varied with the methods deployed to absorb it. And those methods are dependent on monetary and fiscal policy leeway as well as government insight and effectiveness.

To illustrate the sheer scale of the fiscal counter-offensive, the IMF's estimates[2] indicate that the measures made up of additional spending and lost revenue, on the one hand, and supports that may be temporary (loans, capital, and guarantees), on the other, would average out to 5.1% and 12.1% of GDP for emerging countries and the G20 respectively. As to the advanced economies, the measures would use up nearly 20% of wealth produced annually.

In Q2 (QoQ), while Chinese GDP was already rebounding by 11.5% after falling 10% in Q1, GDP

[1] All animals are equal but some are more equal than others" ("Animal farm", George Orwell)

[2] World Economic Outlook, Country Fiscal Measures in Response to the COVID-19 Pandemic, July 2020. Most of the national support measures were taken in the first half of the year. Though the figures may seem a little old, they are instructive and provide the benefit of comparison.

contractions ranged from 25.2% in India, 20.4% in the UK, 11.8% in the Eurozone and 9.1% in the US to 3.2% in Korea. Within this range, there was clear scatter among the large economies, which is a factor in the dreaded fragmentation. We saw declines of 18.5% in Spain, 13.8% in France, 12.8% in Italy, and a 'mere' 9.7% in Germany.

According to the monthly indicators and surveys, the rebound has been widespread, just like the decline in activity before it. It has been just as forceful, but uneven, a signal that supply, demand and the sectors are recovering at different speeds and strengths. The service sector, which demands mobility and social interaction, is tending to show a natural lag compared to the manufacturing sector. Depending on the type and effectiveness of support measures, the demand recovery is preceding the supply recovery (large developed countries in which household income, and even jobs, have largely been preserved), while supply is pulling dangerously ahead of demand (as in China, where jobs and income have suffered while the industrial machinery starts back up, thanks to public demand and bank loan stimulation). As such, the recovery taking shape is far from uniform or synchronised, and could topple into chaos.

What worries us

Beyond this largely mechanical 'fake V', the recovery is showing signs of weakening. These are especially clear in the surveys, where results are settling down or even subsiding after a clear surge. This is a natural movement, fuelled by the bad news on how well the pandemic is being controlled. Even supposing no new drastic measures are taken, a return to the 'free movement' of people (and goods) is some way off, adding to worries about the rebound's strength and sustainability. Furthermore, what will become of the recovery once aid is reduced?

The gradual withdrawal of temporary support systems (tax relief, deferral of contributions, short-time work arrangements, direct payments to households) will uncover the first wounds inflicted by the crisis, specifically in terms of unemployment and business failures. Already in the works, or at least on the table, are additional support and stimulus measures to be deployed in the major developed countries. Such is the case in the European Union and the United States, in spite of tough negotiations as the elections approach. With such weak interest rates, in fact, additional budget measures could conceivably be financed.

Nonetheless, the threefold question of the purpose, ultimate effectiveness and therefore, in some cases, maintenance of support measures must be addressed. Is this a stopgap while demand briefly evaporates? A relief measure for temporary cash flow problems? A buttress for a transition forced by the crisis? Or a windfall for businesses whose survival was in doubt even before the crisis? There can be no doubt that any relief, even if it is deferred, will exact its price in terms of jobs and business failures.

For many of the emerging countries, the question of extending support and stimulus packages is coming up against immense budget constraints and exhausted monetary-policy ammunition.

What we expect

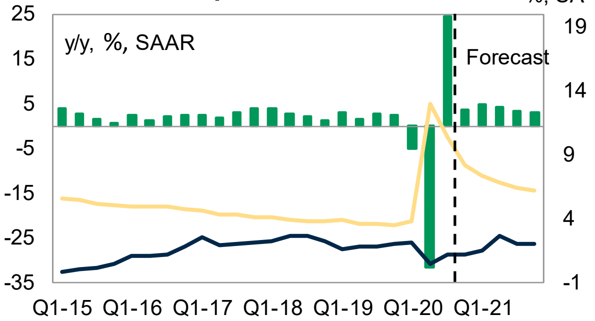
While the main central banks' intervention rates (zero if not negative) are fixed to the floor for the very long term, monetary activism is being deployed via quantitative tools. Interventions are extending well beyond short-term rates, volumes are inflating and pillars are toppling. Every effort will be made to promote and bolster the recovery. Wielding long-term zero or negative intervention rates up to and including quantitative innovations making their marks on longer maturities, monetary activism creates a (really very) low no-risk interest-rate environment with very shallow curves. In terms of foreign exchange, the US elections will be a key factor. Typically, the climate in the US before an election does not drive the USD upwards. As the November vote approaches, however, uncertainty as to its outcome and official (and timely) validation could provide a slight upside. Still, its post-election future could be dimmer than its present has been during the current presidential term.

Autumn will be coloured by these worries, but two things are crystal-clear. The risk-free interest rates of the major developed sovereigns will stay very low for the very long term, and a chaotic and uneven global recovery is taking shape, exacerbating weaknesses to expose an even more fragmented world.

Developed countries – What will the recovery look like beyond the "fake V"?

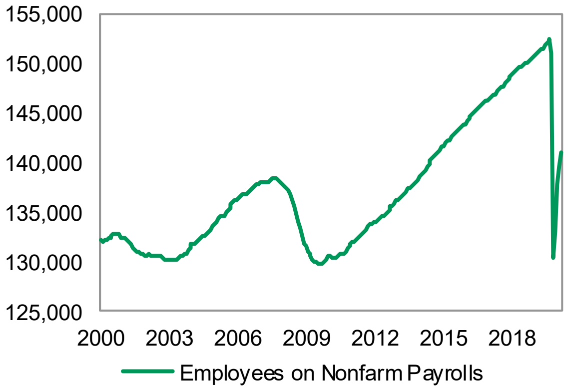
After a historically violent shock, the support measures ushered in a visible rebound. Beyond this largely mechanical "fake V", there are signs of weakening, and, despite government aid, the wounds of the crisis are starting to show. What can become of the recovery, now that its temporary crutches could be partially pulled away?

USA: recovery to slow after better-than-expected initial bounce



Sources: BEA, BLS, Bloomberg, CA CIB

USA: only half of jobs lost have been recovered



Sources: BLS, Bloomberg, CA CIB

Pace of recovery to slow after strong bounce in Q3

The US economy has begun to recover after a severe shock from the Covid-19 pandemic led to a historic contraction, though despite a better-than-expected initial bounce that has led us to revise our outlook slightly higher, the overall process will be a slow and gradual one, with GDP remaining below its pre-crisis level until early 2022. The worst of the crisis is behind us as Q2 contracted at a historically large 31.7% rate. Growth in Q3 should advance at a solid rate, with our model currently tracking an expansion in the 25% range, though we expect the pace to slow moving forward and the magnitude of the decline earlier in the year will result in a contraction around 4.5% for the year on a Q4/Q4 basis.

With consumption making up roughly 70% of total GDP, the consumer generally acts as the engine for the US economy and this year has been no exception. With many businesses closed due to lockdowns combined with a swift deterioration in the labour market that resulted in a loss of over 20m jobs in April alone and a spike in the unemployment rate to its highest level since the Great Depression at 14.7%, consumption plunged at a 34.1% annual rate in Q2 to act as the main driver of the contraction.

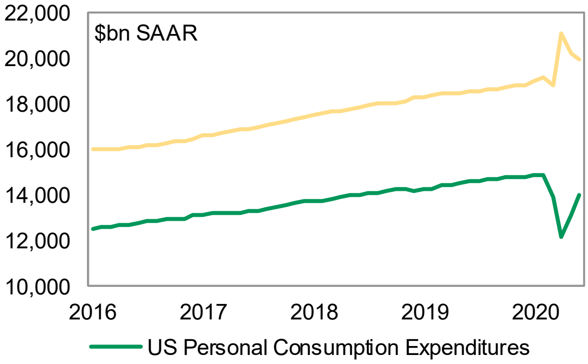
However, with aggressive fiscal support in the form of direct payments to consumers and enhanced unemployment benefits, personal income saw its largest increase in history in April and has been maintained above pre-crisis levels through the latest readings, which has helped drive a strong initial rebound. Retail sales moved back above the pre-crisis peak in July though overall consumption should lag due to the inclusion of spending on services that require increased interaction and will not recover as quickly. However, even with the lag in services spending, we look for consumption to surge just over 30% in Q3 to lead the advance.

Going forward, though, we expect spending to slow notably from the Q3 pace. The enhanced unemployment benefits from the CARES Act have expired and have only been temporarily and partially replaced by an executive order from President Donald Trump, with delayed progress on an additional fiscal stimulus bill. This should weigh on incomes going forward.

Additionally, though there were a number of better-than-expected jobs reports over the summer, the labour market remains weak compared to the pre-crisis period. The unemployment rate of 8.4% sits at almost 2.5x the pre-crisis low while less than half of the jobs lost in March and April have been recovered at this point. With signs indicating that the recovery in the labour market is slowing, this should translate to a slowdown in consumption growth in upcoming quarters.

Along with consumption, a sharp decline in investment was a major driver of the contraction in Q2. Non-residential fixed investment had already begun to slow down starting in Q219 and fell off a cliff in Q220, dropping almost 26%. Residential investment followed suit, plummeting almost 38%. While some components within investment have exhibited a strong recovery, notably residential investment, we expect a slower recovery for investment overall as uncertainties around both the pandemic and the upcoming elections remain high, which may lead to businesses holding off on nonessential investment.

USA: income has been supported by stimulus measures

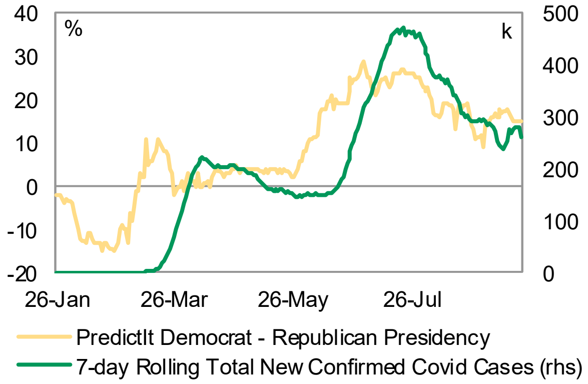


Sources: BEA, Bloomberg, CA CIB

The policy response has been aggressive and has helped to support the recovery so far, though the impact looks to be waning. The Fed has slashed rates to the ZLB, announced open-ended asset purchases, and created a number of lending facilities to support a variety of markets. In terms of fiscal policy, Congress has already passed four relief bills that total almost USD3trn, a historic amount of fiscal stimulus that the CBO estimates will cause the deficit to balloon to 16.0% of GDP in 2020. However, a number of programmes have expired or exhausted their funding and, with negotiations in Congress at a standstill, another package is not likely until after the election at this point.

Looking past 2020, we expect a relatively gradual and slow recovery as, even with states having already started to re-open their economies, a number businesses and consumers are likely to remain cautious and hesitant to fully return to prior spending patterns. While we look for GDP to grow around 3.7% in 2021, this would leave the level of GDP below pre-crisis levels until 2022 in a swoosh-shaped recovery.

USA: election odds have tracked Covid-19 cases



Source: PredictIt, Bloomberg,Crédit Agricole CIB

Risks abound and are tilted to the downside, in our view. While health data has been improving across the former hotspots in the sunbelt, another resurgence of the virus remains a possibility. While there seems to be little political appetite to return to a full lockdown, partial measures would be on the table and could put a dent in the recovery.

Additionally, uncertainties around the upcoming elections are extremely high and will likely weigh on Q4 and potentially afterwards, especially if there is a period of uncertainty during which the final result is not known. Though we expect the result to be closer than suggested by national polls, we view Joe Biden as a narrow favourite for the presidency, though Senate control is also up in the air. Despite betting markets seeing Democrats as a slight favourite, we lean a bit more towards Republicans narrowly retaining control, though would not be surprised either way. If betting markets are correct, a unified Democratic government could be bullish for growth in the short term due to the potential for a larger stimulus package, but would be more of a negative in the longer term, in our view, given the likelihood for higher taxes and a harsher regulatory environment.

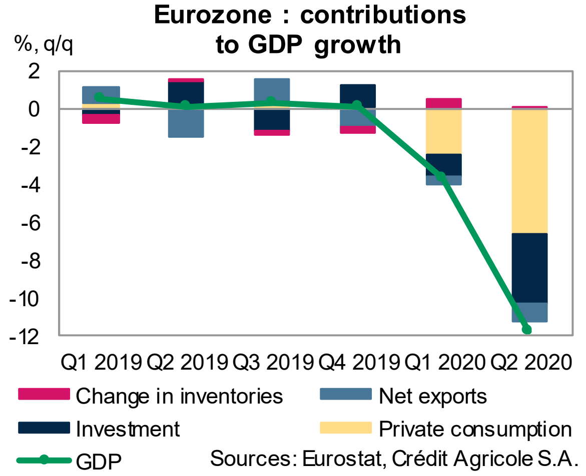
Eurozone: resilience mapping to prevent the worst-case scenario

During the summer, the economy moved in two directions: one very positive, the other less so. **Economic data confirm that the end of the second quarter did feature a very strong rebound in activity and confidence. On the other hand, the epidemic's global trend dispelled any scenario of the virus quickly abating.** The risk of a second wave of the virus, which we predict will be controlled by targeted, localised restrictions, as well as the risk of an uneven recovery are also casting a high degree of uncertainty over our growth scenario.

On the economic policy front, some reassuring certainties are emerging. With the European Recovery Plan, the zone's most indebted countries can count on large, highly concessional transfers and loans guaranteeing positive fiscal stimulus beyond the forecast horizon. With the Fed's change in strategy, any premature reversal of the monetary policy stance in advanced economies is off the table.

Yet underneath the authorities' 'Band-Aids', the wounds from the crisis are becoming visible, and they are only the first. With profits eroding and activity still much reduced in certain sectors, we will inevitably see more and more companies go bankrupt, with higher unemployment as temporary support measures (tax relief and deferrals and short-time work) are removed.

Together, these factors back up our scenario of an incomplete recovery: end-2021 GDP will be 1% lower than its pre-crisis level. The pace of growth in 2021 (+5.5% after -7.4% in 2020) will be slower than required to close the negative output gap that has developed during the crisis. Still, the recovery is brisker than our June scenario predicted, as it was based on GDP sinking 2% from its pre-crisis level. Thanks to better performance in Q2, the recovery looks to be moving faster in Germany, France and Italy, however it is quite a bit slower in Spain.

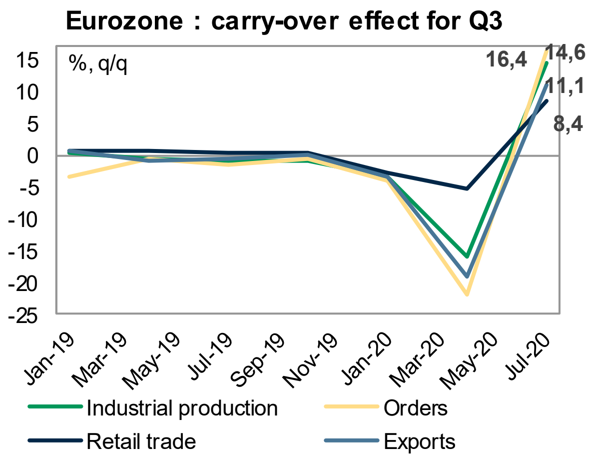


Sources: Eurostat, Crédit Agricole S.A.

Anatomy of an imperfect "V"

The Eurozone's downturn in Q2 was the largest in the post-war period, at nearly three times the initial shock of the 2008-09 crisis.

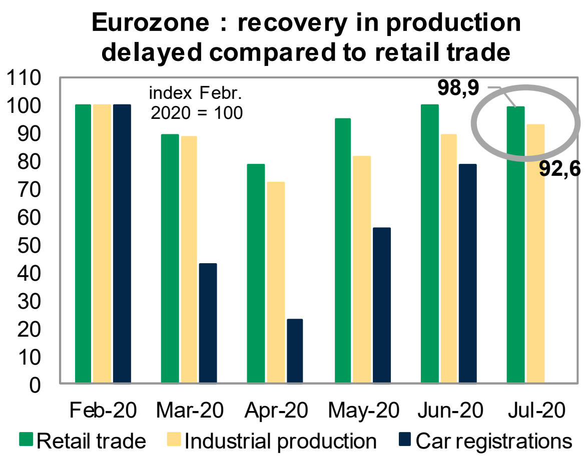
GDP fell by 11.8% from the previous quarter, just shy of projections (-12.7%). **The shocks that buffeted each of the zone's major countries indicated significant scatter:** Spain (-18.5%), France (-13.8%) Italy (-12.8%), Portugal (-13.9%), Belgium (-12.1%) and Greece (-14%) were hit hard. Meanwhile, Germany (-9.7%), the Netherlands (-8.5%), and Austria (-10.4%) showed less GDP erosion than the Eurozone average.



Sources: Datastream, Crédit Agricole S.A.

The slump in GDP in Q220 was primarily the result of **a drop in domestic demand**, which added 10.9ppt to the downturn. The contribution of changes in inventory was just barely positive (+0.1%), signalling that inventory reduction was ongoing after substantial build-up over the March-April period. Foreign trade subtracted just 1ppt from growth. Export (-18.8%) and import (-18%) flows had identical sharp downturns over the quarter.

Consumer spending sank by 12.4% over the quarter (in line with our projections). In most of the Eurozone's large economies, the downturn in consumer spending was similar in scope from country to country, except Spain, which suffered a steeper fall (-20.8%). **Investment** sank deeper (-17% for the quarter). This decline was more contained in Germany, more pronounced in France and Italy, and, once again, Spain stood out in an unfortunate way. The same was true of the decline in exports, which was most extreme in Spain (-33.5%), then Italy (-26.7%) and France (-25.5%), but less substantial in Germany (-20.3%).



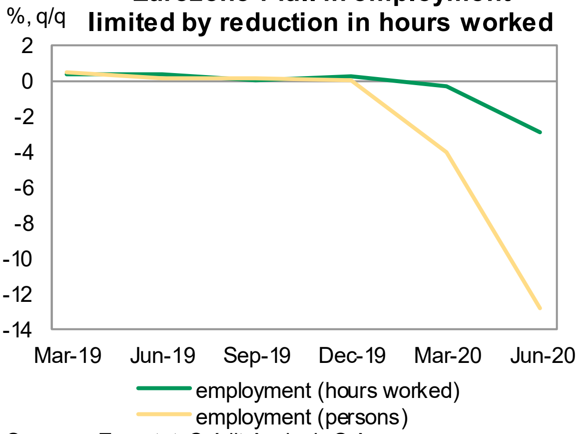
Sources: Eurostat, CA S.A.

In Q220, Eurozone GDP came in 15% below its Q419 level**.** The trend in activity in Q2 was marked by a dip in April and a better-than-expected rebound in May and June. **The pace of growth was rock-solid as the second quarter wrapped.**

Monthly indicators confirmed that consumers drove the initial phase of the rebound. During the lockdown phase, consumers lost less confidence than businesses, and sales of consumer goods picked up again quickly. After 20.3% in May, retail sales by volume picked up by 5.7% in June. Despite a July slump (-1.3%), they returned to February levels. Consumer goods suffered less than other goods: production was less undermined by the crisis, so producer confidence was less affected and more quickly restored.

Consumer confidence bumped back up after May, but did not quite return to pre-crisis levels, due to expectations of a jump in unemployment. **Starting in July, household spending indicators gradually lost momentum.** The jump-start in vehicle registrations could provide a key driver to maintain household spending. Low spending levels over the 2018-19 period, tax incentives and persistently tight spending in certain services, coupled with the relative financial strength of low-debt households, are positive levers for auto sales. In spite of a bumpy restart, registrations (+1.7% in August after +31.5% in July) are now edging up to their pre-crisis level (-0.8%). This reboot could be a cornerstone of a rebound in industry, which has been hard hit by declining auto production.

Eurozone : fall in employment limited by reduction in hours worked

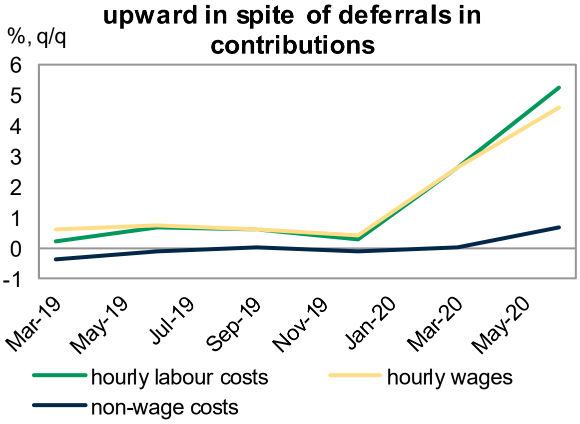


Sources: Eurostat, Crédit Agricole S.A.

Clearly, business confidence has been shaken during the lockdown. However, the view that the economic backdrop would quickly return to normal has matured over time, except for those sectors most affected by social distancing and behavioural changes. Although there was substantial catch-up, industrial output was slower to return to its pre-crisis level than demand. And while there have been major gains (12.3% in May, 9.1% in June, 4.1% in July), it has not recovered its pre-Covid level (-0.7% compared to February) and is still hampered by auto production that itself is still 7% lower than pre-crisis levels.

The recovery in demand was met by substantial inventory reduction in May and June, which offset the inventories stockpiled in April. In fact, unsold production has fallen, and surveys show orders rising faster than inventories can build up. **So an inventory cycle could mark the next two quarters and take up where consumer spending leaves off, supporting production.**

Eurozone : hourly labour costs upward in spite of deferrals in contributions



Sources: Eurostat, Crédit Agricole S.A.

Sketching out a recovery, beyond the mechanical rebound

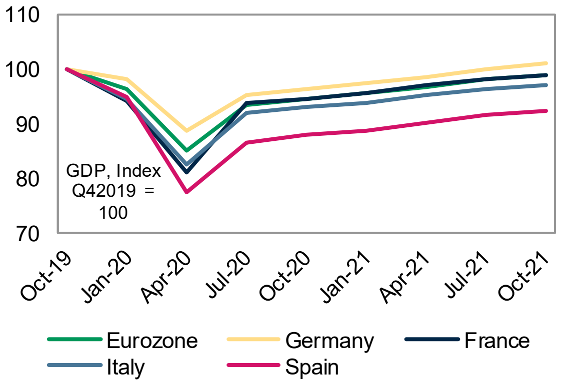
Though mobility indicators show shopping and recreation has been climbing back toward pre-crisis levels since August, **the potential rebound in spending now seems limited by both the advanced recovery in the consumption of goods and the restrictions still in place on consumption of services**. And this is precisely why survey indicators are flagging as Q3 gets underway. The business climate in the European Commission surveys has recovered, but still sits well below where it was before the pandemic. Survey data from purchasing managers confirm that growth in private-sector business in the Eurozone, after peaking in July, has lost its grip and now appears moderate, especially in services.

With high growth carrying over at the end of July, the ‘hard’ quantitative data still point to brisk business in the third quarter. In light of steadily less-enthusiastic survey results, this summer's growth came more from the rebound in activity in the spring and less from any sustained momentum in the third quarter. Our GDP growth outlook for Q3 (10.1%) calls for Eurozone GDP to stay 6.5% below its end-2019 level. Surveys, deflating somewhat, suggest modest growth in Q3.

Short-time work arrangements as well as tax relief and deferrals have stemmed wage cuts, with the bulk of the adjustment impacting profits during Q220.

In Q220, the decline in unemployment (-2.9% QoQ) was out of all proportion to the downturn in activity (-11.8%), since the shock was absorbed by the reduction in hours worked (-12.8%). This reduction did not bring with it a commensurate drop in wages. The wage cuts per employee (-4.7%) did not make up for falling productivity, with a highly negative impact on gross operating surplus (-14.8%) and margins. Ultimately, hourly labour costs (+5.2%) were driven upward in spite of the more moderate increase in non-wage hourly costs (+0.6%) tied to tax relief and deferrals. These systems were applied in different ways: to respond to demand drying up temporarily and to underpin the transition forced by the crisis, but also as a windfall effect in some sectors to contend with transformations that were already in the works before the crisis. So it is difficult to state with any certainty, at this stage, that these systems will be temporary, especially since the European funds (SURE and NGEU) are available to refinance them with a more limited impact on national budgets. However, assuming that tax-deferral mechanisms are phased out, there will be upward pressure on wage costs. This upward pressure – which is bad for profits – will be only partially offset by the resumption of activity in the second half and the turnaround in productivity.

Eurozone : an incomplete and heterogeneous recovery



Sources: Eurostat, Crédit Agricole S.A.

Worsening profitability and the phasing-out of temporary support measures will reveal the first scars of the crisis, especially in terms of bankruptcies and job losses. These are the key factors in the slowdown of our quarterly growth profile in 2021 (+1.1% average per quarter). Still, we are aware that the availability of the first vaccines and the European Recovery Funds will buoy confidence and public investment beginning in Q221, pushing growth up a notch. The confidence scenario is critical: the use of the considerable surplus savings built up during the lockdown depends on it. There is a high risk that the spike in the unemployment rate will transform it into precautionary savings, limiting the potential increase in private consumption. As to the investment cycle resuming, a question mark persists. Capacity utilisation rates are still very low, and it is hard to imagine any expansion in capacity, given the stubborn uncertainties over demand and the expected pace of growth. Although replacement investments are possible to support the required transformation of several activities, it is public investment that is expected to make the biggest contribution to a turnaround in capital accumulation, supported, in the Eurozone periphery, by the European Recovery Fund.

An innovative response to limit fragmentation

Faced with the exceptional scope of the Covid crisis, European national, community and monetary policy authorities seem to have drawn the right lessons from the great financial crisis.

The risk of a premature withdrawal of fiscal and monetary support seems to have been dispelled over the forecast horizon, even though the negative output gap is far from closed. By easing the regulatory and supervisory framework, the unusual nature of the crisis can be managed while rejecting any consideration of moral hazard – unwarranted as it is in these circumstances. And because this is not an excessive debt-induced crisis, the disinflationary mechanisms of debt reduction should also not be encouraged, as they were in the past decade. Also, the banking sector is playing the role of shock absorber, by preventing liquidity crises from turning into solvency crises. From our viewpoint, transitioning from the principle of efficiency to the principle of resilience is a key argument for a forecast that may appear, but is not, optimistic, and for asserting that the course of the 2009 and 2012 crises is not the only route.

In spite of efforts to engineer a more autonomous and uniform recovery, a high risk of fragmentation persists. At the end of 2021, Germany is projected to achieve a higher GDP (+1.1%) than at end-2019; meanwhile, GDP could still be 1.4% lower in France, 3.1% lower in Italy, and 7.9% lower in Spain.

Eurozone Focus – This time, it's really different

It has been a long process. First, the same diagnostics had to be shared regarding the scope of the economic shock. The work of international institutions (IMF, OECD), as well as the European Commission and the ECB, was essential in moving beyond the various national assessments of the overall impact of the crisis and coming to grips with its systemic nature. Next, the various national red lines had to be crossed in order to sketch out the Recovery Plan (Next Generation EU, NGEU). The instruments involved (grants and loans) are those the EU customarily turns to, but balancing the two has been the subject of heated debate. Grants are the standard tool for financing expenditure (specifically for cohesion policies) and, until now, loans have been reserved for financial assistance to countries in crisis. 'Diverting' loans to fund expenditure is a new practice in the EU. The fact that the EU is turning to debt to 'spend' is truly a revolution. The debt will serve as post-crisis support but will also profoundly transform Europe's economies. This is nothing less than a metamorphosis. Lastly, the fact that the Recovery Fund is being hosted and managed by the Commission constitutes an unexpected institutional rebalancing toward the 'Community method', in contrast to the intergovernmental drift that had prevailed over the past decade.

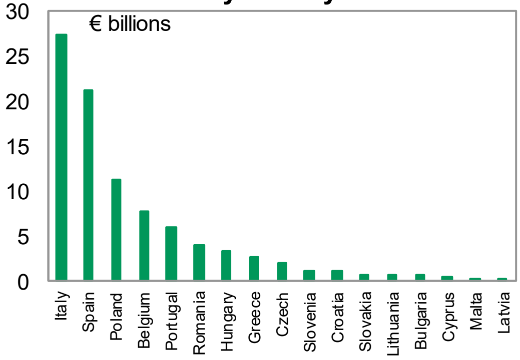
And so, for the first time, the EU has the capacity to provide a fiscal response to the crisis. This is an economically significant response that rebalances the relationship with an overloaded monetary policy which, admittedly, cannot alone guarantee macroeconomic stabilisation, especially since this is not just about stabilisation. Beyond the measures required to limit the 'industrial damage' and job losses, the Recovery Fund, which is supplemented by the National Recovery Plans, does not merely repair what the crisis destroyed. It fits in with a drive to accelerate the transformations of our consumption, mobility, leisure, and production models. Along with the EU's upcoming budget (the Multiannual Financial Framework or MFF), this is the tool that will guide the new Commission's action from now until 2027 toward a shared strategic planning effort, with the goal of greater European autonomy in the new world order. The States' buy-in is a key ingredient in this process. Access to the Recovery Fund hinges on adoption of these spending priorities. The entire budgetary supervision process has been adapted to guarantee consistency between national budget planning and strategic EU targets. The process has also been readjusted to make the Union more resilient. The Stability and Growth Pact is guaranteed to be suspended until the end of 2021 (and probably until the negative production gap generated by the crisis is closed). The issue of the sustainability of public finances has been 'turned upside down' and approached first from the growth angle rather than deficit flows. The debt-to-GDP ratio must fall by increasing the denominator, activating policies to support the recovery and improving growth potential.

RECOVERY PLAN 1 824 billions €					
NEXT GENERATION EU 750 billions €					
SUPPORTING MEMBER STATES TO RECOVER		KICK-STARTING THE ECONOMY AND HELPING PRIVATE INVESTMENT		LEARNING THE LESSONS FROM THE CRISIS	
RECOVERY AND RESILIENCE FACILITY	672,5 bn				
REACT-EU (cohesion and territories)	47,5 bn			RESC-EU	1,9 bn
RURAL DEVELOPMENT	7,5 bn	INVEST-EU	5,6 bn	HORIZON EU : innovation, R&D, external action	5 bn
JUST TRANSITION	10 bn				
	737,5 bn		**5,6 bn**		**6,9 bn**
MULTIANNUAL FINANCIAL FRAMEWORK 2021-2028 1 074,3 bn €					

To achieve this, we must put our trust in the fiscal multiplier. We must hope that public spending generates enough demand and harnesses synergies with private spending to guarantee growth gains. Most importantly, it must not crowd out private investment by increasing its financing costs. Under the current circumstances of vast surplus capacity and ultra-low interest rates, the risk of crowding-out is limited, and public spending may prove very effective. Especially if, as the Recovery Plan has it, it takes the form of public investment (which has a higher multiplier) and support for the reforms. Furthermore, since a good deal of the resources (EUR390bn of a total EUR750bn) are in the form of grants and guarantees, which have a neutral impact on the States' debt (and are to be repaid only in the very long term, either with new State contributions to the EU's budget or, more likely, with new tax revenues), any upward pressure on interest rates can be ruled out.

In fact, most of the resources from the Next Generation EU can be used to bridge the investment gap in the public and private sector, which has widened during the crisis. The Commission estimates that this gap, as well as the gap required to check the fall in public investment and ensure the green and digital transition and the supply of European production chains, would total EUR1.5trn for the 2020-21 period. The Commission also states that the NGEU is expected to increase the EU's GDP by 2.5% by 2024 compared to a non-NGEU scenario. The impact on the debt-to-GDP ratio is expected to be positive overall (-3% by 2030), particularly if countries have low income and high debt (-8.5%).

SURE : loans allocation by country



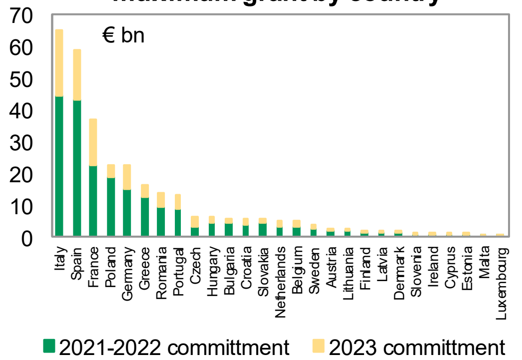
Sources: European Commission, CA S.A.

Stimulus Plan: the small print

The NGEU Stimulus Plan totals EUR750bn (EUR379.4bn in grants, EUR10.6bn in guarantees, and EUR360bn in concessional loans). For the EUR312bn in grants under the Recovery and Resilience Facility (RRF), the precise national allocation is known for the 2021-22 period. For 2023, the allocation will be revised on the basis of 2020-21 macroeconomic results. Grants provided by the RFF must be 70% committed during 2021 and 2022, with the balance fully committed in 2023. Grants allocated under the other programmes (React-EU, Fair Transition Fund, Rural Development Fund, and RescEU) must be allocated to countries based on Covid's impact on the country and the sector. For the EUR10.6bn in guarantees (Invest-EU and Horizon Europe), allocation will depend on the eligibility of the request.

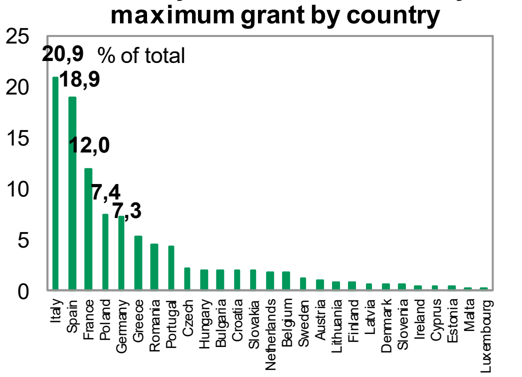
For the €360 billion in loans, the national allocations are unknown. Only the maximum available amount by country is known – 6.8% of its gross national income. If all countries were to request this maximum, the total would exceed the available €360 billion. Yet only those countries that are financed at a higher rate than practised by the Commission stand to benefit from these loans, which restricts the number of potential recipients.

Recovery and Resilience Facility: maximum grant by country



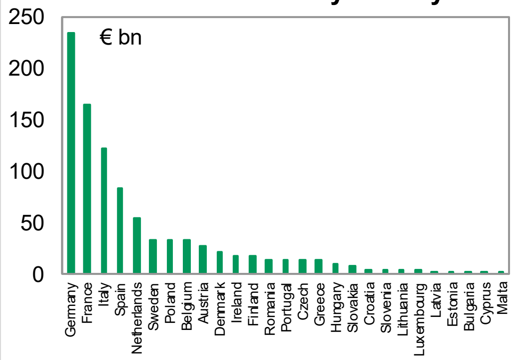
Sources: European Commission, CA S.A.

Recovery and Resilience Facility: maximum grant by country



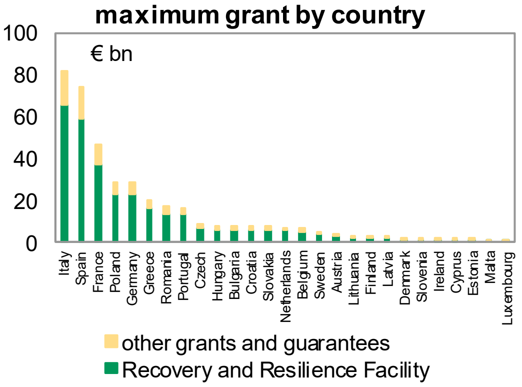
Sources: European Commission, CA S.A.

Next Generation EU : maximum volume of loans by country



Sources: European Commission, CA S.A.

Next Generation EU: maximum grant by country

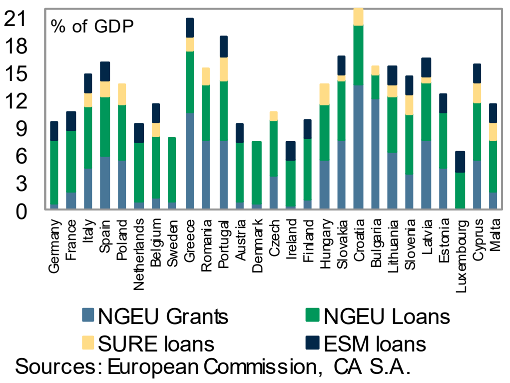


Sources: European Commission, CA S.A.

Admittedly, the aim of the NGEU is to shape the recovery by ascribing to the priorities of the next MFF; but, more importantly, to enable countries to lift themselves out of the crisis. So 70% of the grants must be committed by end-2022 and the remainder in 2023. The funds will be disbursed before 2026, according to a schedule that is not yet published. The loan agreements must be signed before 2024.

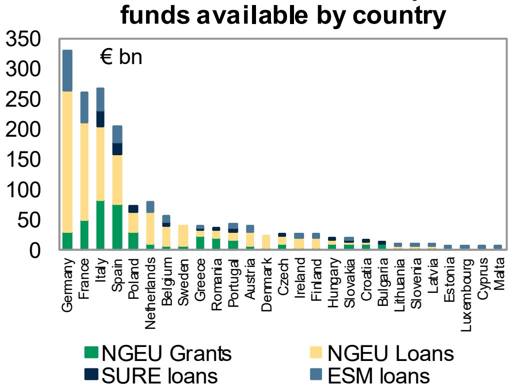
We have estimated a payment schedule for the resources made available by the European authorities. To the NGEU's funds, we have added the loans under the SURE facility, already approved by the Commission and the Council (EUR90.3bn available until 2022 to finance short-time work arrangements), as well as the loans available from the ESM (EUR240bn available until 2022 to fund healthcare spending), which may interest only those countries that are being financed at a higher rate than that of the ESM.

Maximum amount of European funds available by country



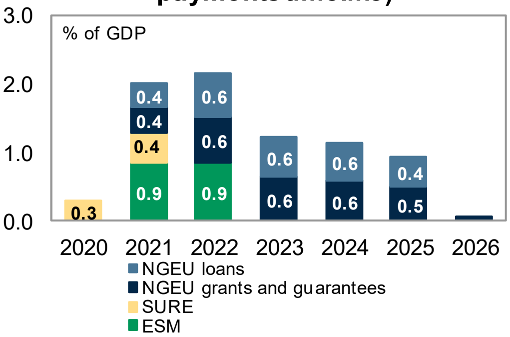
Sources: European Commission, CA S.A.

Maximum amount of European funds available by country



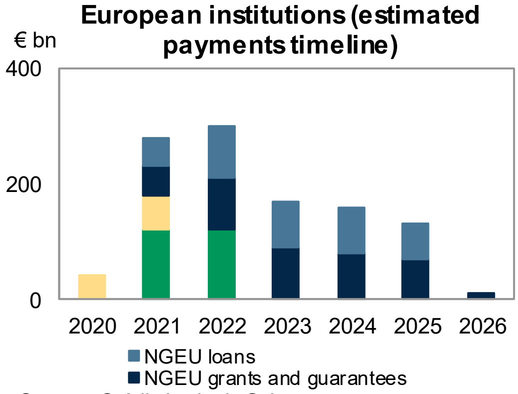
Sources: European Commission, CA S.A.

Maximum funds available from European institutions (estimated payments timeline)



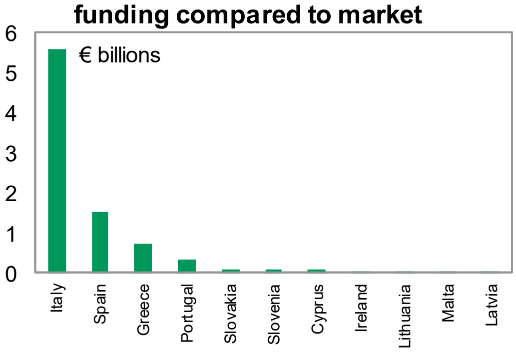
Source : Crédit Agricole S.A.

Maximum funds available from European institutions (estimated payments timeline)



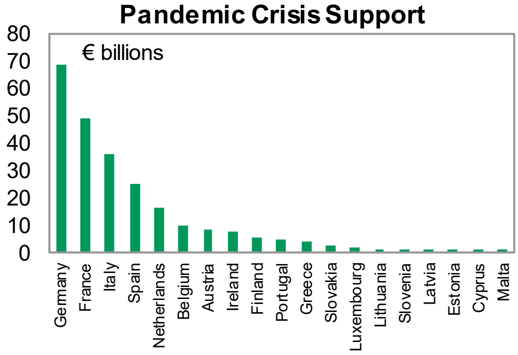
Source: Crédit Agricole S.A.

Gains from lower interest expenditure from 10Y ESM funding compared to market



Sources: ESM, Crédit Agricole S.A.

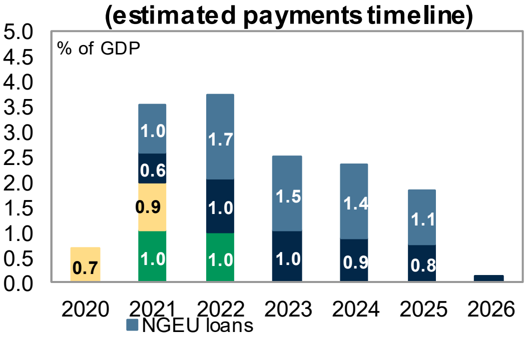
Maximum eligible funds by country (2% of GDP) for the ESM Pandemic Crisis Support



Sources: ESM, Crédit Agricole S.A.

The fund disbursement schedule suggests a fairly major fiscal stimulus in the EU in 2021 and 2022. Countries will also be encouraged to borrow more on short maturities (and at negative rates) to advance expenses, and benefit from a guarantee on the entirety of the funds committed, with actual profit on their interest expenses. Since grants are neutral on national debt, they can be used by countries to replace a portion of national spending, thereby reducing the deficit while guaranteeing positive fiscal impulse to the economy. The loans, obtained under more favourable terms than on the market, can contain the impact of the debt increase on interest rates. Ultimately, the debt's path will be improved by more sustained GDP growth, lower interest charges, and lower deficits. These effects will be all the greater for the more heavily indebted countries, which are likely to make the most of the availability of NGEU loans and the SURE mechanism (and perhaps also the ESM, which to date has not been used). For a nation like Italy, the additional fiscal stimulus could amount to 3.5% of GDP in 2021 and 3.7% in 2022, assuming the NGEU and ESM loans are fully drawn.

Italy : maximum funds available from European institutions (estimated payments timeline)

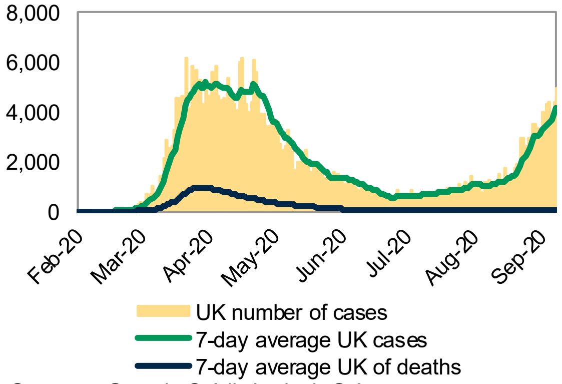


Sources: European Commission, ESM, CAS.A.

United Kingdom: persistent caution

GDP contracted by 20.4% QoQ in Q2. Although historic in its magnitude, this outcome came in slightly below our expectation (-21.8% QoQ). The mechanical rebound that followed in Q3 appears to be stronger than expected. **As a result, we revise upwards our forecast for Q3 growth to close to 17% vs 14% previously and annual 2020 growth to -9.6% from -12%.** Besides those adjustments to the UK growth profile, the big picture remains the same. The economic shock, resulting from the Covid outbreak and the social distancing measures implemented to contain it, was greater in the UK than elsewhere in the developed world. This seems to be followed by a relatively strong rebound driven by household consumption.

UK: Covid-19 cases have risen rapidly recently

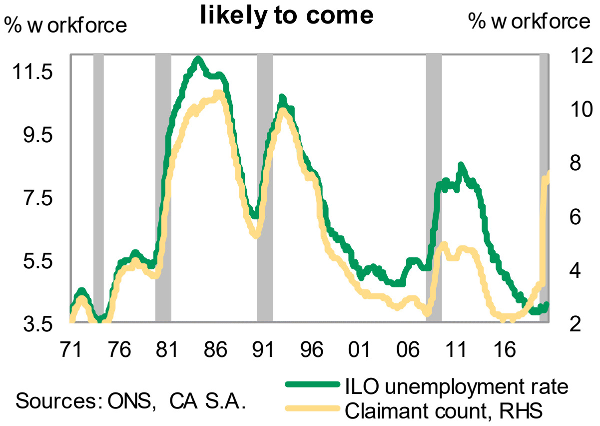


Sources : Gov.uk, Crédit Agricole S.A.

However, that strength is likely to be temporary. Indeed, the immediate post-lockdown recovery benefited from a favourable combination of factors, which is now dissipating. Extraordinary fiscal stimulus (GBP166bn in Q2 and Q3) has shielded income and spending. This coincided with the relaxation of lockdown measures while infection rates were low. Infection cases are on the rise again obliging the UK government to announce new Covid-19 restrictions for the next six months, including closure of pubs and restaurants at 10 PM and abandoning attempts to persuade workers to return to the office. The fiscal stimulus is set to decline in the coming months (to an average of GBP15bn per quarter in Q4 and Q1 (according to estimates of the OBR and the BoE). **The unemployment rate is expected to increase to close to 8% in Q4 as the furlough scheme expires in October and participation recovers with the reopening of the economy.** The unemployment rate has already started to increase (to 4.1% in the three months to July from 3.9%) as redundancies posted their largest quarterly increase (+48k). Meanwhile, earnings growth is now negative at -1% (-1.8% in real terms), dragged down by the 20% pay cuts for furloughed workers who now represent 10% of the workforce. The fall in wages is a significant and rapid deterioration from 2.9% and 1.2% earnings growth respectively in February.

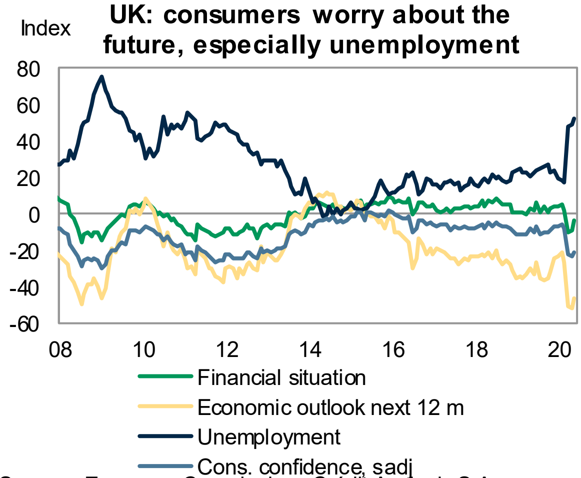
Therefore, we continue to expect a sharp slowdown of growth in Q4, due to sharply rising infection cases, expectations of a significant rebound in unemployment rate, the diminishing fiscal stimulus in the

UK: the claimant count suggests a dramatic rise in unemployment is likely to come



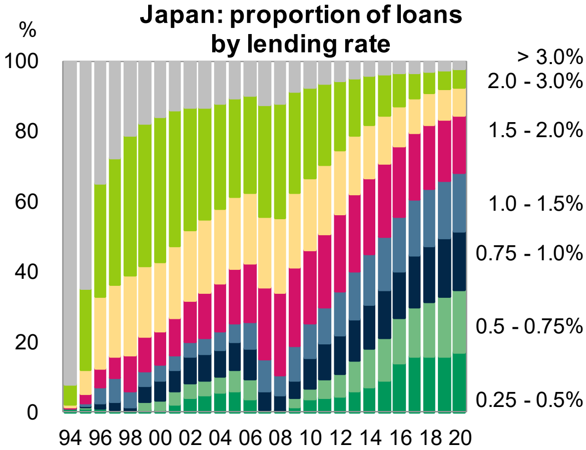
Sources: ONS, CA S.A.

UK: consumers worry about the future, especially unemployment



Source: European Commission, Crédit Agricole S.A.

Japan: proportion of loans by lending rate



Sources: BoJ, Crédit Agricole CIB

coming months and, last but not least, persistent and aggravating Brexit uncertainty. At the same time, inventories' rebuilding ahead of Brexit represents upside risk to growth in Q4. **We maintain our view that consumer confidence will be slow to recover.** After the initial rebound, consumer confidence levelled off and stays well below its pre-crisis level. Households that are worried about possible redundancies and loss of income are likely to maintain a high level of precautionary savings. **At the same time, the above mentioned near-term risks, notably Brexit, continue to dampen business confidence and investment.**

Regarding Brexit, the probability that there will be no trade deal has risen substantially especially after the government's controversial UK Internal Market Bill. **Nevertheless, we continue to expect a deal to be signed eventually with the UK admitting some late-minute concessions on regulatory alignment.** This will likely be a basic and relatively limited Free Trade Agreement (FTA) in order to avoid quantitative barriers to trade such as tariffs and quotas. Importantly, a basic FTA will likely imply significant restrictions to trade in goods and services in the form of non-tariff barriers (customs controls and procedures, regulatory checks, rules of origin, regulatory barriers in services, loss of passporting rights in the financial sector, etc). These barriers are likely to imply significant distortions to trade as early as Q121 and higher administrative costs for businesses. Some continuity of trade flows could be maintained if the parties agree to prolong the status quo in order to keep working towards a more comprehensive accord during 2021, especially concerning trade in services. However, this would necessitate a more cooperative approach by the UK government and certainly more concessions in the most conflictual issues like level playing field and fisheries. This looks unlikely in our view given the UK government's stance. **So, our central scenario accounts for trade barriers to come into effect at the beginning of 2021, resulting in weaker bilateral trade flows and a further slowdown in UK growth in the first half of 2021.**

Japan: to remain on a recovery path towards 2021 helped by ongoing monetary policy and additional fiscal policy

After plummeting in Q2, Japan's real GDP is likely to jump +15.4% QoQ saar in Q3 in a reactionary manner led by private consumption and a decline in imports. While slowing towards potential (c.1% pa), **the economy will remain on a recovery path towards end-2021**, assuming Japan will hold the Tokyo Olympic/Paralympic Games as planned in July to September 2021.

After Shinzo Abe's unexpected resignation as the ruling LDP president and PM, Yoshihide Suga, former Chief Cabinet Secretary under Abe, became the new PM. He has repeatedly said that his cabinet's priority is to support the economy under Covid-19, which implies **additional fiscal support in the form of a third supplementary budget in Q420, in our view**, while monetary policy will be left intact.

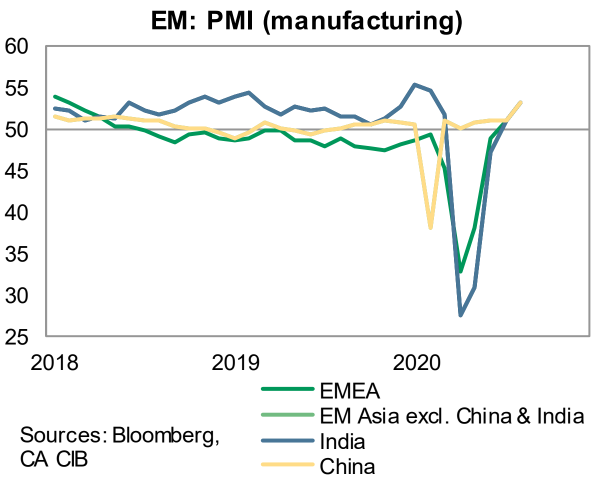
A risk to this scenario is a case where an increasing number of SMEs go under with Covid-19 lasting longer, translating into higher-than-expected credit costs incurred by lender banks as their lending margin has been deeply suppressed under the BoJ's YCC. In this case, the risk-taking capacity of banks may be reduced, which could make private capex, for instance, weaker than we expect despite ultra-low interest rates.

Emerging Countries – Time for some sorting?

After an all-time low Q2, a late-year sequential recovery is taking shape, albeit a disjointed one for the emerging economies – especially because some of them are a long way from controlling the pandemic's trajectory. Moreover, the drivers of this recovery vary widely by country and by region, with Asia saving more, and Latin America in real hardship. Yet everywhere, rising poverty in the middle class and youth unemployment are triggering social unrest and requiring very difficult trade-offs in economic policy.

A restricted recovery

In the last quarter, nine months after the onset of the virus, activity began to recover in emerging countries, but the recovery was just as uneven as the decline during the height of the pandemic. The health situation in India, Brazil, Colombia, Iran and Iraq is still highly uncertain. Meanwhile, Israel is one of the few countries in the world to have reimposed a lockdown for the autumn. Conversely, others such as China and Vietnam seem to have got a handle on the trajectory of the pandemic. Still, in many countries, strict control measures are being taken, verging on a return to lockdown in some cities. Against this backdrop, reopening borders is not guaranteed, nor is it in the works, which is complicating short-term trade flows and medium-term business strategy.



Sources: Bloomberg, CA CIB

Here is one piece of news that will drive the script: **the pandemic will continue to have a global impact for quite some time, even at a low level, and even if there is a vaccine**. This is not without impact as it will drag down consumer and investor expectations. Most importantly, although the late-year sequential recovery promises to be robust for many emerging economies, after a historically low sQ2, 2021 will usher in a restricted recovery in several areas.

First, foreign trade, this is despite the fact that many countries have a positive contribution to growth from their external accounts, mainly due to declining imports. Next, direct investments, because structural issues for tourism are being exacerbated by the pandemic's longevity. These are now being priced into investor expectations, and for countries like Thailand, Morocco and Croatia, the thorny problem of the growth model may come up sooner than previously thought. And even for Singapore, a wealthy country – though one of the Asian countries in deep recession in 2020 – the development model's heavy dependency on globalisation also raises questions.

The appeal of self-sufficiency

For now, in this environment, **the economic advantage will be with the large countries capable of some form of self-sufficiency, and those with more diversified economies.** For instance, the recession is more limited in Poland than in the Czech Republic, which is highly dependent on the German automotive cycle. As for China, the president is officially theorising the idea of a more self-sufficient model founded on a "dual circulation" strategy, which is also a response to the intensifying battle for supremacy with the United States. Lastly, in Russia, the border closure is stimulating spending on domestic tourism, which was a very weak item in the balance of payments. As such, this could be one argument that delays reopening of the borders...

Furthermore, **this restricted recovery is influencing consumers, savers and investors, but not in the same way in each country**, and here we see the traditional features of the different regions. Asia saves more than Latin America (32% of GDP compared to 18%), and Russia tends to spend during a crisis, with short-termist consumers fearful of currency depreciation. For Turkey, consumption commonly rebounds after each crisis, driven by a (too) strong pick-up in lending. This rebound deepens external deficits, a source of currency risk.

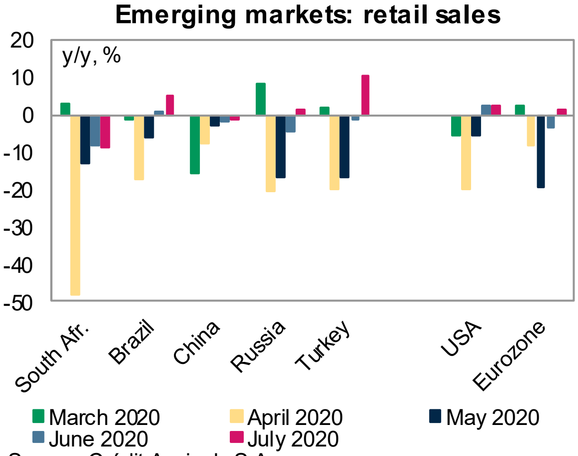
The result is **an uneven retail sales curve in emerging countries**, which may be surprising, since that means it is unrelated to the pandemic: a quick turnaround in Turkey and Brazil, but a supply lag in China. Indeed, the trend in this supply/demand lag will be very important in the coming months because it creates different risks depending on the country, in both the short and long term. There is an inflationary risk in Turkey, even in India, but deflationary threats in the more savings-oriented Asian economies. There are also risks of investment shortfalls in the consumer-oriented economies, particularly Russia and Brazil, and weaker growth potential.

Withstanding the crisis by reinventing development models

Ultimately, the cyclical picture for 2020 is uneven, with China still the only real driver. As for 2021 forecasts, **growth will bounce lower than its long-term trend for most countries.** Above all, the gap will widen between those that have the means to withstand a restricted global environment and those that do not; for them, the irreversible damage of the crisis will quickly become apparent.

This divergence is already visible in the unusual deviation from growth forecasts in 2020, with countries in deep recession, such as India and especially Mexico, and the rare others that are still in positive growth, like China, of course, but also Taiwan and Vietnam, or in a very slight recession, like Korea.

Emerging markets: retail sales



Source: Crédit Agricole S.A.

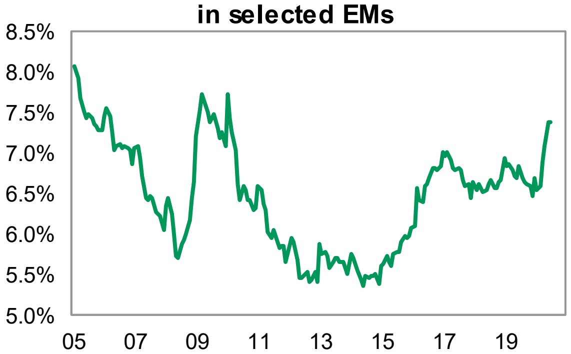
For investors, then, everything points to a country sorting approach. But what are the criteria? The most obvious – wealth – is also the most quantifiable, and includes private, government, and business wealth. But other factors will come into play soon when the cards are thoroughly reshuffled. These include crisis strategy management and the governments' skill during the exit phase from extraordinary measures; the quality of institutions, and political and social cohesion, which determines how much leeway countries have; and innovation factors specific to each country. The Covid-19 crisis is peculiar, in that it sets governments up against cyclical emergencies and structural imperatives all at once.

Watch for rising poverty in the middle class

The most at-risk countries in the short term are the 60-odd low-income countries. The UN is sounding the alarm on the risk of an unprecedented plunge in development indicators, and sovereign defaults are looming in Africa. But be alert to middle-income nations as well – they account for the majority of emerging countries. Everywhere, the lower-middle class is abruptly poorer, and this will drag down consumption. It is an especially key issue for growth in India, Latin America, South Africa, and the European periphery, in Ukraine, Bulgaria, and Romania. For Russia, although it is the highest-income BRIC country, this newly-impoverished middle class is a genuine political risk.

Latin America and the Caribbean will be among the hardest hit by the threat of poverty. The reduction in working hours is more drastic there than the global average (20% vs 14%), and unemployment will likely climb from 8% to 13% between 2019 and 2020. The most fragile countries are expected to be Chile, Brazil, Mexico and Colombia. Moreover, with the exception of Chile, this unprecedented shock to the labour market is being exacerbated by very high levels of casual work (62%). This hinders the implementation of plans to support the economy and consumers, because it deprives millions of workers from access to Social Security and limits governments' tax collection capacity.

Unemployment rate in selected EMs



PPP GDP-weighted average: HK, Taiwan, Korea, Singapore, Russia, Turkey, Poland, Brazil, Mexico

Sources: Bloomberg, CA CIB

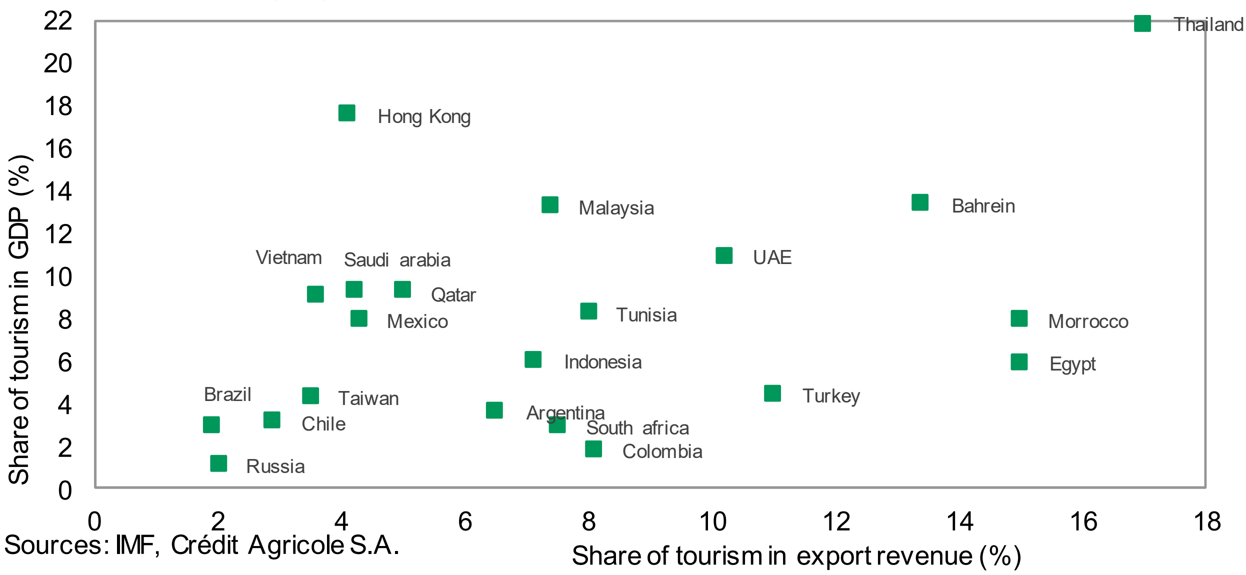
Right now, Latin America is the region of greatest concern on the economic and political front. In fact, all of the structural factors behind this delayed income convergence, compared to other emerging countries, are now negative factors in the fight against Covid-19, especially poor governance and insufficient investment and savings.

Youth unemployment – even in Asia

Another cohort **in grave economic danger is young people, including in the Asia-Pacific region** (which makes up 55% of the world's total in that age group). Due to Covid-19, unemployment is on the rise for young people in virtually all countries in the region – with the worst of it in Hong Kong – though it was already quite a bit higher than average for the region before the crisis (all ages combined), at 13.8% compared to 3%.

In all of the emerging countries, the pandemic's impact will have severe repercussions on the social fabric. Political risk will also remain high in 2021, especially where tensions were high before Covid-19 (Latin America, as well as Algeria, Jordan, Egypt, and more). This will clearly get in the way of lifting measures that were intended to provide temporary support at the outset, while keeping public deficits high. Funding these will be a central issue and the key issue when analysing sovereign risk.

Emerging markets: share of tourism in GDP & exports



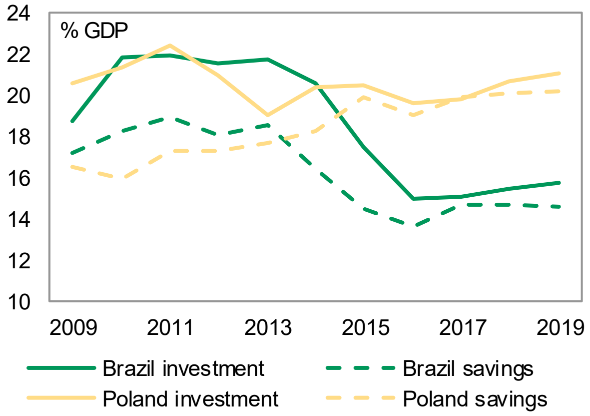
Sources: IMF, Crédit Agricole S.A.

Resurgent sovereign risk

Along with the issue of household wealth is that of government wealth. In this area, **the traditional sovereign risk criteria will play a major role in any trade-offs**. For international rating agencies and markets alike, countries with sovereign funds and low public debt will stay reassuring, even though the oil-producing countries' development models have weakened in the long term. Still, this confidence must be circumspect, because, although the size of sovereign funds can buffer financial tensions, there is greater porousness with public finances. There is also a lack of statistical visibility: it is hard to make any financial assessment of the state of sovereign funds.

On the other hand, **low-liquidity countries are under pressure and will remain so, even if their growth does resume**. Such is the paradox in Turkey, where the level of reserves is becoming critical, while credit-driven retail sales are recovering. More generally, all countries in urgent need of external funding in foreign currency will be watched very closely during a prolonged pandemic, as the short-term debt roll-over automatically becomes more difficult. For many, the IMF's support will be crucial (81 countries aided to date, and EUR250bn made available to its members, ie, one-quarter of its total lending capacity), as will that of 'friendly' foreign creditors, for countries like Bahrain and Oman.

EM: investment and saving



Sources: IMF, Crédit Agricole S.A.

States whose public debt is too high, like Brazil, India, and Egypt, **will benefit from a relative effect, in a world where the idea of an alert threshold on debt is losing its meaning, but sovereign stress will stay high**. It will be concentrated where foreign currency debt is greatest, and the short-term burden of repayment heaviest. Rating agencies will most likely become more active in the months to come. Brace yourselves for the ratings shock...

The tricky trade-offs of "normalisation"

It is harder to assess corporations' wealth because statistics are less transparent. However, it is a major concern, specifically for large exporters who have debt in USD and fewer foreign currency resources. The crisis, if it arrives, will not necessarily come from a balance-of-payments problem, but it may move from the micro- to the macro-economy... and it may come from the banking sector, especially in countries where this sector was fragile before Covid-19, such as Ukraine, Tunisia and Kazakhstan.

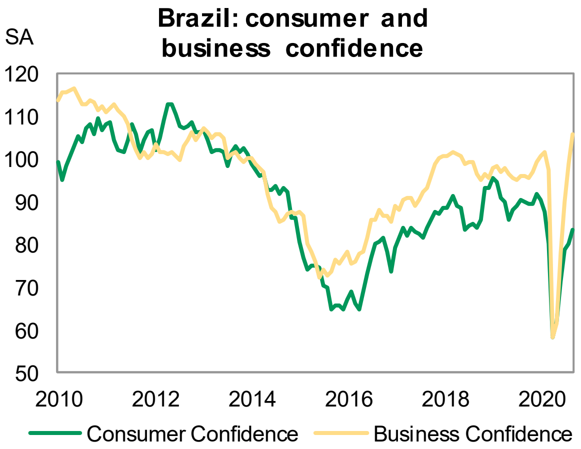
In fact, **monetary policy activism has prevented liquidity risk** by making use of low-rate policies, reduced bond reserves, asset purchases, and guarantees, **but it is also a way of creating new risks on banks' balance sheets and off-balance sheets**. Today, the rate-cutting cycle is reaching an end in many countries, as the question of exiting from extraordinary measures arises. So now is the time when financial risks may come to light. The Development Bank of Latin America is issuing warnings about the urgency of prudential regulation and the imperative of rebuilding bank reserves.

In conclusion, these economic policy trade-offs will demand real finesse: for governments, maintaining socially essential measures while also managing sovereign constraints; for central banks, avoiding liquidity risks while keeping solvency risks in mind.

Brazil: back to the reform agenda

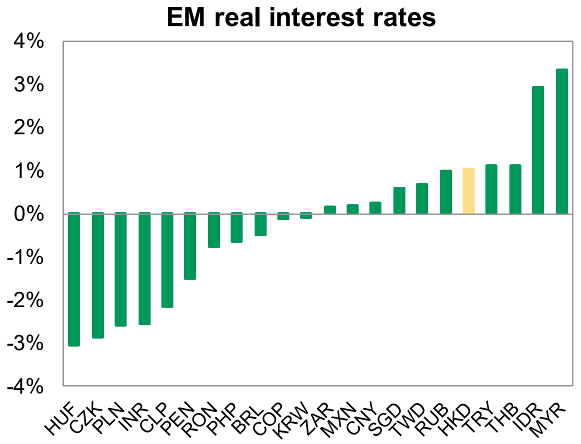
While the latest figures on growth suggest a brisker–than-expected rebound, the economy is still expected to have gone through one of the most severe economic shocks in modern history. GDP forecasts for 2020 have been revised slightly higher but the level of uncertainty on 2021 growth remains high as consumption is set to remain weak and private investment deeply hurt. Brazil's public accounts will remain under the scrutiny of markets and rating agencies as the level of public debt is expected to jump to more than 95% of GDP by the end of 2020 and beyond 100% in 2021.

The biggest challenge will be for the government to comply with Brazil's public expenditure ceiling rule (law) while still delivering on the extension of emergency programmes to 2021. The 2021 budget remains a significant source of uncertainty for markets, and any attempt by the government to cut corners on complying with the rule could be the source of a new crisis. The tension in Brasilia is likely to remain elevated as we head towards the municipal elections in October. The results will serve as a first indication of how President Jair Bolsonaro's administration is perceived across the country, and it will set the tone for the very beginning of campaigning for the 2022 presidential race.



Sources: FGV, CA CIB

Looking into 2021, the biggest challenge will be to revert back to a fiscally sustainable post-Covid trajectory, while also focusing on the reform agenda. There are rising risks that policy orientation may shift to a more unorthodox and populist course. We expect the mix of recession and disinflation will make the BCB keep rates low for a long period of time, which, together with all the structural challenges, should put a cap on Brazilian assets' attractiveness. That being said, the BRL has room for appreciation against the USD as it catches up to levels more consistent with structural fair value measures and the rest of EM peers.



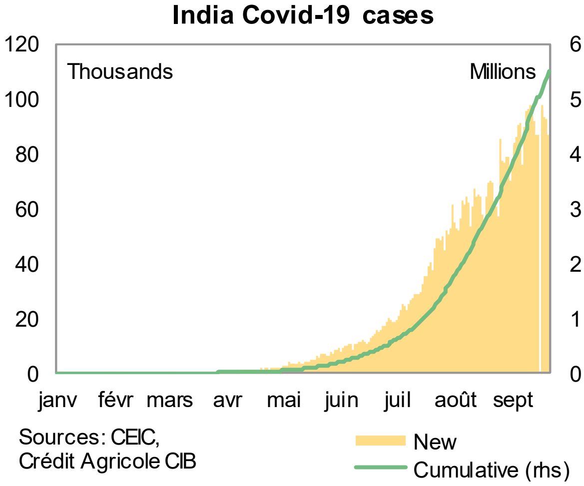
Sources: Bloomberg, CA CIB

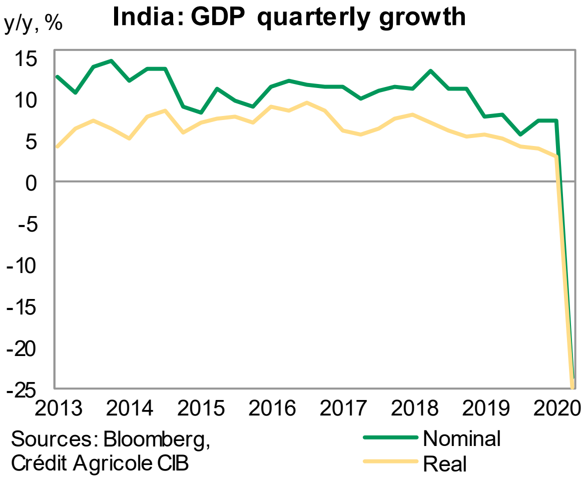
Russia: the risk of being cautious

Russia has had to face a dual shock so far in 2020: (1) the Covid-related containment measures have partly paralysed the economy, in particular in Q2; and (2) lower oil prices and production (as per the OPEC+ agreements) have added an additional constraint. After having collapsed in Q2, the economy has gradually and partly begun to recover since then. However, both supply and demand have still contracted in recent months, compared with one year ago – albeit supply more so than demand. Consumer demand has recovered more quickly, partly because of government support and as travel restrictions led the Russian population to spend domestically part of the money they would have otherwise spent abroad. It has also likely helped that small- and medium-sized enterprises (traditionally strongly hit by this kind of shock) make up a smaller share of GDP than in most other large economies.

The government and the central bank have implemented measures to try to limit the pain, but both with a significant dose of cautiousness. Government stimulus measures have amounted to an estimated 4% of GDP (including loan subsidies and delays in tax payments) – less than in many other countries. The central bank has lowered its 1W repo rate by 175bp to 4.25%, but made sure real rates remain positive.

Overall, such a cautious policy mix is still perceived by the government as required in order to (1) keep strong government and external balance sheets and (2) preserve financial independence vis-à-vis the rest of the world (be it the market, or any institution that could be under the US's sphere of influence). This is a condition to limit Russia's vulnerability to geopolitical tensions (and to possible sanctions – eg, we will closely watch what happens in Belarus and developments related to the Alexei Navalny poisoning).





What happens next will depend on the health situation. The number of Covid infections has started to climb since the beginning of August. It seems reasonable to take into account the risk of a second wave in Russia's outlook. The government seems keen to avoid another full lockdown. However, targeted containment measures could be implemented. We expect Russia's GDP growth to contract by 5% in 2020 (before recovering to 3.5% in 2021).

Domestic political risk remains something to be monitored in the meantime, particularly if the resurgence of Covid cases is confirmed. Should social unrest arise, the government's financial cautiousness may be challenged and the government may then have to consider additional stimulus measures.

India: underperforming

The battle against the pandemic and its economic fallout is far from being won. The government has not managed to contain Covid-19 yet, with new daily case data showing near-90k levels and cumulative infections approaching 6m despite a relatively low proportion of the population being tested. Nevertheless, New Delhi has still decided to resume suspended economic activity given how sharply the economy contracted in Q220, with real GDP growth at -25% YoY, among the worst results globally.

Based on high frequency data, activity is rebounding and sentiment indicators point to significant improvement going forward. Unfortunately, the pace of recovery will probably be disappointing due to poor fiscal conditions – in particular the collapse in budget revenues and limited monetary room for manoeuvre – along with CPI inflation elevated and well above the top of the target band.

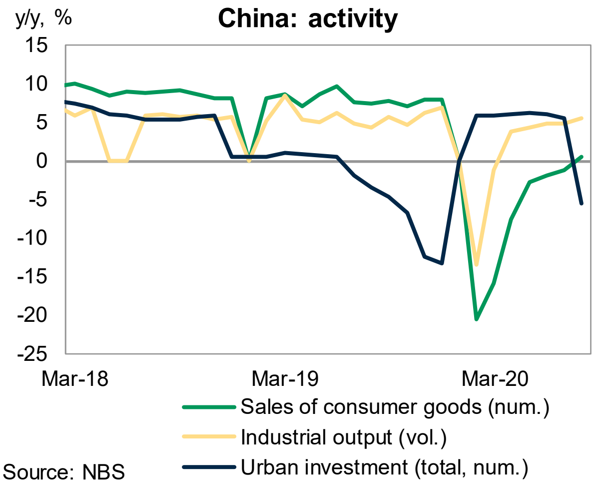
We forecast a contraction of the economy this year by 5.8%, before it rebounds by 8.4% in 2021, with CPI inflation averaging 6.2% this year and 4.1% next year, and current account shifting to a 1.0% of GDP surplus in 2020 before returning to a 1.0% of GDP deficit in 2021. We still see 25bp in RBI rate easing this year and another 25bp in 2021, leaving nominal rates relatively high. The INR should resume depreciation, weakening vs the USD to 73.75 at the end of 2020 and 76.75 at the end of 2021.

China: growth, but at what cost?

It's official: the recovery is confirmed

China will be the only G20 country to experience positive growth in 2020. With the health crisis behind it, the Chinese authorities' strategy has been crystal-clear: restart the industrial machine by filling companies' order books, thanks to public demand, and ensuring their cash flow by stimulating bank lending. Doing without the kind of grave announcement of 2008, and taking care to maintain fiscal and especially monetary leeway – the PBoC had repeated several times that it would do everything to avoid the pitfall of too-low interest rates and the liquidity trap – China has focused on solutions that worked in the earlier crises.

And this has paid off in the industrial sector, where production saw a V-shaped recovery: after a 9.6% YoY decline in Q1, the secondary sector carried the recovery into Q2 and posted growth of 4.7%. Manufacturing PMIs remain in expansion territory. The pace of loan disbursements has remained solid: new loans outstanding already account for 25% of GDP



Source: NBS

and picked up again in August after slowing slightly in July. Finally, public investment made a positive contribution of 5ppt to Q2 consensus growth.

A new goal: refocus on domestic demand

All the lights are green on the supply side, which argues for an even more optimistic growth forecast. However, on the demand side, the situation is hardly comparable, despite Xi Jinping's speeches presenting his new dual circulation that aims to reduce China's dependence on the outside world, particularly on certain strategic products (food and electronics) that could be affected by restrictions due to geopolitical tensions, and increase domestic demand. After seven months of contraction, retail sales finally registered very slightly positive growth in August (0.4% YoY) but showed a much slower recovery trend than in other areas (the US and Eurozone in particular). More worryingly, the labour market is still moving in rather the wrong direction. Although the level of urban unemployment remains around 5.7%, job creation is still very low. As a result, households continue to lean towards precautionary savings rather than consumption.

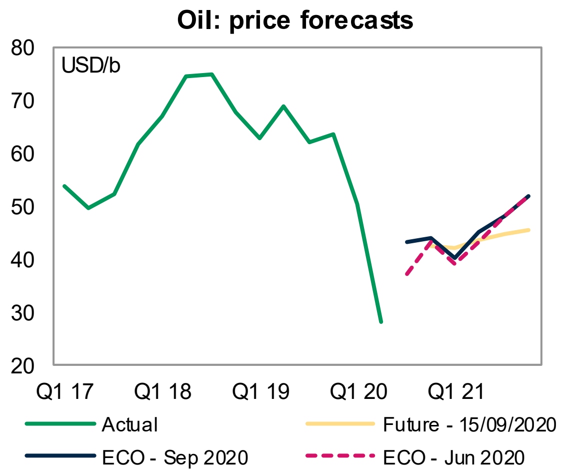
The challenge: rebalance growth

Highly robust investment and more-resilient-than-expected foreign trade should offset the low contribution of consumption and allow us to **maintain our growth forecast at 3% in 2020, before accelerating to 8% in 2021.**

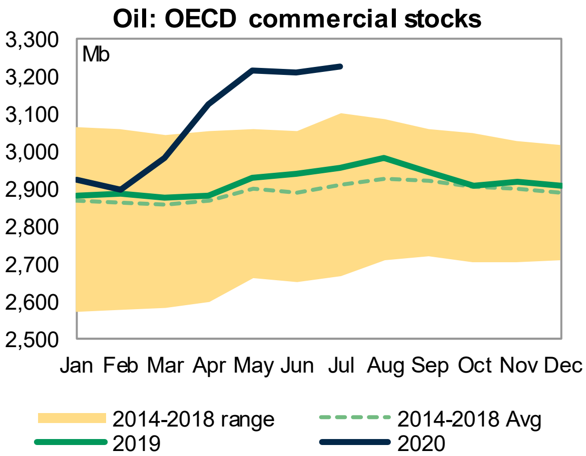
However, rebalancing growth promises to be difficult. First, because consumers are still cautious, and will remain so until the social protection system is kinder to them (unemployment insurance in particular) and job creation resumes; and second, because the geopolitical situation and tensions around technology transfers (5G and semiconductor supply) will require massive investment plans to catch up China's technological lag. Xi Jinping's announcements at the United Nations and his promise to achieve carbon neutrality by 2060 will also require significant public spending. However, while China appears to be emerging from this crisis gracefully, its financial situation has been hit hard nonetheless. Total debt is expected to reach 300% of GDP in 2020 and, while Chinese banks are not known for total transparency on non-performing loans, these are still expected to increase by the end of the year. Of course, the risks are still contained, not least because this debt is mainly domestic and denominated in local currency. Yet it could limit what room the authorities have to manoeuvre in the medium term and, more importantly, could trigger predatory effects with regard to private-sector companies, since these generally have less support from the banking sector even though they are more efficient, should bankruptcy levels increase.

Oil – Market still under pressure until a vaccine arrives

Despite significant production cuts hastily implemented by OPEC+, oil inventories are still relatively high. The market continues to suffer from a weak recovery in consumption. Oil prices are expected to remain in the USD45/bl range as markets hopefully await the arrival of a vaccine in H221.



Sources: Thomson Reuters, CA SA - ECO

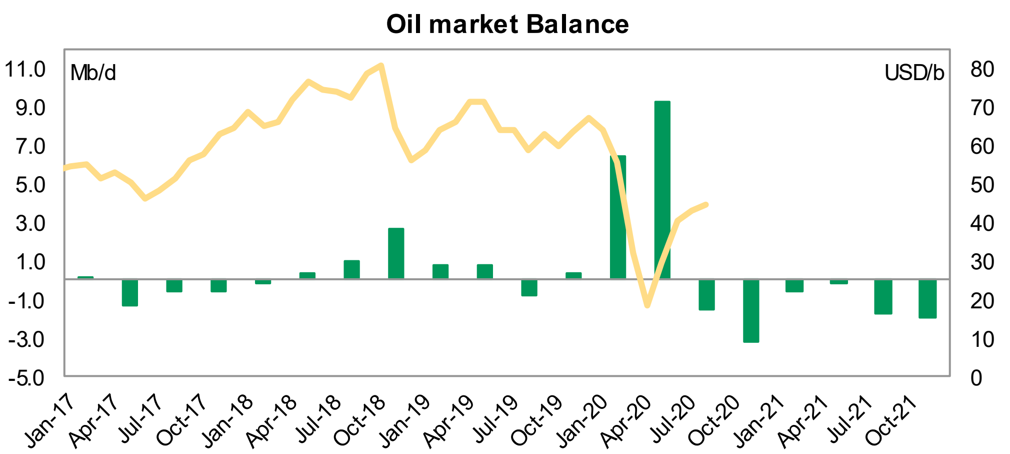


Sources: OECD/IEA, OMR

US and OECD oil inventories are still high and much higher than historic levels. Compliance with OPEC+ production cuts has been good overall, thanks in particular to Saudi Arabia and Russia, but they have not gone far enough. The arrival of summer, traditionally a time for higher fuel demand, failed to coax consumption back to pre-Covid levels. Drastic cuts to long-haul flight schedules, a dismal road-trip season in the US, and an economy still below cruising speed have put the brakes on a recovery in oil product consumption.

Against this backdrop, the oil market's equilibrium still hinges on OPEC+ cuts. The trend in inventories will surely be scrutinised by OPEC+, whose output is expected to rise again in 2021 (+1.9m bpd) after an initial uptick of 1.3m bpd in August compared to July. Without a clear pick-up in demand over the coming months, inventories could cause more anxiety and push OPEC+ to double down on its production cuts.

Our scenario is still based on gradually rising demand and proper compliance with production quotas by OPEC+ members. The increase in demand is expected to quicken starting in Q321, assuming a Covid-19 vaccine is rolled out then. However, it is likely that global demand at end-2021 will still fall short of Q419 levels. With this uncertain outlook, oil prices could stay below USD45/bl until next spring and then begin climbing as the economy gets back up to speed.



Sources: OECD/IEA, OMR, Thomson Reuters, CA SA - ECO

Monetary policy – Maximum flexibility

While intervention rates (zero if not negative) are fixed to the floor for the very long term, monetary activism is afoot via quantitative tools: interventions are extending well beyond short-term rates, volumes are inflating, and pillars are toppling. Every effort will be made to promote and bolster the recovery.

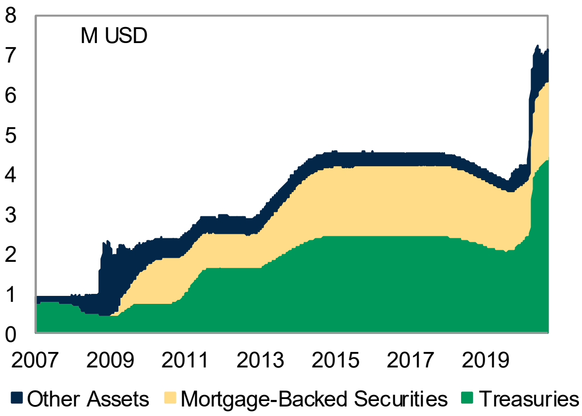
Fed: rates at the ZLB for years to come

Since an aggressive, multi-pronged response early in the crisis that included slashing rates to the ZLB, announcing open-ended asset purchase, and creating a number of lending facilities to support a variety of markets, the Fed has been clear that it will maintain an accommodative stance with rates at the ZLB for an extended period of time. This was evident in the most recent dot-plot, with the median projection pointing to unchanged rates through 2023 and a strong consensus supporting this view as only four of 17 dots showed any hikes by 2023.

The dovish stance was further reinforced by the adoption of an average inflation targeting framework that will explicitly allow for above-target inflation following periods when inflation has been persistently below 2%, as outlined in new forward guidance adopted in the September statement. In conjunction with an asymmetric approach to the full employment mandate, the results of the framework review further raise the bar for the Fed to hike, resulting in a multi-year period before the Fed is ready for lift-off.

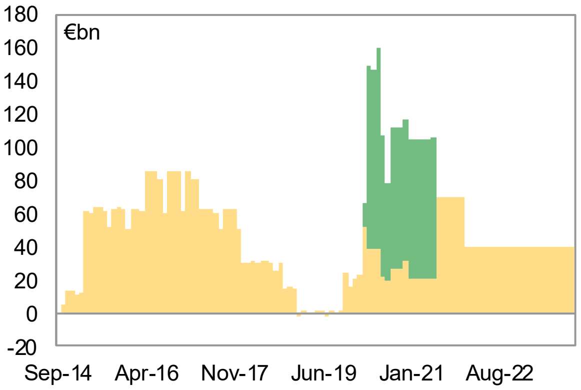
With the economy still in the process of recovery, the Fed stands ready to act further, and we expect it will eventually shift Treasury purchases to focus on the long end of the curve, though this may not come until the end of this year or early 2021. Yield curve control remains a possibility, though has lost traction recently and the Fed will likely only go this route if the outlook deteriorates.

Fed balance sheet has surged



Sources: Federal Reserve, Bloomberg, CA CIB

ECB: purchasing programmes and forecasts



Sources: ECB, CA CIB

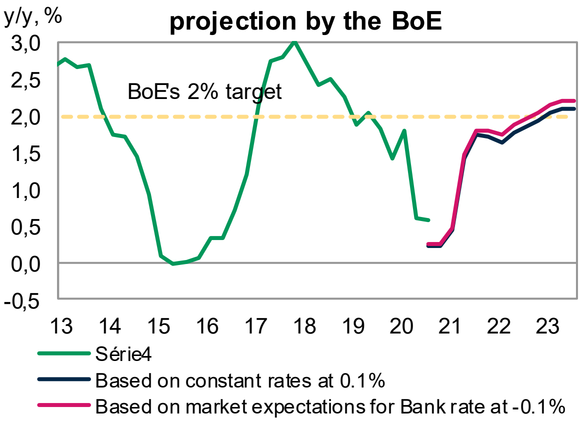
European Central Bank: more easing and more purchases to come

The ECB decided to not alter its monetary policy in September, despite very weak – and below target – guidance on core inflation, which is only expected to reach 1.1% in 2022. For the moment, it believes that its purchasing programmes (APP and PEPP) and refinancing operations (TLTRO III) are enough to ensure favourable monetary policy.

However, it seems clear to us that **in light of the economic and inflation outlook, and the upcoming sovereign debt issues, the ECB will have to do more.** The PEPP is expected to come to an end in June 2021, which means that starting in July 2021, monthly purchases are expected to fall from around EUR90bn today to around EUR20bn (APP only).

As a result, **we expect the ECB to broaden its purchasing programmes for H221 and 2022** – either by extending and expanding the PEPP or simply by increasing the APP – in order to reach monthly purchases of around EUR70bn in H221 and EUR40bn in 2022. **However, we do not expect rates to drop in the foreseeable future.**

UK: CPI inflation central projection by the BoE



Sources: BoE, Crédit Agricole S.A.

BoE: dovish bias

The BoE left its monetary policy unchanged in August (Bank rate at 0.1% and target of stock of asset purchases at GBP745bn to be reached "around the turn of the year"). The decision was taken unanimously despite the dovish comments made by some MPC members recently. Indeed, recent domestic economic data has been "a little stronger" than expected in August, leading the BoE to revise up its growth forecasts. The BoE now expects GDP to fall by 9.5% annual average in 2020 (vs -14% expected in its illustrative scenario in May) and to rebound by 9% in 2021 (+15% in May). CPI inflation is set to remain below 1% until early 2021 before accelerating next year and reaching 2% by the middle of 2022, based on market interest rates expectations for Bank at -0.1%.

While it may seem that the BoE is no hurry to announce more stimulus, it remains extremely cautious due to the significant risks surrounding the near-term outlook. It notes the uncertainties stemming from evolution of the pandemic, the measures taken by the government to tackle it, but also Brexit and the labour market. In particular, it stresses the risk of "a more persistent period of elevated unemployment than in the central projection". The BoE expects the unemployment rate to rise from 4.1% currently to 5.5% in Q3 and reach a peak at 7.5% in Q4. **We continue to expect more stimulus in the form of asset purchases and advance our expectations for GBP100bn extra purchases from Q121 to November 2020.** Even if the data does not disappoint too much by that date, Brexit should be enough to prompt more easing. Indeed, we continue to believe that the BoE's expectations for a comprehensive FTA and an orderly move to it are too optimistic.

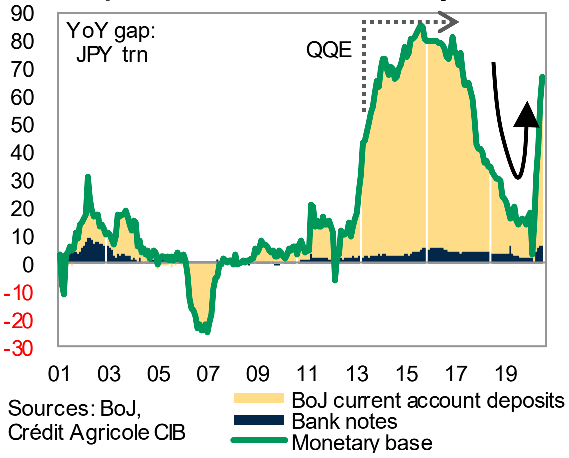
No firm conclusion on negative interest rates, but the door is still open. In September, the minutes of the MPC meeting noted that "the BoE and the PRA will begin structured engagement of the operation considerations in 2020 Q4". However, one month earlier, the BoE appeared less willing to implement negative interest rates due to considerations of the possible impact on banks' balance sheets. Indeed, in a dedicated box on that topic in the August monetary policy report, the BoE concluded that "implementing negative policy rates might be less effective in providing stimulus to the economy at the current juncture than at a time when banks' balance sheets are improving". Meanwhile, the CPI inflation projection in August showed that CPI inflation was still expected to reach 2% by the end of 2022, suggesting that negative interest rates were not of a critical importance for the inflation outlook. **Although we admit that the probability for a cut in the Bank rate has risen, we continue to rule out negative interest rates in our central scenario this year.**

BoJ: to leave all three policy pillars intact under the new Suga cabinet

When recently resigned PM Shinzo Abe took office in 2012, he strongly urged the BoJ to ease further and sooner. New PM Yoshihide Suga, on the other hand, seems to be neutral to the bank's current policy stance.

Besides, considering that the term of the central bank's governor, Haruhiko Kuroda, lasts until April 2023, **we remain of the view that the bank will leave all three policy pillars intact:** (1) YCC; (2) asset purchases of equity-linked ETFs and J-REITs; and (3) loan/credit measures under Covid-19. The third, in particular, most recently led to a surge in the monetary base.

Japan: breadown of monetary base



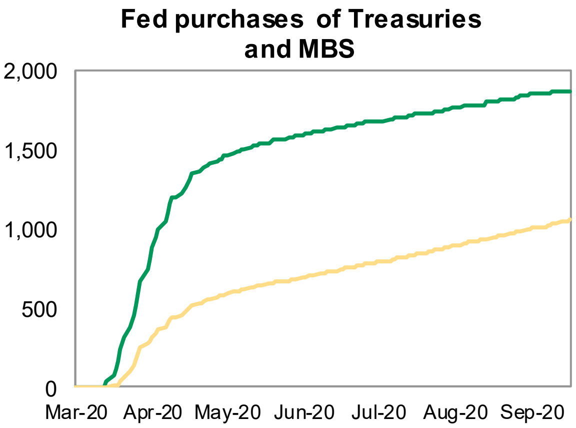
Sources: BoJ, Crédit Agricole CIB

That said, we continue to expect Kuroda to say that the bank will ease further 'without hesitation' if need be, which includes a cut to the already-negative IOER (currently -0.1%). We believe the hurdle of cutting the negative IOER is rather high, to which the bank actually seems to agree given the fact that the bank already applies a 'positive' rate to the balance of current account deposits corresponding to the loan/credit measures under Covid-19. **This implies that the BoJ acknowledges the negative side effects of negative rates**. The risk to this scenario is USD/JPY falling to or below 100, which could lead the bank to cut the negative IOER.

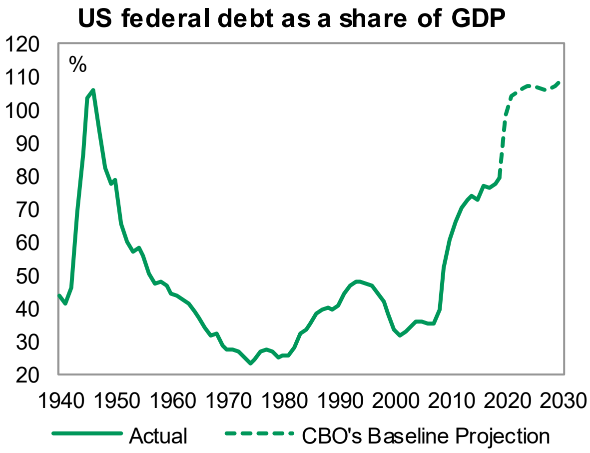
Meanwhile, Japan's CPI will remain deflationary towards Q121 due to the lagging effect of the widening output gap in H120. Japan's core CPI (ex. perishables) tends to lag the output gap by three-quarters whereas the core-core CPI (ex. perishables and energy) lags by four quarters. Under these circumstances, **fiscal policy will play a more direct role in shrinking the output gap, which in turn will be supported by the BoJ as a 'built-in' stabiliser of long-term rates through YCC**.

Interest rates – In a bubble

From wielding long-term zero or negative intervention rates to quantitative innovations making their marks on longer maturities, monetary activism creates a (really very) low no-risk interest-rate environment with very shallow curves.



Sources: Bloomberg, CA CIB



Sources: Bloomberg, CA CIB

US: zero lower bound rates for longer

The Fed launched a new average inflation targeting framework and made it clear that rates will stay near the zero lower bound for years in the 16 September FOMC communications.

Under the recently announced average inflation targeting framework, the Fed now aims "to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time". The Fed now offers an outcome-based guidance, by pledging near-zero policy rates until the goals of maximum employment and 2% inflation over the longer run are achieved.

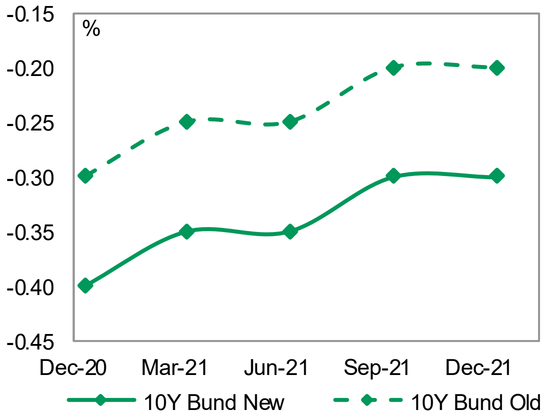
The Fed has maintained asset purchases at the current monthly pace of USD80bn Treasury and USD40bn MBS, "to sustain smooth market functioning and help foster accommodative financial conditions". Looking forward, we believe **the Fed will consider shifting coupon Treasury purchases to the long end to stimulate the economy, although that will likely not come until later this year or early 2021**.

We are biased towards modestly higher rates and a steeper yield curve. The economy faces headwinds from the pandemic, although the negative impact has been mitigated by stimulus programmes from Congress and the Fed. There are signs of bottoming out, as re-openings have taken place. Recovery in H220 has been ongoing but slower than expected, as another round of fiscal stimulus from Congress remains in limbo.

Elections will drive markets in the near term. We believe the results will be a closer call than headline polls suggest, which are in favour of Joe Biden. The likely delayed results due to mail-in votes may keep markets on edge, which has been priced in by option markets. This dynamic could create a period of uncertainty when the final election results are not known.

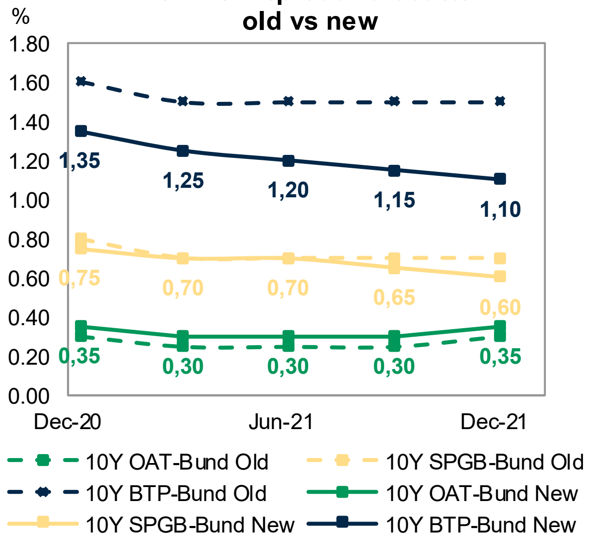
The most recent presidential election that led to similar uncertainty was in 2000, when the race was not officially called until the Supreme Court declared George W Bush the winner over Al Gore on 12 December, a month after Election Day.

10Y Bund forecast: old vs new



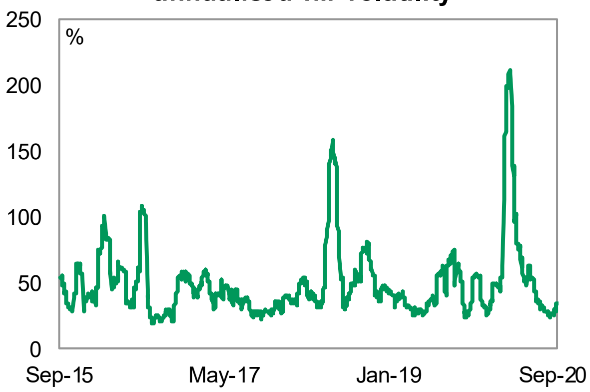
Source: CA CIB

10Y EGB spread forecasts: old vs new



Source: CA CIB

10Y BTP-Bund spread: annualised 1M volatility



Sources: Bloomberg, CA CIB

Eurozone: The need for yield

Lower, flatter and tighter

The fears of a second wave of the Covid-19 pandemic in Europe are elevated and the knock-on effect that it would have on the economy has kept Eurozone interest rates suppressed. Hence, **we have adjusted our forecasts that are now lower, flatter and tighter in terms of yields, curves and spreads, respectively**.

Gravitational pull on Bund yields

Since the peak of market sensitivity to the pandemic in March/April, the 10Y German Bund yield has attempted to rise, but each time it has tended to be pulled back down to around -50bp – the level of the ECB's deposit policy rate. This is likely due to the lack of visibility over the virus. In view of the risk for an extended period of uncertainty for the coming months, **we have adjusted our 10Y Bund forecasts by 10bp lower and now see a modest move to -40bp by year-end and then to -30bp by end-2021**. This projection is based on the virus being brought under control in the months ahead, thus resulting in greater economic clarity and a sustained, albeit gradual recovery next year.

The long-end to continue driving curve dynamics

The curve/direction dynamic should largely remain bear-steepening/bull-flattening during our forecast period, as the front-end will be anchored by the ECB's ultra-loose monetary policy through to end-2021 and beyond. Moreover, we expect unprecedented levels of liquidity to eventually push the 3M Euribor level slightly below the deposit rate for much of next year. Given our view for slightly higher long-end Bund yields by the end of next year compared to current levels, this implies there is scope for some modest steepening, but this equates to around a 10bp flatter curve than we previously expected.

Policy drives down spread and volatility

Among the key ECB objectives at **the height of the crisis were reducing Eurozone fragmentation and restoring price stability**, both of which were reflected by core-periphery spreads. For instance, 10Y BTP-Bund spread widened by around 200bp and one-month annualised volatility rose to just over 200% during late March/early April. Following the ECB's intervention, particularly the PEPP, the previous 200bp spread widening has been erased and volatility has returned to pre-Covid levels of around 30%.

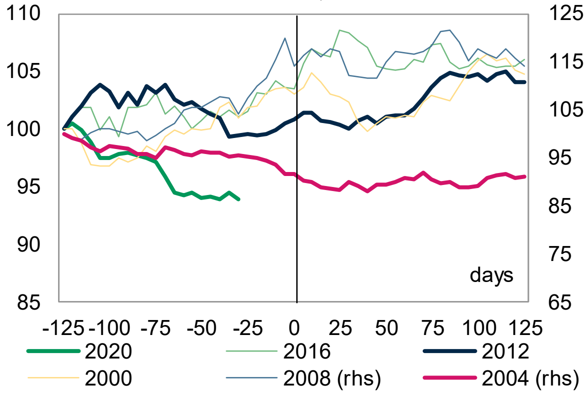
Tighter spreads over the medium-term

We have lowered our 10Y BTP-Bund spread by up to 40bp in view of the ECB highlighting the PEPP's flexibility, which likely implies it can stray away from the capital key when necessary, and the Recovery Fund agreement (as much the signal of EU solidarity as the volume of financial support). Notwithstanding some near-term choppiness in spread moves as a result of potential noise from budget negotiations and external factors, such as US-China geopolitics, **we see spreads tighter in the medium term due to the layer of policy support and investors' need for yield during what we see as a prolonged low-yield environment**.

Exchange rates – Under the seal of US elections

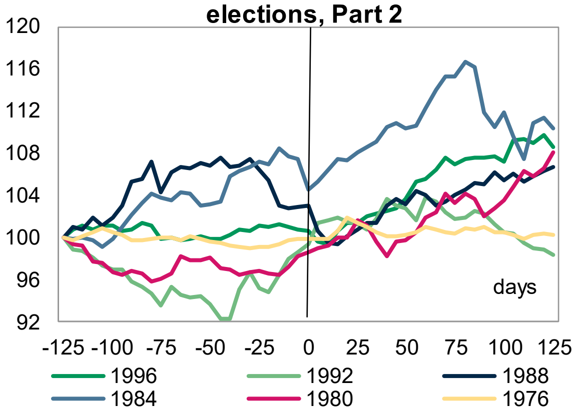
Typically, the American climate before an election does not drive the dollar upwards. As November voting approaches, however, the uncertainty could be fairly good for it. Its post-election future could be dimmer than its present has been during this presidential term. Beyond the political scenarios, the downside factors persist: the Fed's accommodating long-term policy and the risk of asset diversification – eventually at the dollar's expense.

USD NEER around presidential elections, Part 1



Sources: Bloomberg, CA CIB

USD NEER around presidential elections, Part 2



Sources: Bloomberg, CA CIB

Q420 G10 FX outlook: the US elections and beyond

The ultimate outcome of the US election remains difficult to predict despite the fact that Joe Biden still has a commanding lead over President Donald Trump in the polls. Our analysis and study of past elections suggest that the political uncertainty in the US could continue to fuel **FX volatility ahead of the vote**. We further note that the USD could rebound from its current depressed levels ahead of the US election for at least two reasons:

- ✓ The outcome of the election remains difficult to predict despite Biden's commanding lead in the polls. In that, we believe that **a potential Trump re-election could boost the USD and the FX vol**.
- ✓ A more closely contested election could also mean that its outcome may not be known for some time after the vote. This, in turn, could increase market uncertainty, boost the USD and support FX volatility.

The above conclusions are further supported by the FX price action around past US presidential elections. In Figures 1 and 2, we plot the performance of the USD NEER around the date of the elections held since 1976. What stands out immediately is the fact that, similar to 2020, the USD tended to underperform when a first-term president was fighting for a re-election (eg, 1976, 1980, 1992, 1996, 2004 and 2012) and the underperformance was particularly pronounced when the incumbent was heading for a defeat (eg, in 1976, 1980 and 1992). Importantly, however, the USD NEER tended to recover soon after each of these elections with the most notable exception being the George W Bush re-election in 2004.

Turning to the FX price action in the aftermath of the election and the remainder of Q420, we think it would be influenced by two key drivers:

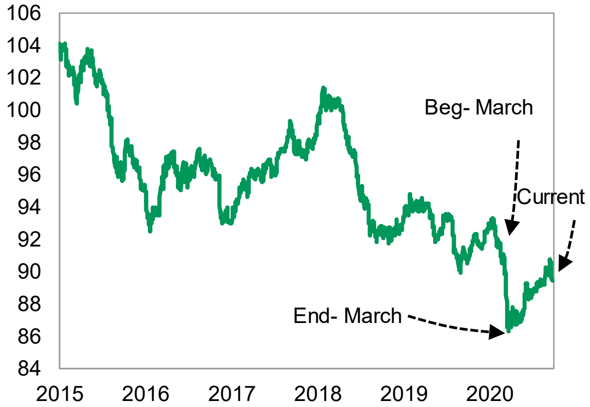
- ✓ The near-term impact on global risk sentiment.
- ✓ The perceived long-term impact on the US economy.

A Biden victory would confirm current polls and could be seen as more positive for sentiment at the margin because he is expected to delay an outright trade confrontation with China. In addition, the proposed policy mix by Biden – higher corporate taxes and minimum wage as well as a reversal of the deregulation in the energy sector – could be seen as less supportive for the long-term outlook of the US economy. In short, this could be a negative outlook for the USD. Under that outcome, we think that there would be some upside risks to our current EUR/USD forecasts of 1.2000 for Q420. Adding to the headwinds for the USD would be the dovish Fed stance as well as the threat of diversification flows out of the USD over the long term. One risk to that view would be that the ECB may be forced to lower rates to stop the EUR from appreciating.

In contrast, a Trump victory could result in a risk-averse market reaction with concerns growing about more imminent escalation of trade tensions with China as well as another trade conflict with the EU. The prospects for trade tariffs could lead to a renewed depreciation of the currencies of the US's main trading partners vs the USD. The safe-haven USD could further benefit from risk aversion vs risk-correlated currencies. The longer-term FX impact will remain highly uncertain and depend on how President Trump will want to proceed implementing his protectionist agenda. That said, we still believe that the risks to the USD outlook would remain to the downside on the back of the dovish Fed and reserve diversification.

All in all, we have recently revised down our outlook for the USD across the board. A big part of this is the expectation that **the US political backdrop following the November US election could be less positive for the USD compared to the last four years.** This is mainly because of the risks associated with a Biden presidency and Democratic control of the legislature. In addition, a potential prolongation of the current political situation of a divided Congress and/or a divided Congress and presidency could further complicate the decision-making process in DC at a time when the economy may need further fiscal stimulus. Subsequently, our US economist continues to see further scope for Fed easing after the election in the form of more aggressive QE that would target the longer end of the UST yield curve.

EM FX index vs USD



Sources: Bloomberg, CA CIB

Emerging countries: short-term pain, long-term differentiation

In the short term, the risk of a second Covid wave and the uncertainty related to the US election may fuel volatility on the EM FX market, particularly for the most vulnerable currencies. However, EM currencies also enjoy significant buffers that should play out over the medium term.

First, the global central bank's put is partly anesthetising the market. With plenty of liquidity injected into the financial system, this policy provides a buffer for EM asset prices and currencies against a downward correction even with relatively bleak economic prospects. Second, we have a relatively constructive outlook for the CNY. This should also provide some indirect support to other EM currencies, particularly North Asian currencies and to some extent commodity producers' currencies. Third, the EM-DM interest rate differential has remained significant – it has even widened slightly, on average. This means the EM carry remains attractive in the current environment, and should remain so. On average, we expect EM currencies to present some value to investors in the coming quarters.

However, there should be a great deal of differentiation between EM FX in the forthcoming period. We see two main criteria of differentiation. First, the carry. During risk-on periods, the high-yielders should attract foreign flows, particularly since some of them have not recovered to their pre-crisis levels. Second, some emerging markets are better positioned than others to perform well in a global environment modified by Covid. In our view, some countries have better suited development models than other countries, underpinned by higher savings and investment rates, with a stronger focus on tech sectors, more proactive industrial policies and benefit from more government and/or external leeway. From a regional point of view, and to cut a long story short, Asian countries seem to be better positioned than others, whereas Latin American countries face heavier challenges. European and MENA markets are in between (on average), but GCC countries face a specific challenge as relatively low oil prices tend to reduce their financial leeway at a sustained pace (the same can be said about Russia, to some extent).

These two differentiation criteria (carry and structural differentiation) will likely alternatively play a strong role, depending on whether the environment is risk-on or risk-off. However, **over the longer term, structural factors should play a stronger role, and we expect Asian currencies to outperform other EM currencies over time, on average**.

Economic and financial forecasts

Interest rate

		30-Sep	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
USA	Fed funds	0.25	0.25	0.25	0.25	0.25	0.25
	10Y	0.69	0.80	0.90	1.00	1.10	1.20
Eurozone	Deposit	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
	10Y (Germany)	-0.52	-0.40	-0.35	-0.35	-0.30	-0.30
10Y Spread vs. EUR	France	0.28	0.35	0.30	0.30	0.30	0.35
	Italy	1.39	1.35	1.25	1.20	1.15	1.10

Exchange Rate

USD Exchange rate Industrialised countries		30-Sep	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Euro	EUR/USD	1.17	1.18	1.19	1.19	1.20	1.20
Japan	USD/JPY	105.62	106.00	108.00	108.00	110.00	110.00
United Kingdom	GBP/USD	1.29	1.30	1.32	1.33	1.34	1.35
Switzerland	USD/CHF	0.92	0.92	0.92	0.93	0.93	0.93
Asia							
China	USD/CNY	6.79	6.70	6.65	6.60	6.55	6.50
Hong Kong	USD/HKD	7.75	7.75	7.75	7.75	7.75	7.75
India	USD/INR	73.56	73.75	74.50	75.25	76.00	76.75
South Korea	USD/KRW	1166	1160	1155	1150	1145	1140
Latin America							
Brazil	USD/BRL	5.62	5.35	5.30	5.15	5.00	5.00
Mexico	USD/MXN	22.10	21.25	21.00	21.25	21.25	21.25
Emerging Europe							
Poland	USD/PLN	3.86	3.76	3.70	3.70	3.66	3.62
Russia	USD/RUB	77.74	75.00	72.00	72.00	73.00	75.00
Turkey	USD/TRY	7.76	7.40	7.30	7.20	7.20	7.20

Commodities

		30-Sep	2020	2021			
Precious metals			Q4	Q1	Q2	Q3	Q4
Gold	USD/oz	1,884	1,940	1,940	1,960	1,980	2,020

Av. quarter price		30-Sep	2020	2021			
			Q4	Q1	Q2	Q3	Q4
Brent	USD/BBL	41	44	40	45	48	52

Economic Forecasts

	GDP (yoy, %)			Consumer prices (yoy, %)			Current account (% of GDP)		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
United States	**2.3**	**-4.5**	**3.7**	**1.8**	**1.2**	**1.9**	**-2.4**	**-2.2**	**-2.3**
Japan	**0.7**	**-5.7**	**1.6**	**0.6**	**-0.1**	**0.3**	**3.6**	**2.4**	**2.1**
Eurozone	**1.3**	**-7.5**	**5.4**	**1.2**	**0.2**	**0.8**	**2.9**	**3.1**	**3.2**
Germany	0.6	-5.4	5.0	1.4	0.4	1.7	7.1	6.5	6.4
France	1.5	-9.1	7.1	1.3	0.5	0.5	-1.2	-1.0	-1.0
Italy	0.3	-9.7	5.6	0.7	-0.3	0.2	3.0	2.6	3.1
Spain	2.0	-12.8	4.5	0.8	-0.3	0.2	2.0	2.0	1.9
Netherlands	1.6	-4.6	4.2	2.7	1.0	1.1	9.9	10.4	10.3
Other advanced									
United Kingdom	1.5	-9.6	6.3	1.8	0.8	1.4	-3.6	-3.9	-4.7
Canada	1.7	-5.7	4.8	1.9	0.7	1.7	-2.2	-2.1	-2.4
Australia	1.8	-6.7	6.1	1.6	1.4	1.8	0.5	-0.6	-1.8
Switzerland	0.9	-6.0	3.8	0.4	-0.4	0.6	12.2	7.2	8.8
Asia	**5.1**	**-0.4**	**7.1**	**2.7**	**2.9**	**2.3**	**1.3**	**1.9**	**1.2**
China	6.1	3.0	8.0	2.9	2.8	1.8	1.0	1.7	1.0
India	4.9	-5.8	8.4	3.7	6.2	4.5	-0.9	1.0	-1.0
South Korea	2.0	-0.9	3.4	0.4	0.4	1.2	4.3	4.2	4.0
Latin America	**0.5**	**-7.1**	**3.7**	**10.1**	**7.3**	**9.0**	**-2.0**	**-0.3**	**-0.3**
Brazil	1.1	-5.1	3.4	4.3	2.1	2.9	-2.8	-0.2	-0.1
Mexico	-0.1	-9.2	3.8	2.8	3.4	3.2	-0.2	-0.2	0.4
Emerging Europe	**2.0**	**-4.8**	**3.8**	**6.2**	**4.9**	**4.5**	**1.5**	**0.5**	**0.0**
Russia	1.3	-5.0	3.5	4.5	3.3	3.5	3.8	1.5	1.5
Turkey	0.9	-5.0	4.5	15.5	11.0	10.0	0.0	-2.0	-2.5
Poland	4.1	-2.8	3.6	2.3	3.4	1.7	0.4	2.0	0.6
Africa, Middle East	**0.4**	**-5.8**	**2.3**	**8.4**	**7.0**	**5.5**	**1.3**	**-2.9**	**-2.5**
Saudi Arabia	0.3	-6.0	3.2	-2.1	4.3	2.1	5.9	-4.0	-2.5
United Arab Emirates	1.7	-5.5	2.2	-1.9	-1.1	1.0	7.0	-0.3	1.1
Egypt	5.6	1.2	2.0	9.2	5.8	7.8	-3.6	-4.5	-4.0
Morocco	2.5	-5.1	3.5	0.3	0.5	1.1	-4.1	-7.0	-4.0
Total	**2.7**	**-4.1**	**5.0**	**3.4**	**2.7**	**2.8**			
Advanced economies	**1.7**	**-6.0**	**4.3**	**1.5**	**0.7**	**1.3**			
Emerging countries	**3.5**	**-2.6**	**5.6**	**4.9**	**4.3**	**3.9**			

Public accounts

	Government balance (% of GDP)			Public debt (% of GDP)		
	2019	2020	2021	2019	2020	2021
United States	**-4.6**	**-16.0**	**-8.6**	**79.2**	**98.2**	**104.4**
Japan	**-2.5**	**-17.5**	**-8.6**	**225.4**	**242.8**	**248.3**
Eurozone	**-0.7**	**-8.9**	**-4.8**	**86.5**	**102.7**	**102.0**
Germany	1.3	-6.4	-2.6	59.8	75.2	76.1
France	-3.0	-10.2	-6.7	98.1	117.5	116.2
Italy	-1.6	-8.7	-4.6	134.8	154.8	149.5
Spain	-2.8	-9.8	-6.8	95.8	117.8	119.4
Netherlands	1.7	-7.6	-5.1	48.7	59.9	62.0
Belgium	-1.9	-8.0	-6.0	98.6	110.0	111.0
Greece	1.5	-6.4	-2.1	176.6	200.3	186.1
Ireland	0.4	-7.4	-4.1	58.8	64.6	66.9
Portugal	0.2	-6.4	-3.2	117.7	133.5	128.6
United Kingdom	**-2.1**	**-15.8**	**-14.7**	**85.4**	**107.7**	**113.6**

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